

WEIS MARKETS INC
Form 10-Q
August 09, 2012

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2012**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-5039

WEIS MARKETS, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation or organization)

24-0755415

(I.R.S. Employer Identification No.)

1000 S. Second Street

P. O. Box 471

Sunbury, Pennsylvania

(Address of principal executive offices)

17801-0471

(Zip Code)

Registrant's telephone number, including area code: (570) 286-4571
www.weismarkets.com

Registrant's web address:

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 9, 2012, there were issued and outstanding 26,898,443 shares of the registrant's common stock.

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PART I - FINANCIAL INFORMATION
ITEM I - FINANCIAL STATEMENTS
WEIS MARKETS, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
	(unaudited)	
<u>Assets</u>		
Current:		
Cash and cash equivalents	\$ 46,743	\$ 37,392
Marketable securities	82,594	89,348
Accounts receivable, net	58,448	52,410
Inventories	236,288	226,191
Prepaid expenses	8,826	8,995
Income taxes recoverable	39	1,226
Deferred income taxes	<u>1,134</u>	<u>---</u>
Total current assets	<u>434,072</u>	<u>415,562</u>
Property and equipment, net	595,483	575,003
Goodwill	35,162	35,162
Intangible and other assets, net	3,314	3,277
Deferred income taxes	<u>229</u>	<u>---</u>
Total assets	<u>\$ 1,068,260</u>	<u>\$ 1,029,004</u>
<u>Liabilities</u>		
Current:		
Accounts payable	\$ 131,657	\$ 132,092
Accrued expenses	31,801	31,298
Accrued self-insurance	18,730	18,103
Deferred revenue, net	4,267	6,197
Income taxes payable	12,087	---
Deferred income taxes	<u>4,279</u>	<u>4,130</u>
Total current liabilities	<u>202,821</u>	<u>191,820</u>
Postretirement benefit obligations	15,467	14,434
Deferred income taxes	71,420	73,081
Other	<u>5,283</u>	<u>3,783</u>
Total liabilities	<u>294,991</u>	<u>283,118</u>
<u>Shareholders' Equity</u>		
Common stock, no par value, 100,800,000 shares authorized, 33,047,807 shares issued	9,949	9,949
Retained earnings	908,437	881,346
Accumulated other comprehensive income (Net of deferred taxes of \$4,003 in 2012 and \$3,800 in 2011)	<u>5,740</u>	<u>5,448</u>
	924,126	896,743
Treasury stock at cost, 6,149,364 shares	<u>(150,857)</u>	<u>(150,857)</u>

Total shareholders' equity		<u>773,269</u>		<u>745,886</u>
Total liabilities and shareholders' equity	\$	<u>1,068,260</u>	\$	<u>1,029,004</u>

See accompanying notes to consolidated financial statements.

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WEIS MARKETS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except shares and per share amounts)

	13 Weeks Ended		26 Weeks Ended	
	<u>June 30, 2012</u>	<u>June 25, 2011</u>	<u>June 30, 2012</u>	<u>June 25, 2011</u>
Net sales	\$ 677,097	\$ 676,338	\$ 707	\$ 1,336,114
Cost of sales, including warehousing and distribution expenses	<u>489,498</u>	<u>494,067</u>	<u>983</u>	<u>974,954</u>
Gross profit on sales	187,599	182,271	724	361,160
Operating, general and administrative expenses	<u>152,290</u>	<u>150,967</u>	<u>986</u>	<u>301,218</u>
Income from operations	35,309	31,699	738	59,942
Investment income	1,162	952	219	2,042
Other income	<u>414</u>	<u>---</u>	<u>414</u>	<u>---</u>
Income before provision for income taxes	36,885	32,643	371	61,984
Provision for income taxes	<u>13,681</u>	<u>11,926</u>	<u>142</u>	<u>22,683</u>
Net income	\$ <u>23,204</u>	\$ <u>20,717</u>	\$ <u>229</u>	\$ <u>39,301</u>
Weighted-average shares outstanding, basic and diluted	26,898,443	26,898,443	26,898,443	26,898,443
Cash dividends per share	\$ 0.30	\$ 0.29	\$ 0.50	\$ 0.58
Basic and diluted earnings per share	\$ 0.86	\$ 0.77	\$ 1	\$ 1.46

See accompanying notes to consolidated financial statements.

