FOODARAMA SUPERMARKETS INC
Form 10-K/A
February 28, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
Amendment No. 1

Annual Report pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended October 30, 2004	Commission file number 1-5745

FOODARAMA SUPERMARKETS, INC.
(Exact name of Registrant as specified in its charter)

New Jersey	21-0717108
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Building 6, Suite 1, 922 Hwy. 33, Freehold, New Jersey 07728
(Address of principal executive offices)

Registrant's telephone number, including area code: (732) 462-4700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X_

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ___ No _X_

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $13,224,281. Computation is based on the closing sales price of $37.00 per share of such stock on the American Stock Exchange on April 30, 2004, the last business day of the Registrant's most recently completed second quarter.

As of January 14, 2005, the number of shares outstanding of Registrant's Common Stock was 987,617.

DOCUMENTS INCORPORATED BY REFERENCE

Information contained in the 2005 definitive Proxy Statement to be filed with the Commission and to be delivered to security holders in connection with the Annual Meeting is incorporated by reference into this Form 10-K at Part III.

PART IV

EXPLANATORY NOTE

We are filing, on Form 10-K/A, this Amendment No. 1 to our Annual Report on Form 10-K for the period ended October 30, 2004 which was filed with the United States Securities and Exchange Commission on January 28, 2005 (the "Form 10-K") to amend and restate Item 15. Item 15, as presented in the Form 10-K, contains certain ministerial errors in Notes 15 and 16 to our Consolidated Financial Statements in that certain dollar amounts presented in tabular format in Notes 15 and 16 should have been presented in thousands and were not presented in thousands. In addition as required by Rule 12b-15, promulgated under the Securities Exchange Act of 1934, the Registrant's principal executive officer and principal financial officer are providing new Rule 13a-14 certifications in connection with this Form 10-K/A and are also furnishing written statements pursuant to Title 18 United States Code Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002. The Exhibit section has also been revised to include an update to the Independent Auditor's Consent. Except as described above no other changes have been made to the Form 10-K.

Part IV

Item 15. Exhibits and Financial Statement Schedules

a.1. Audited financial statements and supplementary data

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FOODARAMA SUPERMARKETS, INC.
(Registrant)

/s/ Michael Shapiro

Michael Shapiro
Senior Vice President,
Chief Financial Officer

/s/ Thomas H. Flynn

Thomas H. Flynn
Vice President,
Principal Accounting Officer

Date: February 25, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Joseph J. Saker Joseph J. Saker	Chairman of the Board of Directors	February 25, 2005
/s/ Richard J. Saker Richard J. Saker	Chief Executive Officer, President and Director	February 25, 2005
/s/ Charles T. Parton Charles T. Parton	Director	February 25, 2005
/s/ Albert A. Zager Albert A. Zager	Director	February 25, 2005
/s/ Robert H. Hutchins Robert H. Hutchins	Director	February 25, 2005

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Foodarama Supermarkets, Inc.
Howell, New Jersey

We have audited the accompanying consolidated balance sheets of Foodarama Supermarkets, Inc. and Subsidiaries as of October 30, 2004 and November 1, 2003 and the related consolidated statements of operations, shareholders' equity and cash flows for the fiscal years ended October 30, 2004, November 1, 2003 and November 2, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Foodarama Supermarkets, Inc. and Subsidiaries as of October 30, 2004 and November 1, 2003, and the results of their operations and their cash flows for the fiscal years ended October 30, 2004, November 1, 2003 and November 2, 2002, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, during the year ended November 1, 2003 the Company changed its method of accounting for goodwill in accordance with the adoption of SFAS 142 "Goodwill and Other Intangible Assets."

In connection with our audits of the financial statements referred to above, we audited the financial schedule listed under Item 14. In our opinion, the financial schedule, when considered in relation to the financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

/S/ AMPER, POLITZINER & MATTIA, P.C.

January 27, 2005
Edison, New Jersey

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FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
October 30, 2004 and November 1, 2003
(In thousands)

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	$ 6,001	$ 5,252
Merchandise inventories	57,123	49,224
Receivables and other current assets	8,456	12,043
Prepaid and refundable income taxes	170	3,404
Related party receivables - Wakefern	14,799	13,684
	86,549	83,607
Property and equipment		
Land	308	308
Buildings and improvements	1,220	1,220
Leasehold improvements	60,488	49,039
Equipment	161,554	142,021
Property under capital leases	152,354	130,420
Construction in progress	60	6,846
	375,984	329,854
Less accumulated depreciation and amortization	140,138	122,339
	235,846	207,515
Other assets		
Investments in related parties	17,655	16,173
Goodwill	1,715	1,715
Intangible assets, net	1,493	1,098
Other	3,339	3,264
Related party receivables - Wakefern	2,039	1,874
	26,241	24,124
	$ 348,636	$ 315,246

See notes to consolidated financial statements

FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets - (continued)
October 30, 2004 and November 1, 2003
(In thousands)

	2004	2003
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 8,415	$ 7,916
Current portion of long-term debt, related party	867	920
Current portion of obligations under capital leases	1,727	1,622
Current income taxes payable	408	1,415
Deferred income taxes	1,579	2,162
Accounts payable		
Related party - Wakefern	39,639	37,506
Others	14,384	14,622
Accrued expenses	15,236	13,485
	82,255	79,648
Long-term debt	63,051	55,335
Long-term debt, related party	3,590	3,055
Obligations under capital leases	142,504	122,159
Deferred income taxes	2,292	2,749
Other long-term liabilities	13,711	13,278
	225,148	196,576
Commitments and Contingencies (Note 14)		
Shareholders' equity		
Common stock, $1.00 par; authorized 2,500,000 shares; issued 1,621,767 shares; outstanding 987,617 shares October 30, 2004; 986,867 shares November 1, 2003	1,622	1,622
Capital in excess of par	4,168	4,168
Deferred compensation	(580)	(952)
Retained earnings	51,339	49,539
Accumulated other comprehensive income		
Minimum pension liability	(3,140)	(3,164)
	53,409	51,213
Less 634,150 shares October 30, 2004; 634,900 shares November 1, 2003, held in treasury, at cost	12,176	12,191
	41,233	39,022
	$ 348,636	$ 315,246

See notes to consolidated financial statements

FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
Fiscal Years Ended October 30, 2004, November 1, 2003 and November 2, 2002
(In thousands, except per share data)

	2004	2003	2002
Sales	$1,175,199	$ 1,049,653	$ 963,611
Cost of goods sold	865,280	776,656	718,520
Gross profit	309,919	272,997	245,091
Selling, general and administrative expenses	290,765	256,932	231,653
Earnings from operations	19,154	16,065	13,438
Other income (expense)			
Interest expense	(16,392)	(12,399)	(8,184)
Interest income	141	139	148
	(16,251)	(12,260)	(8,036)
Earnings before income tax provision	2,903	3,805	5,402
Income tax provision	(1,103)	(1,522)	(2,162)
Net income	$ 1,800	$ 2,283	$ 3,240
Per share information			
Net income per common share			
Basic	$ 1.82	$ 2.31	$ 3.16
Diluted	$ 1.75	$ 2.26	$ 3.01
Weighted average shares outstanding			
Basic	987,132	986,789	1,024,235
Diluted	1,030,167	1,011,350	1,076,030

See notes to consolidated financial statements

FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Fiscal Years Ended October 30, 2004, November 1, 2003 and November 2, 2002
(In thousands, except per share data)

	Common Stock				Accumulated		
	Shares Issued	Amount	Capital in Excess of Par	Deferred Compensation	Other Compre-hensive Income	Compre-hensive Income	Re Ea

