Wakefern Officially Acquires Big V ShopRites, Will Fold Stores into SRS Inc.

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The end of the Big V Supermarkets-Wakefern Food Corp. saga came late last month when U.S. Bankruptcy Court Judge William T. Lyons approved the sale of nearly all of Big V’s assets to Wakefern for $185 million.

Big V’s plan of reorganization, which was filed jointly with Wakefern, was confirmed at a hearing held June 27 in Trenton, NJ, by Judge Lyons. The decision ended the process begun in November of 2000 when Big V filed for Chapter 11 bankruptcy.

Under the approved reorganization plan, ShopRite Supermarkets Inc., a subsidiary of Wakefern that also operates eight stores in New Jersey and New York, will acquire most of Big V’s assets, including 27 of Big V’s current 30 stores in the Hudson Valley of New York and central New Jersey. The transition is expected to be completed latter this month with the stores under the supervision of SRS president Kevin Mannix. While some senior management functions will fall under the SRS management team, it is expected that in key areas such as store operations, there will be a separate management team dedicated to the former Big V stores. A company spokesperson said that those plans have not yet been completed.

The three units that Wakefern did not acquire in the deal – Wappingers Falls, NY; Mt. Vernon, NY and Hamilton, NJ – will be closed.

Plans for Big V’s Florida, NY headquarters have not been announced.

Jim Toppes, president and CEO of Big V Supermarkets, said “We are pleased to have reached this important milestone. Throughout its Chapter 11 case, Big V’s primary objective has been to develop and implement a plan of re-organization that provides superior value to our creditors and is in the best interest of our associates, customers, suppliers and other stakeholders. We believe the plan confirmed today achieves that objective. We are grateful for continuing support of our associates and customers and are eager to complete an orderly transition with Wakefern as soon as possible.

Thomas P. Infusino, chairman and CEO of Wakefern, said, “All of us at Wakefern look forward to working with Big V associates to grow the business and provide ShopRite customers with an exceptional shopping experience.”

This resolution follows many developments during the 18 months in Chapter 11 status. This case dates back to November of 2000 when Big V announced it would leave the Wakefern co-op and switch to C&S Wholesale Grocers of Brattleboro, VT for distribution services and rename its stores under the Big V Supermarket brand, dropping the ShopRite banner used by Wakefern members. Big V also filed for Chapter 11 bankruptcy protection at that time.

Big V had sought the right to tender its shares in Wakefern, terminate its relationship with the co-op and avoid paying any withdrawal payment or continue its obligation to meet a minimum patronization requirement under the Wakefern stockholders agreement.

Additionally, the retailer then announced it would close seven of the 39 stores operated in a further effort to reduce costs. At the same time, it obtained a $25 million interim debtor in possession financing commitment from CIT Business Credit.
In response, Wakefern sought a $272 million withdrawal payment, latter increased to $285 million, which it claimed was in adherence to the Wakefern stockholder’s agreement governing all members of the co-op.

During the bankruptcy trial, begun last July, Big V attempted to prove that, since filing for bankruptcy, it had ceased trying to sell the company and was simply trying to reorganize and emerge as a leaner, more efficient company. A plan, partly attributed to former CEO Mark Schwartz (the since ousted president of troubled mass-merchandiser Kmart), was developed in which Big V would cease trying to sell the company, an option which was stymied by the potential withdrawal payment that would have to be paid by Big V (and/or any potential buyer), and instead tender its shares back to Wakefern, seek another supplier and eventually consummate a sale of the company.

Wakefern countered by contending that the retailer’s withdrawal from the co-op would trigger a payment obligation under the stockholders agreement.

Judge Lyons ultimately ruled in Wakefern’s favor, but never set an amount for the withdrawal penalty to be paid in the event that Big V exited Wakefern, and seemed to want the parities involved to work out a solution that would keep the company a viable one in the future.

Then, in January of this year, Ahold USA unit Stop & Shop shook things up when it announced it had entered into a letter of intent with representatives of the creditors of Big V to purchase 27 of the Wakefern member retailer’s 31 stores and other assets of the company for $255 million.

The Stop & Shop offer included a $75 million payment to Wakefern as compensation for the undetermined exit penalty that Judge Lyons ruled would be due the co-op, an amount Wakefern by that time said should worth at least $300 million. Stop & Shop would then sell several of the Big V stores to Pathmark.

The Stop & Shop offer followed Big V’s filing of reorganization plan in U.S. Bankruptcy Court in which it agreed to sell most of its assets to Wakefern for $150 million and then cease operations. The Big V stores would have then been folded in to Wakefern and operated as a separate corporately-run division.

At a hearing on January 17, Judge Lyons acknowledged the Big V/Wakefern reorganization plan but did not dismiss Stop & Shop’s effort to pursue another path, allowing both plans to remain on the table.

Subsequently, Wakefern increased its offer to $185 million in an effort to appease the creditors and keep the Big V stores as part of its operation, knowing that losing what amounted to 13 percent of its volume could cripple the co-op. Wakefern at that time announced that its latest offer, and plan of reorganization, had the support of Big V, its three major creditor groups, and Thomas H. Lee Partners, the Boston based financial firm that controls the majority of Big V stock.

In response, Stop & Shop filed an emergency motion with the Bankruptcy Court requesting Judge Lyons give the company authority to obtain documents and testimony from creditor groups of Big V Supermarkets after the retailer abandoned an offer by the Ahold USA operating company to purchase the Big V’s stores in favor of a competing offer from Wakefern.

Ultimately, Judge Lyons ruled in favor of Wakefern and Big V’s creditors voted in favor of the sale.

Under the reorganization plan, Big V’s pre-petition lenders will get about $0.89 per dollar for their claims. Unsecured creditors are set to get about $0.31 on the dollar, and senior note holders will get about $0.13 per dollar. Finally, junior subordinated noteholders and Big V shareholders will receive nothing.
However, several Big V executives are set to get healthy severance pay and bonus packages, as well as loan write-offs, once the reorganization is completed. According to court documents four top executives of Big V stand to receive more than $2.5 million. Toopes should get $350,000 in severance pay and a $284,000 retention bonus. He received a $166,000 retention bonus before Big V filed for bankruptcy protection in 2000.

Additionally, Toopes will be forgiven two loans the company made to him totaling $580,000, which he used to buy 8,000 shares of Big V stock.

Stephen Hastings, Big V’s chief operating officer, is set to get $200,000 in severance, along with a $180,000 retention bonus. Hastings also got a $120,000 retention payment before Big V’s Chapter 11 filing.

Kay Hastings, Big V’s senior vice president of human resources, and Anthony Moccio, Big V’s chief financial officer, each will receive $125,000 in severance, plus $80,000 retention bonuses. Each also received pre-Chapter 11 retention bonuses of $64,000.

Additionally, a $100,000 Big V loan to Stephen and Kay Hastings, who are married, will be forgiven.