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WEIS MARKETS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	<u>13 Weeks Ended</u>		<u>26 Weeks Ended</u>	
	<u>June 30, 2012</u>	<u>June 25, 2011</u>	<u>June 30, 2012</u>	<u>June 25, 2011</u>
Net income	\$ 23,204	\$ 20,701	\$ 43,229	\$ 39,301
Other comprehensive income by component, net of tax:				
Unrealized holding gains arising during period				
(Net of deferred taxes of \$603 and \$355 respectively for the 13 Weeks Ended and \$517 and \$482 respectively for the 26 Weeks Ended)	810	559	686	738
Reclassification adjustment for gains included in net income				
(Net of deferred taxes of \$313 and \$165 respectively for the 13 Weeks Ended and \$314 and \$423 respectively for the 26 Weeks Ended)	(392)	(232)	(394)	(596)
Other comprehensive income, net of tax	<u>418</u>	<u>327</u>	<u>292</u>	<u>142</u>
Comprehensive income, net of tax	\$ <u>23,622</u>	\$ <u>21,028</u>	\$ <u>43,521</u>	\$ <u>39,443</u>

See accompanying notes to consolidated financial statements.

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WEIS MARKETS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	26 Weeks Ended	
	<u>June 30, 2012</u>	<u>June 25, 2011</u>
Cash flows from operating activities:		
Net income	\$ 43,229	\$ 39,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	21,749	24,926
Amortization	3,014	3,145
Loss on disposition of fixed assets	278	10
Gain on sale of marketable securities	(708)	(1,019)
Gain on acquisition of business	(414)	---
Changes in operating assets and liabilities:		
Inventories	(8,981)	5,776
Accounts receivable and prepaid expenses	(5,869)	(277)
Income taxes recoverable	1,187	2,712
Accounts payable and other liabilities	1,298	(16,517)
Income taxes payable	12,087	465
Deferred income taxes	(3,078)	6,997
Other	<u>356</u>	<u>(2,766)</u>
Net cash provided by operating activities	<u>64,148</u>	<u>62,753</u>
Cash flows from investing activities:		
Purchase of property and equipment	(40,358)	(47,352)
Proceeds from the sale of property and equipment	304	578
Purchase of marketable securities	(9,835)	(50,045)
Proceeds from maturities of marketable securities	---	4,880
Proceeds from the sale of marketable securities	17,436	6,561
Acquisition of business	(6,116)	---
Purchase of intangible assets	<u>(90)</u>	<u>(121)</u>
Net cash used in investing activities	<u>(38,659)</u>	<u>(85,499)</u>
Cash flows from financing activities:		
Dividends paid	<u>(16,138)</u>	<u>(15,601)</u>
Net cash used in financing activities	<u>(16,138)</u>	<u>(15,601)</u>
Net increase (decrease) in cash and cash equivalents	9,351	(38,347)
Cash and cash equivalents at beginning of year	<u>37,392</u>	<u>109,140</u>
Cash and cash equivalents at end of period	\$ <u>46,743</u>	\$ <u>70,793</u>

See accompanying notes to consolidated financial statements.

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WEIS MARKETS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring deferrals and accruals) considered necessary for a fair presentation have been included. The operating results for the periods presented are not necessarily indicative of the results to be expected for the full year. The Company has evaluated subsequent events for disclosure through the date of issuance of the accompanying unaudited consolidated interim financial statements and there were no material subsequent events which require additional disclosure. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's latest Annual Report on Form 10-K.