Balance - November 3, 2001	1,621,767	$ 1,622	$4,168	$(1,696)	$ (1,920)		$
Amortization of deferred compensation	-	-	-	372	-		
Issuance of common stock	-	-	-	-	-		
Repurchase of common stock	-	-	-	-	-		
Comprehensive income							
Net income 2002	-	-	-	-	-	3,240	
Other comprehensive income							
Minimum pension liability, net of deferred tax	-	-	-	-	(976)	(976)	
Comprehensive income						$ 2,264	
Balance - November 2, 2002	1,621,767	1,622	4,168	(1,324)	(2,896)		
Amortization of deferred compensation	-	-	-	372	-		
Issuance of common stock	-	-	-	-	-		
Comprehensive income							
Net income 2003	-	-	-	-	-	2,283	
Other comprehensive income							
Minimum pension liability, net of deferred tax	-	-	-	-	(268)	(268)	
Comprehensive income						$ 2,015	
Balance - November 1, 2003	1,621,767	1,622	4,168	(952)	(3,164)		4
Amortization of deferred compensation	-	-	-	372	-		
Issuance of common stock	-	-	-	-	-		
Comprehensive income							
Net income 2004	-	-	-	-	-	1,800	
Other comprehensive income							
Minimum pension liability, net of deferred tax	-	-	-	-	24	24	
Comprehensive income						$ 1,824	
Balance - October 30, 2004	1,621,767	$ 1,622	$4,168	$ (580)	$(3,140)		$ 5

See notes to consolidated financial statements

FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Fiscal Years Ended October 30, 2004, November 1, 2003 and November 2, 2002
(In thousands)

	2004	2003	2002
Cash flows from operating activities			
Net income	$ 1,800	$ 2,283	$ 3,240
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	20,634	17,096	14,175
Non cash impairment charge	1,198	-	-
Amortization, goodwill	-	-	140
Amortization, intangibles	141	192	211
Amortization, deferred financing costs	695	577	342

Amortization, deferred rent escalation	(288)	(294)	(230)
Provision to value inventory at LIFO	1,005	715	397
Deferred income taxes	(1,057)	2,515	946
Amortization of deferred compensation	358	357	270
(Increase) decrease in			
Merchandise inventories	(8,904)	(6,232)	(1,277)
Receivables and other current assets	(907)	(505)	(781)
Prepaid and refundable income taxes	3,234	(3,147)	(257)
Other assets	(457)	227	(453)
Related party receivables - Wakefern	(1,280)	(4,920)	(75)
Increase (decrease) in			
Accounts payable	1,895	6,115	1,245
Income taxes payable	(1,007)	1,415	(704)
Other liabilities	2,560	1,463	(1,713)
	19,620	17,857	15,476
Cash flows from investing activities			
Cash paid for the purchase of property and equipment	(27,744)	(29,267)	(7,858)
Cash paid for construction in progress	(24)	(4,336)	(13,161)
Decrease in construction advance due from landlords	17,127	4,975	1,932
Increase in construction advance due from landlords	(12,633)	(6,128)	(6,070)
Payment for purchase of acquired store assets	(1,000)	-	-
Deposits on equipment	-	-	(829)
Decrease in related party receivables - other	-	-	18
	(24,274)	(34,756)	(25,968)
Cash flows from financing activities			
Proceeds from issuance of debt	16,359	27,853	22,961
Principal payments under long-term debt	(8,144)	(7,505)	(4,742)
Principal payments under capital lease obligations	(1,484)	(1,518)	(1,060)
Principal payments under long-term debt, related party	(1,000)	(755)	(897)
Deferred financing and other costs	(343)	(214)	(1,205)
Proceeds from exercise of stock options	15	10	20
Repurchase of common stock	-	-	(4,524)
	5,403	17,871	10,553
Net change in cash and cash equivalents	749	972	61
Cash and cash equivalents, beginning of year	5,252	4,280	4,219
Cash and cash equivalents, end of year	$ 6,001	$ 5,252	$ 4,280
Supplemental disclosures of cash paid			
Interest	$ 16,286	$ 12,374	$ 8,125
Income taxes, net of refunds	$ (61)	$ 751	$ 2,188

See notes to consolidated financial statements

FOODARAMA SUPERMARKETS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(Tabular dollars in thousands, except per share amounts)

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Foodarama Supermarkets, Inc. and Subsidiaries (the "Company"), operate 26 ShopRite supermarkets, primarily in Central New Jersey. The Company is a member of Wakefern Food Corporation ("Wakefern"), the largest retailer-owned food cooperative in the United States.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to October 31. Fiscal 2004 consists of the 52 weeks ended October 30, 2004, fiscal 2003 consists of the 52 weeks ended November 1, 2003 and fiscal 2002 consists of the 52 weeks ended November 2, 2002.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

Revenue from the sale of products are recognized at the point of sale to the customer. Discounts provided to customers through ShopRite coupons at the point of sale are recognized as a reduction of sales as the products are sold. From time to time the Company initiates customer loyalty programs which allow customers to earn points for each purchase completed during a specified time period. Points earned enable customers to receive a certificate that may be redeemed on future purchases. The Company accounts for its customer loyalty programs in accordance with Emerging Issues Task Force (EITF) Issue No. 00-22, "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". The value of points earned by our loyalty program customers is included as a liability and a reduction of revenue at the time the points are earned based on the percentage of points that are projected to be redeemed.

Industry Segment

The Company operates in one industry segment, the retail sale of food and nonfood products, primarily in the Central New Jersey region.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Cash and cash equivalents, receivables and accounts payable are reflected in the consolidated financial statements at carrying value which approximates fair value because of the short-term maturity of these instruments. The fair value of long-term debt was approximately equivalent to its carrying value, due to the fact that the interest rates

Note 1 - Summary of Significant Accounting Policies - (continued)

Fair Value of Financial Instruments (continued)

currently available to the Company for debt with similar terms are approximately equal to the interest rates for its existing debt. As the Company's investments in Wakefern can only be sold to Wakefern for approximately the amount invested, it is not practicable to estimate the fair value of such stock. Determination of the fair value of related party receivables and long-term debt - related party is not practicable due to their related party nature.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. At October 30, 2004 and November 1, 2003 approximately 82% and 81%, respectively, of merchandise inventories, consisting primarily of grocery and nonfood items, are valued by the LIFO (last-in, first-out) method of inventory valuation while the remaining inventory items are valued by the FIFO (first-in, first-out) method with cost being determined under the retail method.

If the FIFO method had been used for the entire inventory, inventory at October 30, 2004 and November 1, 2003 would have been $3,740,000 and $2,735,000 higher, respectively.

Vendor Allowances and Rebates and Cost of Goods Sold

The Company receives vendor allowances and rebates, including amounts received as a pass through from Wakefern, related to the Company's buying and merchandising activities. Vendor allowances and rebates are recognized as a reduction in cost of goods sold when the related merchandise is sold or when the contractual requirements have been satisfied.

Cost of goods sold includes the costs of inventory sold and the related purchase, inbound freight and distribution costs. Cost of goods sold excludes depreciation and amortization which is included in selling general and administrative expenses in the consolidated statements of operations.

Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of depreciation, amortization, advertising expense, payroll including related fringe and employee benefit expenses, utilities expense, rent, common area maintenance and other occupancy charges and other expenses.

Property and Equipment

Property and equipment is stated at cost and is depreciated on a straight-line basis over the estimated useful lives ranging between three and ten years for equipment, the shorter of the useful life or lease term for leasehold improvements, and twenty years for buildings. Repairs and maintenance are expensed as incurred.

Note 1 -Summary of Significant Accounting Policies - (continued)

Property and Equipment (continued)

Property and equipment under capital leases are recorded at the lower of fair market value or the net present value of the minimum lease payments. They are depreciated on a straight-line basis over the shorter of the related lease terms or its useful life.

Investments

The Company's investments in its principal supplier, Wakefern, and in Insure-Rite Ltd., are stated at cost (see Note 4).

Goodwill

Effective November 3, 2002, the Company implemented Statement of Financial Accounting Standards ("SFAS") No. 142, "Accounting for Goodwill and Other Intangible Assets." Under SFAS 142, the Company ceased amortization of goodwill and tests at least annually for impairment at the reporting unit level. The Company has determined that it is contained within one reporting unit, and as such, impairment is tested at the company level. During fiscal 2004 and 2003, the Company completed goodwill impairment tests prescribed by SFAS 142 and concluded that no impairment of goodwill existed.

Prior to the adoption of SFAS 142, the Company amortized goodwill over its estimated useful life and evaluated goodwill for impairment in conjunction with its other long-lived assets.

Intangible Assets

Other intangible assets consist of favorable operating lease costs and liquor licenses. The favorable operating lease costs are being amortized on a straight-line basis over the terms of the related leases, which range from 6 to 24 years. The liquor licenses are not amortized since they have been determined to have an indefinite useful life. The Company reviews the value of its intangible assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate.

Long-Lived Assets

The Company reviews long-lived assets, on an individual store basis for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Such review analyzes the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets are recoverable from their respective cash flows. If an impairment is indicated, it is measured by comparing the discounted cash flows for the long-lived asset to its carrying value. In fiscal 2004, the Company recorded a non-cash impairment charge of $1,198,000 to reduce the carrying value of leasehold improvements relating to one store. This charge is included in Selling, General and Administrative Expense in the accompanying consolidated statements of operations. Factors leading to impairment were a combination of historical losses, anticipated future losses and projected future negative cash flows for the remaining term of the related

Note 1 - Summary of Significant Accounting Policies - (continued)

Long-Lived Assets (continued)

stores' lease. The non-cash impairment charge represents the amount necessary to write down the carrying value of the leasehold improvements for the store to its' estimated fair value based on the Company's best estimate of the stores' future discounted operating cash flows. The Company did not record any impairment charges in fiscal 2003 or fiscal 2002.

Deferred Financing Costs

Deferred financing costs are being amortized over the life of the related debt using the effective interest method.

Postretirement Benefits other than Pensions

The Company accrues for the cost of providing postretirement benefits, principally supplemental income payments and limited medical benefits, over the working careers of the officers in the plan.

Postemployment Benefits

The Company accrues for the expected cost of providing postemployment benefits, primarily short-term disability payments, over the working careers of its employees.

Advertising

Advertising costs are expensed as incurred. Advertising expense was $ 10.3, $ 9.0 and $8.6 million for the fiscal years 2004, 2003 and 2002, respectively.

Store Opening and Closing Costs

The costs of opening new stores are expensed as incurred. Costs related to closing stores are also charged to earnings as incurred. The Company estimates closed store liabilities, which are accrued and expensed upon the closing of a store, which include lease payments, real estate taxes, common area maintenance, and utility costs to be incurred over the remaining lease term, net of estimated sublease income, at the present value using a discount rate based on a credit adjusted risk-free rate. Adjustments to closed store liabilities primarily relate to changes in subtenants and actual exit costs differing from original estimates and are expensed in the period in which the change becomes known.

Minimum Pension Liability

The Company maintains two underfunded defined benefit pension plans covering administrative personnel and members of a union. The minimum pension liability for these plans is recorded in "Other long-term liabilities" and the related unrealized loss, net of income tax benefit, is included in accumulated other comprehensive income.

Comprehensive Income

FASB Statement 130, "Reporting Comprehensive Income," establishes standards for reporting and presentation of comprehensive income (loss) and its components in a full set of financial statements. For fiscal 2004, 2003 and 2002, comprehensive income consists of net income

Note 1 - Summary of Significant Accounting Policies - (continued)

Comprehensive Income (continued)

and the additional minimum pension liability adjustment, net of income tax benefit.

Stock Option Plan

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") and related interpretations in accounting for its employee stock options. Under this method, compensation cost is measured as the amount by which the market price of the underlying stock exceeds the exercise price of the stock option at the date at which both the number of options granted and the exercise price are known. Deferred compensation expense recorded at the date of grant is amortized over the vesting period of the related grant which approximates five years. Compensation expense related to stock performance units(as described in Note 11 as "Units") is measured based on the change in market price of the Company's common stock, the number of Units outstanding and the number of Units vested from one period to the next.

In accordance with SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation is as follows:

	Fiscal Year Ending		
	October 30, 2004	November 1, 2003	November 2, 2002
Net income - as reported	$ 1,800	$ 2,283	$ 3,240
Add:			
Stock-based employee compensation expense included in reported net income, net of related tax effects	221	223	223
Deduct:			
Adjustment to total stock-based employee compensation expense determined under the intrinsic value method for expense determined under the fair value based method, net of related tax effects	(305)	(303)	(302)
Pro forma net income	$ 1,716	$ 2,203	$ 3,161
Earnings per share:			
Basic, as reported	$ 1.82	$ 2.31	$ 3.16
Basic, pro forma	$ 1.74	$ 2.23	$ 3.09
Diluted, as reported	$ 1.75	$ 2.26	$ 3.01

Diluted, pro forma	$ 1.67	$ 2.18	$ 2.94

Note 1 - Summary of Significant Accounting Policies - (continued)
Stock Option Plan - (continued)

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at $22.93 on the date of grant using the Black-Scholes option-pricing model.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following weighted-average assumptions were used for the year ended November 3, 2001 based on date of grant:

Risk-free interest rate	5.0%
Expected volatility	40.2%
Dividend yield	0%
Expected life	5 years

Earnings Per Share

Earnings per common share are based on the weighted average number of common shares outstanding. Diluted earnings per share amounts are based on the weighted average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed exercise of all diluted stock options, subject to antidilution limitations.

Recent Accounting Pronouncements

In November 2003, the Emerging Issues Task Force (the "EITF") reached a consensus on EITF No. 03-10, "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers." This issue addresses the accounting for manufacturer sales incentives offered directly to consumers, including manufacturer coupons. The Company's policy is in accordance with EITF 03-10. The adoption of EITF No. 03-10 did not have any effect on our financial position or results of operations.

In December 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 132R (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits - an amendment of FASB Statements No. 87, 88, and 106" ("SFAS 132"). The revised Statement retains the disclosure requirements contained in SFAS 132 before the amendment but requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The annual disclosure requirements under this

Note 1 - Summary of Significant Accounting Policies - (continued)

Recent Accounting Pronouncements (continued)

Statement are effective for the Company's fiscal year ending October 30, 2004, and the quarterly disclosure requirements were effective for the Company's interim periods beginning with the second quarter ending May 1, 2004. The implementation of SFAS 132, as revised in 2003, did not have a material impact on the Company's consolidated financial statements (See Note 15).

In December 2003, FASB issued a revised interpretation of FIN 46 (FIN 46 -R), which supercedes FIN 46 and clarifies and expands current accounting guidance for variable interest entities. FIN 46 and FIN 46-R are effective immediately for all variable interest entities created after January 31, 2003, and for variable interest entities prior to February 1, 2003, no later than the end of the first reporting period after March 15, 2004. The adoption of FIN 46 and FIN 46-R did not have a material impact on the Company's financial reporting and disclosure.

In March 2004, the Emerging Issues Task Force, or EITF, reached consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", or EITF 03-1. EITF 03-1 provides guidance on determining when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. EITF 03-1 is applicable to marketable debt and equity securities within the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", or SFAS 115, and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations", and equity securities that are not subject to the scope of SFAS 115 and not accounted for under the equity method of accounting. In September 2004, the FASB issued FSP EITF 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, `The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments'", which delays the effective date for the measurement and recognition criteria contained in EITF 03-1 until final application guidance is issued. The delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The adoption of EITF 03-1 is not expected to have a material impact on our results of operations and financial position.