In the first quarter of 2012, the Company changed its accounting policy for property and equipment. Property and equipment continue to be recorded at cost. Prior to January 1, 2012, the Company provided for depreciation of buildings and improvements and equipment using accelerated methods. Effective January 1, 2012, the Company changed its method of depreciation for this group of assets from the accelerated methods to straight-line. Management deemed the change preferable because the straight-line method will more accurately reflect the pattern of usage and the expected benefits of such assets. Management also considered that the change will provide greater consistency with the depreciation methods used by other companies in the Company's industry. The change was accounted for as a change in estimate. The net book value of assets acquired prior to January 1, 2012 with useful lives remaining will be depreciated using the straight-line method prospectively. If the Company had continued using accelerated methods, depreciation expense would have been \$2.9 million greater in the second quarter of 2012 and \$5.8 million greater in the first twenty-six weeks of 2012. Had accelerated methods continued to be used, after considering the impact of income taxes, the effect would decrease net income by \$1.6 million or \$.06 per share in the second quarter of 2012 and \$3.2 million or \$.12 per share in the first twenty-six weeks of 2012.

Leasehold improvements are unaffected by the change noted above. Leasehold improvements continue to be amortized using the straight line method over the terms of the leases or the useful lives of the assets, whichever is shorter.

(2) Current Relevant Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued new authoritative guidance to achieve a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. Adoption of the new guidance did not have an impact on the Company's consolidated financial statements.

In September 2011, FASB issued additional authoritative guidance on testing goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This new

guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of the new guidance to have an impact on the consolidated financial statements.

In December 2011, the FASB and International Accounting Standards Board jointly issued additional authoritative guidance to enhance disclosure requirements, including both gross and net information, for instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and is to be applied retrospectively. The Company is currently assessing the impact of this guidance on its disclosures. Adoption of the new guidance will not have an impact on the Company's consolidated financial statements, as the guidance impacts disclosure requirements only.

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WEIS MARKETS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(3) Marketable Securities

The Company's marketable securities are all classified as available-for-sale. FASB has established three levels of inputs that may be used to measure fair value:

Level 1 Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs, other than Level 1 inputs in active markets, that are observable either directly or indirectly; and

Level 3 Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions .

The Company's marketable securities valued using Level 1 inputs include highly liquid equity securities, for which quoted market prices are available. The Company's bond portfolio is valued using Level 2 inputs. The Company's bonds are valued using a combination of pricing for similar securities, recently executed transactions, cash flow models with yield curves and other pricing models utilizing observable inputs, which are considered Level 2 inputs.

For Level 2 investment valuation, the Company utilizes standard pricing procedures of its investment brokerage firm(s) which include various third party pricing services such as FT Interactive Data, Reuters, Bloomberg and JP Morgan Pricing Direct. These procedures also require specific price monitoring practices as well as pricing review reports, valuation oversight and pricing challenge procedures to maintain the most accurate representation of investment fair market value.

Marketable securities, as of June 30, 2012 and December 31, 2011, consisted of:

<i>(dollars in thousands)</i>	<u>Amortized</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair</u>
<i>June 30, 2012</i>	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
Available-for-sale:		<u>Holding</u>	<u>Holding</u>	
<u>Level 1</u>		<u>Gains</u>	<u>Losses</u>	
Equity securities	\$ 1,136	\$ 8,311	\$ ---	\$ 9,447
<u>Level 2</u>				
Municipal bonds	<u>71,716</u>	<u>1,450</u>	<u>19</u>	<u>73,147</u>
	\$ <u>72,852</u>	\$ <u>9,761</u>	\$ <u>19</u>	\$ <u>82,594</u>
<i>(dollars in thousands)</i>	<u>Amortized</u>	<u>Gross</u>	<u>Gross</u>	<u>Fair</u>
<i>December 31, 2011</i>	<u>Cost</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
Available-for-sale:		<u>Holding</u>	<u>Holding</u>	
<u>Level 1</u>		<u>Gains</u>	<u>Losses</u>	
Equity securities	\$ 1,713	\$ 7,735	\$ ---	\$ 9,448
<u>Level 2</u>				
Municipal bonds	<u>78,388</u>	<u>1,512</u>	<u>---</u>	<u>79,900</u>