In May 2004, the staff of the FASB issued FASB Staff Position ("FSP") No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," which superseded FSP No. FAS 106-1. This FSP provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") for

Note 1 - Summary of Significant Accounting Policies - (continued)

Recent Accounting Pronouncements (continued)

employers that sponsor postretirement health care plans that provide prescription drug benefits. This FSP also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act (the "Subsidy"). The guidance in this FSP related to the accounting for the Subsidy applies only to the sponsor of a single-employer defined benefit postretirement health care plan for which (a) the employer has concluded that prescription drug benefits available under the plan to some or all participants for some or all future years are "actuarially equivalent" to Medicare Part D and thus qualify for the Subsidy under the Act and (b) the expected Subsidy will offset or reduce the employer's share of the cost of the underlying postretirement prescription drug coverage on which the Subsidy is based. This FSP also provides guidance for the disclosures about the effects of the Subsidy for an employer that sponsors a postretirement health care benefit plan that provides prescription drug coverage but for which the employer has not yet been able to determine actuarial equivalency. This FSP is effective for the first interim period beginning after June 15, 2004. The adoption of FSP FAS 106-2 did not have a material effect on the Company's consolidated financial statements (See Note 16).

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs", an amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and spoilage. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" which was the criterion specified in ARB No. 43. This pronouncement is effective for the fiscal years beginning after June 15, 2005. The Company has not yet assessed the impact on adopting this new standard.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends SFAS No. 95, "Statement of Cash Flows". Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The new standard will be effective for the Company in the first interim or annual reporting period beginning after June 15, 2005, which is the fourth quarter of fiscal 2005. The Company has not yet assessed the impact on adopting this new standard.

Note 2 - Concentration of Cash Balance

As of October 30, 2004 and November 1, 2003, cash balances of approximately $1,103,000 and $2,547,000, respectively, were maintained in bank accounts insured by the Federal Deposit Insurance Corporation (FDIC). These balances exceed the insured amount of $100,000.

Note 3 - Receivables and Other Current Assets

	October 30, 2004	November 1, 2003
Accounts receivable	$ 5,035	$ 4,198
Construction advance due from Landlords	797	5,291
Prepaids	2,786	2,720
Rents receivable	1,204	817
Less allowance for uncollectible accounts	(1,366)	(983)

accounts	$ 8,456	$ 12,043

Note 4 - Related Party Transactions
Wakefern Food Corporation

As required by Wakefern's By-Laws, all members of the cooperative are required to make an investment in the common stock of Wakefern for each supermarket operated ("Store Investment Program"), with the exact amount per store computed in accordance with a formula based on the volume of each store's purchases from Wakefern. The maximum required investment per store was $650,000 at October 30, 2004 and at November 1, 2003 and $550,000 at November 2, 2002. During fiscal 2003, the required investment in Wakefern increased, resulting in a total increase in the investment by $2,088,000 and a related increase in the obligations due Wakefern for the same amount. This increase in the obligation is non-interest bearing and is payable over three years. The remaining increase in the investment in fiscal 2003, and obligation due Wakefern for the same amount was due to the opening of two new stores. The obligations related to the two new stores are non-interest bearing and are payable over seven years. The increase in the investment in fiscal 2004 of $1,351,000, and related obligation due Wakefern for the same amount, was due to the opening of a new store, the replacement of an existing store and the acquisition of a store from Wakefern. The obligations related to the increase in the investment in fiscal 2004 are non-interest bearing and are payable over seven years. The Company has an investment in Wakefern of $16,444,000 at October 30, 2004 and $15,093,000 at November 1, 2003, representing a 15.5% and 15.6% interest in Wakefern, respectively. Wakefern is operated on a cooperative basis for its members. The shares of stock in Wakefern are assigned to and held by Wakefern as collateral for any obligations due Wakefern. In addition, any obligations to Wakefern are personally guaranteed by certain of the Company's shareholders who also serve as officers.

The Company also has an investment of approximately 8.5% in Insure-Rite, Ltd., a company affiliated with Wakefern, which was $1,211,000 at October 30, 2004 and $1,080,000 at November 1, 2003. During fiscal 2003, the Company's obligation to invest in Insure-Rite, Ltd. increased $127,000, as a result of the opening of two new stores. This obligation is payable over three years and is non-interest bearing. During

fiscal 2004, the Company's obligation to invest in Insure-Rite, Ltd. increased $131,000, as a result of the opening of a new store and the acquisition of a store. This obligation is payable over three years and is non-interest bearing. Insure-Rite, Ltd. provides the Company with a portion of its liability insurance coverage with the balance paid through Wakefern to private insurers. Insurance premiums paid to Wakefern, including amounts due to Insure-Rite, Ltd., were $5,014,000, $4,599,000 and $4,364,000 for fiscal years 2004, 2003 and 2002, respectively. As of October 30, 2004 and November 1, 2003, the Company was obligated to Wakefern for $4,457,000 and $3,975,000, respectively, for increases in its required investments (see Note 8).

As a stockholder member of Wakefern, the Company earns a share of an annual Wakefern patronage dividend. The dividend is based on the distribution of operating profits on a pro rata basis in proportion to the dollar volume of business transacted by each member with Wakefern during each fiscal year. It is the Company's policy to accrue quarterly an estimate of the annual patronage dividend. The Company reflects the patronage dividend as a reduction of the cost of goods sold in the consolidated statements of operations. In addition, the Company also receives from Wakefern other product incentives and rebates. For fiscal 2004, 2003 and 2002, total patronage dividends and other product incentives and rebates were $14,736,000, $12,404,000 and $10,706,000, respectively.

At October 30, 2004 and November 1, 2003, the Company has current receivables due from Wakefern of approximately $14,799,000 and $13,684,000, respectively, representing patronage dividends, vendor rebates, coupons and other receivables due in the ordinary course of business and a noncurrent receivable representing a deposit of approximately $2,039,000 and $1,874,000, respectively.

In September 1987, the Company and all other stockholder members of Wakefern entered into an agreement with Wakefern, as amended in 1992, which provides for certain commitments and restrictions on all stockholder members of Wakefern. The agreement contains an evergreen provision providing for an indefinite term and is subject to termination ten years after the approval of 75% of the outstanding voting stock of Wakefern. Under the agreement, each stockholder, including the Company, agreed to purchase at least 85% of its merchandise in certain defined product categories from Wakefern and, if it fails to meet such requirements, to make payments to Wakefern based on a formula designed to compensate Wakefern for its lost profit. Similar payments are due if Wakefern loses volume by reason of the sale of one or more of a stockholder's stores, merger with another entity or on the transfer of a controlling interest in the stockholder.

The Company fulfilled its obligation to purchase a minimum of 85% in certain defined product categories from Wakefern for all periods presented. The Company's merchandise purchases from Wakefern, including direct store delivery vendors processed by Wakefern, approximated $837, $715 and $641 million for the fiscal years 2004, 2003 and 2002, respectively.

Note 4 - Related Party Transactions - (continued)

Wakefern Food Corporation - (continued)

Wakefern charges the Company for, and provides the Company with support services in numerous administrative functions. These services include advertising, supplies, technical support for communications and in-store computer systems, equipment purchasing, the coordination of coupon processing and other miscellaneous services.
These charges were $2.3, $2.2 and $2.1 million for fiscal years 2004, 2003 and 2002, respectively.

In addition to its investment in Wakefern, which carries only voting rights, the Company's President serves as a member of Wakefern's Board of Directors and its finance committee. Several of the Company's officers and employees also hold positions on various Wakefern committees.

Note 5 - Goodwill and Other Intangible Assets

Goodwill is not amortized but is tested for impairment on an annual basis and between annual tests in certain circumstances. In accordance with SFAS 142, which was adopted in fiscal 2003, the Company determined it has one reporting unit. During fiscal 2004 and fiscal 2003, the Company completed goodwill annual impairment tests prescribed by SFAS 142 and concluded that no impairment of goodwill existed.

The gross carrying amount and accumulated amortization of the Company's other intangible assets as of October 30, 2004 and November 1, 2003 are as follows:

	October 30, 2004		November 1, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets				
Bargain Leases	$ 4,454	$ 3,181	$ 3,918	$ 3,040
Unamortized Intangible Assets				
Liquor Licenses	220	-	220	-
Total	$ 4,674	$ 3,181	$ 4,138	$ 3,040

Amortization expense recorded on the intangible assets for the years ended October 30, 2004, November 1, 2003 and November 2, 2002 was $141,000, $192,000 and $211,000, respectively. As a result of the adoption of SFAS 142, there were no changes to amortizable lives or amortization methods. The estimated amortization expense for the Company's other intangible assets for the five succeeding fiscal years is as follows:

Fiscal Year	(In thousands)
2005	$189
2006	189
2007	189
2008	189
2009	189
Thereafter	328

Note 5 - Goodwill and Other Intangible Assets - (continued)

The following tables illustrate net income available to common shareholders and earnings per share, exclusive of goodwill amortization expense in the prior periods:

	October 30, 2004	November 1, 2003	November 2, 2002
Reported net income	$ 1,800	$ 2,283	$ 3,240
Add: Goodwill amortization	-	-	211
Adjusted net income	$ 1,800	$ 2,283	$ 3,451

Basic earnings per share:

Reported net income	$ 1.82	$ 2.31	$ 3.16
Add: Goodwill amortization	-	-	.21
Adjusted net income	$ 1.82	$ 2.31	$ 3.37
Diluted earnings per share:			
Reported net income	$ 1.75	$ 2.26	$ 3.01
Add: Goodwill amortization	-	-	.20
Adjusted net income	$ 1.75	$ 2.26	$ 3.21

Note 6 - Accrued Expenses

	October 30, 2004	November 1, 2003
Payroll and payroll related expenses	$ 8,129	$ 7,462
Insurance	611	713
Sales, use and other taxes	1,455	1,371
Interest	253	147
Employee benefits	1,504	1,445
Occupancy cost	672	1,205
Professional fees and shareholder lawsuit (Note 14)	879	307
Real estate taxes	1,448	618
Other	285	217
	$ 15,236	$ 13,485

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Note 7 - Long-term Debt

Long-term debt consists of the following:

	October 30, 2004	November 1, 2003
Revolving note	$ 30,592	$ 24,592
Term loan	15,000	20,000
Capital expenditure facility	20,000	10,741
Other notes payable	5,874	7,918
	71,466	63,251
Less current portion	8,415	7,916
	$ 63,051	$ 55,335

The Company has a revolving credit and term loan agreement, which was amended and assigned to three financial institutions on January 7, 2000. On September 26, 2002 the Credit Agreement was further amended and restated (as amended, the "Credit Agreement") and was last amended October 21, 2004. The Credit Agreement is collateralized by substantially all of the Company's assets, provides for a total commitment of $80,000,000 and matures December 31, 2007. The Credit Agreement provides the Company with the option to convert portions of the debt to Eurodollar loans, as defined in the Credit Agreement, which have interest rates indexed to LIBOR. The Credit Agreement consists of a Revolving Note, a Term Loan and a Capital Expenditure Facility.

The Revolving Note has an overall availability of $35,000,000, not to exceed 65% of eligible inventory, and provides for availability of up to $4,500,000 for letters of credit. During fiscal 2004 and 2003, this provision of the Credit Agreement was amended several times to allow the Company the ability to borrow from $3,000,000 to $6,000,000 in excess of the borrowing base limitation, subject to available in transit cash, as defined. As of October 30, 2004, the Credit Agreement, as last amended on October 21, 2004, provided the Company the ability to borrow up to a maximum of $41,000,000 under the Revolving Note subject to eligible inventory and in transit cash of up to $6,000,000.

This provision expired January 15, 2005 at which time overall availability returned to $35,000,000. The Revolving Note bears interest at prime plus 1.50% or LIBOR plus 3.25%. At October 30, 2004, $22,000,000 of the Revolving Note was under a one-month Eurodollar rate of 5.09% maturing November 2004, which was renewed through January 2005 at 5.60%. At November 1, 2003, $14,000,000 of the Revolving Note was under a one-month Eurodollar rate of 4.37%.

The Company had letters of credit outstanding of $1,176,064 and $726,004 at October 30, 2004 and November 1, 2003, respectively. A commitment fee of .5% is charged on the unused portion of the Revolving Note. Available credit under the Revolving Note was $1,971,000 and $3,382,000 at October 30, 2004 and November 1, 2003.

Subsequent to October 30, 2004 the, letters of credit outstanding were reduced to $740,000.

The Term Loan, originally $25,000,000, is payable in quarterly principal installments of $1,250,000 commencing January 1, 2003 through October 1, 2007. Interest is payable monthly at prime plus 2.00% or LIBOR plus 3.75%. At October 30, 2004 and November 1, 2003 the Company had $15,000,000 and $20,000,000 outstanding, respectively, on the Term Loan. At October 30, 2004, $13,750,000 was under a six month Eurodollar rate of 5.79% maturing January 2005 and $1,250,000 was under a one month Eurodollar rate of 5.59% maturing November 2004, which was renewed through December 2004 at 5.81%. At November 1, 2003, $17,500,000 of the Term Loan balance was under a six month Eurodollar rate of 4.91% and $2,500,000 was under a one month Eurodollar rate of 4.87%.

The $20,000,000 Capital Expenditure Facility provides for a non-restoring commitment to fund equipment purchases for five new stores through December 31, 2004, with a maximum of $4,000,000 per store. Interest only is due monthly at prime plus 2.00% or LIBOR plus 3.75% for any amount utilized through December 31, 2004. Amounts borrowed through December 31, 2004 will be converted to a term loan with interest payable monthly at rates described above and fixed quarterly principal payments, commencing April 1, 2005, calculated on a seven-year amortization schedule. A balloon payment is due at December 31, 2007 for amounts outstanding on the term loans. A commitment fee of .75% is charged on the unused portion of the Capital Expenditure Facility. At October 30, 2004 and November 1, 2003 the Company had $20,000,000 and $10,741,000 outstanding, respectively, on the Capital Expenditure Facility. At October 30, 2004, $20,000,000 was under a three month Eurodollar rate of 5.79% maturing January 2005. At November 1, 2003, $9,000,000 was under a three month Eurodollar rate of 4.90% and $1,741,000 was at prime plus 2%. At October 30, 2004 there were no amounts available under this facility.

The Agreement places restrictions on dividend payments and requires the maintenance of debt service coverage and leverage ratios, as well as limitations on capital expenditures and new debt. For the years ended October 30, 2004 and November 1, 2003 the Company exceeded the limit by which pension plan liabilities may exceed plan assets of its defined benefit plans (see Note 15), which was waived by the financial institutions.

The prime rate at October 30, 2004 and November 1, 2003 was 4.75% and 4.00%, respectively.

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Note 7 - Long-term Debt - (continued)

Other Notes Payable

Included in other notes payable are the following:

	October 30, 2004	November 1, 2003
Note payable to a financing institution, matured October 2004, payable at $56,000 per month plus interest at 7.26%, collateralized by related equipment.	$ -	$ 663
Note payable to a financing institution, maturing February 2005, payable at $46,000 per month including interest at 7.44%, collateralized by related equipment.	170	742 04
Note payable to a financing institution, maturing January 2010, payable at $59,000 per month including interest at 6.45%, collateralized by related equipment.	3,162	3,652
Note payable to a financing institution, maturing October 2008, payable at $37,000 per month including interest at 6.20%, collateralized by related equipment.	1,566	1,900
Note payable to a financing institution, maturing January 2009, payable at $21,000 per month including interest at 6.20%, collateralized by related equipment.	956	-
Various equipment loans maturing through November 2004, payable at an aggregate monthly payment of $152,000 including interest at rates ranging from 5.79% to 9.02%, collateralized by various equipment.	20	961
Total other notes payable	$ 5,874	$ 7,918

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Note 7 - Long-term Debt - (continued)

Aggregate maturities of long-term debt are as follows:

Fiscal Year	
2005	$ 8,415
2006	9,009
2007	9,084
2008	44,042
2009	740
Thereafter	176

Note 8 - Long-term Debt, Related Party

As of October 30, 2004 and November 1, 2003, the Company was indebted for investments in Wakefern in the amount of $4,457,000 and $3,975,000, respectively. The debt is non-interest bearing and payable in scheduled installments as follows:

Fiscal Year	
2005	$ 867
2006	981
2007	969
2008	505
2009	447
Thereafter	688

Note 9 - Other Long-term Liabilities

	October 30, 2004	November 1, 2003
Deferred escalation rent	$ 3,840	$ 4,128
Minimum pension liability (Note 15)	5,442	5,516
Postretirement benefit cost (Note 16)	3,692	2,929
Other	737	705
	$ 13,711	$ 13,278

Note 10 -Long-term Leases

Capital Leases

	October 30, 2004	November 1, 2003
Real estate	$ 152,354	$ 130,420
Less accumulated amortization	26,655	20,594
	$ 125,699	$ 109,826

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Note 10 -Long-term Leases

Capital Leases (continued)

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of October 30, 2004:

Fiscal Year

2005	$ 15,943
2006	15,998
2007	15,568
2008	15,611
2009	15,998
Thereafter	275,163
Total minimum lease payments	354,281
Less amount representing interest	210,050
Present value of net minimum lease payments	144,231
Less current maturities	1,727
Long-term maturities	$ 142,504

Operating Leases

The Company is obligated under operating leases for rent payments expiring at various dates through 2028. Certain leases provide for the payment of additional rentals based on certain escalation clauses and eight leases require a further rental payment based on a percentage of the stores' annual sales in excess of a stipulated minimum. Percentage rent expense was $26,000, $95,000 and $156,000 for the fiscal years 2004, 2003 and 2002, respectively. Under the majority of the leases, the Company has the option to renew for additional terms at specified rentals.

Total rental expense for all operating leases consists of:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Land and buildings	$ 9,942	$ 10,183	$ 10,690
Less subleases	(4,602)	(3,586)	(3,147)
	$ 5,340	$ 6,597	$ 7,543

The minimum rental commitments under all noncancellable operating leases reduced by income from noncancellable subleases at October 30, 2004, are as follows:

Fiscal Year	Land and Buildings	Income from Noncancellable Subleases	Net Rental Commitment
2005	$ 10,160	$ 2,695	$ 7,465
2006	8,413	2,472	5,941
2007	7,497	2,072	5,425
2008	6,740	1,522	5,218
2009	5,641	885	4,756
Thereafter	25,856	697	25,159
	$ 64,307	$ 10,343	$ 53,964

Note 10 -Long-term Leases (continued)

Operating Leases (continued)

The Company is presently leasing one of its supermarkets, a garden center, which lease was terminated during fiscal 2004, and a liquor store from a partnership in which the Chairman of the Board has a controlling interest, at an annual aggregate rental of $752,000, $753,000 and $744,000 for the fiscal years 2004, 2003 and 2002, respectively.

Note 11 -Stock Option Plan

On April 4, 2001, the Company's shareholders approved the Foodarama Supermarkets, Inc. 2001 Stock Incentive Plan (the "2001 Plan"). The 2001 Plan replaces the Foodarama Supermarkets, Inc. 1995 Stock Option Plan under which no options were granted.

The 2001 Plan originally provided for the issuance of up to 150,000 shares of Foodarama Supermarkets, Inc. Common Stock (subject to anti-dilution adjustment). On May 8, 2002 the Company's shareholders approved an amendment increasing the number of shares reserved for issuance under the 2001 Plan to 215,000 shares. No more than 50,000 shares of stock may be awarded to any one participant under the 2001 plan (see Note 14).

The types of awards that the Administrator may grant under the 2001 Plan are stock options, stock appreciation rights, restricted and non-restricted stock awards, phantom stock, performance awards, other stock grants or any combination of these awards.

On August 8, 2001 (the "2001 Grant Date"), the Company granted 107,500 shares as stock options and 11,000 shares in the form of Stock Performance Units (the "Units"). On September 12, 2002 (the "2002 Grant Date"), the Company granted an additional 3,800 shares in the form of Stock Performance Units. The Units represent deferred compensation based upon the increase or decrease in the market value of the Company's common stock during the grantee's employment.

The stock options consist of 50,000 shares granted to each of the Chairman of the Board and the President of the Company and vest quarterly from the grant date over a five-year period. The remaining 7,500 shares were granted to certain officers and elected board members of the Company and vest, per individual, 250 shares at the Grant Date and 250 shares each year thereafter for the next two to three years. During fiscal 2003, the Company's Chairman of the Board returned 10,000 stock options to the Company as part of a settlement of a derivative shareholder lawsuit (see Note 14).

The Units are payable in cash only. The Units granted on the 2001 Grant Date were granted to certain officers and senior management of the Company and vest, per individual, 250 units at the Grant Date and 250 units thereafter, for the next one to three years. Units granted at the 2002 Grant Date were granted to certain management personnel and vest, per individual, between 200 and 250 units at the 2002 Grant Date with the remaining units vesting in the next year.

The term of the stock options and Units granted expire ten years after the grant date. The exercise price of the options and the market price of the Company's Common Stock at the date of grant were $19.60 and $36.50, respectively, for the options and Units granted on August 8, 2001. The exercise price and market price for the Units granted September 12, 2002 was $25.00. At the 2001

Note 11 -Stock Option Plan - (continued)

Grant Date, the Company recorded deferred compensation expense and a related adjustment to capital in excess of par of $1,817,000 relating to the stock options granted. For each of the years ended October 30, 2004, November 1, 2003 and November 2, 2002, the Company realized compensation expense relating to the stock option plan of $372,000. For the years ended October 30, 2004, November 1, 2003 and November 2, 2002, the Company realized compensation expense of $84,000, compensation income of $15,000 and compensation expense of $72,000, respectively, related to the Units granted, based on the market price of the Company's common stock of $37.50 at October 30, 2004, $25.25 at November 1, 2003 and $27.00 at November 2, 2002.

The following table summarizes Stock Option and Units activity:

	Options Outstanding						
	Stock Options			Stock Performance Units			
	Shares	Exercise Price Per Share	Weighted Average Exercise Price	Units	Exercise Price Per Share	Weighted Average Exercise Price	Stock Options and Units Available for Grant
Outstanding November 3, 2001	107,500	$19.60	$19.60	11,000	$19.60	$19.60	31,500
Additional shares reserved							65,000
Granted	-	-	-	3,800	25.00	25.00	(3,800)
Exercised	(1,000)	19.60	19.60	(8,000)	19.60	19.60	
Outstanding November 2, 2002	106,500	$19.60	19.60	6,800	$19.60 to $25.00	$22.62	92,700
Granted	-	-	-	-	-	-	-
Returned	(10,000)	-	-	-	-	-	10,000
Exercised	(500)	19.60	19.60	-	-	-	-
Outstanding November 1, 2003	96,000	$19.60	19.60	6,800	$19.60 to $25.00	$22.62	102,700
Granted	-	-	-	-	-	-	-
Forfeited	-	-	-	(250)	19.60	-	250
Exercised	(750)	19.60	19.60	(6,300)	19.60 to 25.00	22.86	-
Outstanding October 30, 2004	95,250	$19.60	19.60	250	$19.60	$19.60	102,950
Options exercisable at:							
November 2, 2002	23,000	19.60	$19.60	2,900	$19.60 to $25.00	$22.62	
November 1, 2003	44,500	19.60	$19.60	6,550	$19.60 to $25.00	$22.62	
October 30, 2004	65,250	19.60	$19.60	250	$19.60	$19.60	

Following is a summary of the status of stock options outstanding at October 30, 2004:

	Outstanding Options			Exercisable Options	
Exercise Price	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ 19.60	95,250	6.75 years	$19.60	65,250	$ 19.60

Note 12 -Shareholders' Equity

On May 11, 2001, the Board of Directors authorized the Company to repurchase, in either open market or private transactions, up to $3,000,000 of its common stock. During the fiscal year ended November 2, 2002 the Board of Directors increased the authorized amount of common stock the Company could repurchase to $5,600,000. There were no shares repurchased during the fiscal years ended October 30, 2004 and November 1, 2003. During the fiscal year ended November 2, 2002 the Company repurchased 102,853 shares of its common stock at an aggregate cost of $4,523,670. During the fiscal years ended October 30, 2004, November 1, 2003 and November 2, 2002 the Company issued 750, 500, and 1,000 shares, respectively, of common stock due to the exercise of stock options, in accordance with the provisions of its 2001 Stock Incentive Plan (see Note 11).

Note 13 -Income Taxes

The income tax provision consist of the following:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Federal			
Current	$ (172)	$ (3,000)	$ 1,035
Deferred	378	3,562	688
State and local			
Current	2,332	2,007	181
Deferred	(1,435)	(1,047)	258
	$ 1,103	$ 1,522	$ 2,162

The following tabulations reconcile the federal statutory tax rate to the effective rate:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Tax provision at the statutory rate	34.0 %	34.0%	34.0%
State and local income tax provision net of federal income tax	5.9 %	5.9%	5.9%
Goodwill amortization not deductible for tax purposes	-	-	.9%
Tax credits	(2.1) %	(1.7)%	(.3)%

Other	.2 %	1.8%	(.5)%
Actual tax provision	38.0 %	40.0%	40.0%

Note 13 -Income Taxes - (continued)

Net deferred tax assets and liabilities consist of the following:

	October 30, 2004	November 1, 2003
Current deferred tax assets		
Deferred revenue and gains on sale/ leaseback	$ 79	$ 94
Allowances for uncollectible receivables	564	409
Unearned promotional allowance	304	-
Inventory capitalization	315	134
Closed store reserves	79	255
Vacation accrual	603	606
Federal tax credits	369	-
Accrued post-employment	217	184
Accrued post-retirement	1,495	1,186
Other	37	37
	4,062	2,905
Current deferred tax liabilities		
Prepaids	(508)	(417)
Patronage dividend receivable	(3,977)	(3,476)
Accelerated real estate taxes	(214)	(206)
Prepaid pension	(942)	(968)
	(5,641)	(5,067)
Current deferred tax liability, net	$ (1,579)	$ (2,162)
Noncurrent deferred tax assets		
Lease obligations	$ 7,435	$ 5,581
State tax credits	2,969	1,368
Minimum pension liability	2,093	2,110
Stock options and deferred compensation	490	350
Federal and State loss carryforwards	1,177	115
	14,164	9,524
Valuation allowance	(85)	(85)
	14,079	9,439
Noncurrent deferred tax liabilities		
Depreciation	(14,846)	(10,845)
Pension obligations	(1,176)	(994)
Other	(349)	(349)
	(16,371)	(12,188)

Noncurrent deferred tax liability, net	$ (2,292)	$ (2,749)

At October 30, 2004 and November 1, 2003, minimum pension liability of $2,093,000 and $2,110,000, respectively, was charged against accumulated other comprehensive income (see Note 15).

Note 13 -Income Taxes - (continued)

At October 30, 2004, the Company has Federal net operating loss carryforwards of approximately $3,135,000 expiring through October 2024. In addition, the Company has Federal tax credit carryforwards of $369,000.

At October 30, 2004, the Company has State net operating loss carryforwards of approximately $1,180,000 expiring through October 2012. The utilization of certain State net operating losses may be limited in any given year. A valuation allowance has been provided for net operating losses that are not expected to be utilized. The Company believes the results of historical taxable income and the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

Effective in fiscal year 2003, the Company is subject to the New Jersey Alternative Minimum Assessment ("AMA") that was part of the Business Tax Reform Act passed in the State of New Jersey. Taxpayers are required to pay the AMA, which is based upon either New Jersey Gross Receipts or New Jersey Gross Profits, if the AMA exceeds the tax based on taxable net income. An election must be made in the first year to use either the Gross Profits or Gross Receipts method and must be kept in place for five years, at which time the election may be changed.

At October 30, 2004, the Company has New Jersey AMA tax credit carryforwards of $4,386,000. The utilization of this credit may commence in fiscal 2007 and at that time the amount of credit may be limited based on taxable net income. In addition, the Company has other state tax credit carryforwards of $115,000.

Note 14 -Commitments and Contingencies

Legal Proceedings

The Company is involved in various legal actions and claims arising in the ordinary course of business. Management believes that the outcome of any such litigation and claims will not have a material effect on the Company's financial position or results of operations.

Shareholder Lawsuit

On March 27, 2002, certain shareholders (the "Plaintiffs") filed a derivative action against the Company, as nominal defendant, and against all five members of the Board of Directors (together, the "Defendants"), in their capacities as directors and/or officers of the Company. The lawsuit alleged that the Defendants breached their fiduciary duties to the Company and its shareholders and sought to "enrich and entrench themselves at the shareholders' expense" through their previous recommendation, implementation and administration of the 2001 Stock Incentive Plan (the "2001 Plan"), which was approved by the Company's shareholders on April 4, 2001, and by proposing an amendment to the 2001 Plan to increase the number of shares of Common Stock available for issuance by 65,000 shares and an amendment to the Company's amended and restated certificate of incorporation (the "Certificate of Incorporation") to create a classified Board of Directors consisting of five classes of directors, with only one class standing for election in any

Note 14 -Commitments and Contingencies

Shareholder Lawsuit - (continued)

year for a five-year term. The shareholders of the Company approved the amendments to the 2001 Plan and the Certificate of Incorporation on May 8, 2002 (see Note 11).

On July 23, 2003, the Superior Court of New Jersey, Middlesex County (the "Court"), approved the settlement of the shareholder derivative action filed by the Plaintiffs. Pursuant to the terms of the settlement, 1) the Company's five-year classified board has been eliminated and the Defendants have agreed not to submit any proposal to the shareholders of the Company in connection with the implementation of a classified board for a five year period ending on July 22, 2008; 2) the 2001 Plan was amended so that the maximum number of shares of the Company's common stock that can be awarded to any individual thereunder shall be 50,000; and 3) the 2001 Plan was amended to require that the exercise price of any options or other stock based compensation granted thereunder shall be equal to the closing market price of the Company's common stock on the date of grant. In addition, the company's Chairman of the Board returned to the Company 10,000 stock options previously awarded to him under the 2001 Plan.

The Plaintiffs had applied to the Court for an award of attorneys' fees in the amount of $975,000. The Company's directors and officers liability insurance carrier reserved its rights under the Company's directors and officers liability insurance policy with respect to the claims made in the derivative action, including claims for the Plaintiffs' attorneys' fees and costs of defense, and had preliminarily advised the Company that certain of the claims made in the derivative action and related legal expenses were not, in the insurance carrier's view, covered by the policy. During fiscal 2004, the Company reached a court approved settlement with the Plaintiffs as well as a settlement with its director and officers insurance carrier. As a result of the settlement, the effect to the Company was a decrease in net income, after tax effect, of $214,000.

Commitments

Employment Agreement

On November 2, 2003 the Company entered into a two-year employment agreement (the "Agreement") with its Chairman of the Board. The Agreement provides for an annual salary of $325,000 in fiscal 2004 and $275,000 in fiscal 2005. The Agreement also provides for participation in the Company's incentive compensation plan and 401(k) plan through the term of the Agreement. In addition, health and life insurance and postretirement benefits will be provided during the lifetime of both the Chairman of the Board or his spouse.

Guarantees

The Company remains contingently liable under leases assumed by third parties. As of October 30, 2004, the minimum annual rental under these leases amounted to approximately $1,720,000 expiring at various dates through 2011. The Company has not experienced and does not anticipate any material nonperformance by such third parties.

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Note 15 -Retirement and Benefit Plans

Defined Benefit Plans

The Company sponsors two defined benefit pension plans covering administrative personnel and members of a union. Employees covered under the administrative pension plan earned benefits based upon a percentage of annual compensation and could make voluntary contributions to the plan. Employees covered under the union pension benefit plan earn benefits based on a fixed amount for each year of service. The Company's funding policy is to pay at least the minimum contribution required by the Employee Retirement Income Security Act of 1974. The plans' assets consist primarily of publicly traded stocks and fixed income securities.

A summary of the plans' funded status and the amounts recognized in the consolidated balance sheets as of October 30, 2004 and November 1, 2003 follows:

	October 30, 2004	November 1, 2003
Change in benefit obligation		
Benefit obligation - beginning of year	$ (8,886)	$ (7,807)
Service cost	(247)	(117)
Interest cost	(534)	(529)
Actuarial loss	(525)	(1,070)
Plan amendments	(16)	-
Benefits paid	682	637
Benefit obligation - end of year	(9,526)	(8,886)
Change in plan assets		
Fair value of plan assets - beginning of year	5,761	4,788
Actual return on plan assets	430	303
Employer contributions	900	1,307
Benefits paid	(682)	(637)
Administrative expense	-	-
Fair value of plan assets - end of year	6,409	5,761
Funded status	(3,117)	(3,125)
Unrecognized prior service cost	209	242
Unrecognized net loss from past experience different from that assumed	5,233	5,274
Unrecognized transition asset	-	-
Net amount recognized-end of year	$ 2,325	$ 2,391
Projected benefit obligation- end of year	$ (9,526)	$ (8,886)

Accumulated benefit obligation- end of year	$ (9,526)	$ (8,886)
Fair value of plan assets - end of year	$ 6,409	$ 5,761

Note 15 -Retirement and Benefit Plans - (continued)

Defined Benefit Plans - (continued)

Amounts recognized in the consolidated balance sheets consist of:

	October 30, 2004	November 1, 2003
Prepaid benefit cost	$ -	$ -
Accrued benefit liability	(3,117)	(3,125)
Intangible asset	209	242
Accumulated other comprehensive income	5,233	5,274
Net amount recognized-end of year	$ 2,325	$ 2,391

Components of Net Periodic Benefit Cost:

	Fiscal 2004	Fiscal 2003	Fiscal 2002
Service cost - benefits earned during the period	$ 247	$ 117	$ 94
Interest expense on benefit obligation	534	529	511
Expected return on plan assets	(472)	(388)	(475)
Settlement (gain) loss recognized	244	318	350
Amortization of prior service costs	49	49	37
Amortization of unrecognized net loss (gain)	364	391	197
Amortization of unrecognized transition obligation (asset)	-	-	(5)
Net periodic benefit cost	$ 966	$ 1,016	$ 709
Additional information: Increase (decrease) in minimum pension liability included in other comprehensive income	$ (41)	$ 447	$ 1,626

Note 15 -Retirement and Benefit Plans - (continued)

Defined Benefit Plans - (continued)

Assumptions

The weighted-average economic assumptions used to determine benefit obligations at fiscal year-end are as follows:

	October 30, 2004	November 1, 2003	November 2, 2002
Discount rate (pension)	5.75%	6.25%	7.00%
Discount rate (post-retirement)	5.00%	5.00%	5.75%
Rate of compensation increase	N/A	N/A	N/A
Measurement date	October 30, 2004	November 1, 2003	November 2, 2002

The weighted-average economic assumptions used to determine benefit cost for the fiscal years ended on the dates indicated are as follows:

	October 30, 2004	November 1, 2003	November 2, 2002
Discount rate (pension)	6.25%	7.00%	7.25%
Discount rate (post-retirement)	5.00%	5.75%	6.25%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase	N/A	N/A	N/A

Plan Assets and Expected Returns.

The investments of the defined benefit plans are managed with the following objectives:

- To ensure that the principal of the Plan is preserved and enhanced over the long-term, both in real and nominal terms
- To manage (control) risk exposure
- To exceed the funding requirement over a market cycle (3-5 years)

Risk is managed by investing in a broad range of asset classes, and within those asset classes, a broad range of individual securities. With the exception of Foodarama common stock already held by the plans, no more than two percent (2%) of plan assets may be invested in any one security.

The defined benefit plans' asset allocation as of October 30, 2004 and November 1, 2003 and the target allocation of the administrative pension plan (which accounts for approximately 70% of total pension assets) for fiscal 2005 are as follows:

Note 15 - Retirement and Benefit Plans - (continued)

Defined Benefit Plans - (continued)

Asset Class	Target Allocation Range	October 30, 2004	November 1, 2003
Equity securities	33% - 70%	83.3%	77.5%
Debt securities	14% - 23%	9.1%	9.1%
Real estate	0%	0.0%	0.0%

Other	7% - 13%	7.6%	13.4%
Total		100.0%	100.0%

As of October 30, 2004 and November 1, 2003, equity securities included 37,200 shares of common stock of the Company with a fair value of $1,395,000 and $939,000, respectively.

The Trustees of the plans monitor the plan's performance on a quarterly basis and review the target allocation at least annually. The Trustees will also report at least annually to the Board of Directors and the Pension Committee on the status of the plans' assets, the performance of the investment managers, and the absolute, relative and comparative performance of the plans' investments.

To develop the expected long-term rate of return on asset assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. Based on these factors and the asset allocation discussed below, the Company elected to use an 8.0% expected return on plan assets in determining pension expense for fiscal 2004. This is the same expected return on plan assets used in determining pension expense for fiscal 2003 and fiscal 2002. The assumptions were net of expected plan expenses payable from the plans' assets.

The Company estimates that a 0.50% decrease in the expected return on pension plan assets would have increased pension expense by approximately $29,000 during fiscal 2004.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

		Defined Benefit Plans
Fiscal Year		
2005	$	716
2006		662
2007		933
2008		574
2009		508
2010 to 2014		3,550
Total	$	6,943

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Note 15 -Retirement and Benefit Plans - (continued)

Defined Benefit Plans - (continued)

Company Contributions Based on the Company's actuarial assumptions the Company believes it will be required to make contributions to its defined benefit pension plans of $1,253,000 in fiscal 2005.

Additional information

On September 30, 1997, the Company adopted an amendment to freeze all future benefit accruals relating to the plan covering administrative personnel. A curtailment gain of $55,000 was recorded related to this amendment.

At October 30, 2004 and November 1, 2003, the accumulated benefit obligation exceeded the fair value of the plans' assets in both defined benefit plans. The provisions of Statement of Financial Accounting Standards No. 87 ("SFAS 87"), "Employers' Accounting for Pensions," require recognition in the balance sheet of an additional minimum liability and related intangible asset for pension plans with accumulated benefits in excess of plan assets; any portion of such additional liability which is in excess of the plan's prior service cost is reflected as a direct charge to equity, net of related tax benefit. Accordingly, at October 30, 2004 and November 1, 2003, a liability of $5,442,000 and $5,516,000, respectively, was included in other long-term liabilities, an intangible asset equal to the prior service cost of $209,000 and $242,000, respectively, is included in other assets, and a charge of $5,233,000 and $5,274,000, before a deferred tax benefit of $2,093,000 and $2,110,000, respectively, is reflected as a minimum pension liability in shareholders' equity in the consolidated balance sheet.

Multi-Employer Plans

Health, welfare, and retirement expense was approximately $18,159,000 in fiscal 2004, $17,230,000 in fiscal 2003 and $13,240,000 in fiscal 2002, under plans covering union employees. Such plans are a