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\$ 80,101 \$ 9,247 \$ --- \$ 89,348

Maturities of marketable securities classified as available-for-sale at June 30, 2012, were as follows:

<i>(dollars in thousands)</i>	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>
Available-for-sale:		
Due within one year	\$ 1,508	\$ 1,489
Due after one year through five years	48,397	48,438
Due after five years through ten years	19,813	21,221
Due after ten years	1,998	1,999
Equity securities	<u>1,136</u>	<u>9,447</u>
	<u>\$ 72,852</u>	<u>\$ 82,594</u>

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WEIS MARKETS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(4) Acquisition of Business

On June 11, 2012, Weis Markets, Inc. acquired three former Genuardi's stores located in Conshohocken, Doylestown and East Norristown, Pennsylvania from Safeway Inc. Weis Markets, Inc. acquired the store locations and operations of these three former Genuardi's stores in an effort to establish its retail presence in the Delaware Valley. The results of operations of the three former Genuardi's stores are included in the accompanying consolidated financial statements from the date of acquisition. The three former Genuardi's stores contributed \$2.0 million to sales in the second quarter.

The cash purchase price paid to Safeway Inc. was \$6.1 million. The Company recognized a gain of \$414,000 on the bargain purchase. The purchased assets include inventories, equipment and intangible assets. Weis Markets, Inc. assumed all three lease obligations of the former Genuardi's stores.

The following table summarizes the fair values of the assets acquired at the date of acquisition.

<i>(dollars in thousands)</i>	<u>June 11, 2012</u>
Inventories	\$ 1,116
Equipment	5,294
Intangible assets	<u>120</u>
Total assets acquired	\$ <u>6,530</u>

(5) Reclassification

The Company reclassified certain immaterial amounts in the Consolidated Balance Sheets.

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WEIS MARKETS, INC.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of Weis Markets, Inc.'s (the "Company") financial condition and results of operations should be read in conjunction with the unaudited financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q, the Company's audited consolidated financial statements and the related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the U.S. Securities and Exchange Commission, as well as the cautionary statement captioned "Forward-Looking Statements" immediately following this analysis.

Overview

Weis Markets, Inc. was founded in 1912 by Harry and Sigmund Weis, in Sunbury, Pennsylvania. The Company currently ranks among the top 50 food and drug retailers in the United States in revenues generated. As of June 30, 2012, the Company operated 162 retail food stores in Pennsylvania and four surrounding states: Maryland, New Jersey, New York and West Virginia.

Company revenues are generated in its retail food stores from the sale of a wide variety of consumer products including groceries, dairy products, frozen foods, meats, seafood, fresh produce, floral, pharmacy services, deli products, prepared foods, bakery products, beer and wine, fuel, and general merchandise items, such as health and beauty care and household products. The Company supports its retail operations through a centrally located distribution facility, its own transportation fleet, three manufacturing facilities and its administrative offices. The Company's operations are reported as a single reportable segment.

Results of Operations**Analysis of Consolidated Statements of Income***(dollars in thousands, except per share amounts)*

For the Periods Ended June 30, 2012
and June 25, 2011

	13 Weeks Ended		26 Weeks Ended		Percent Changes	
	June 30, 2012	June 25, 2011	June 30, 2012	June 25, 2011	13 Weeks Ended	26 Weeks Ended
Net sales	\$ 677,097	\$ 676,660	\$ 1,338,707	\$ 1,336,114	0.1 %	0.2 %
Cost of sales, including warehousing and distribution expenses	<u>489,498</u>	<u>494,003</u>	<u>967,983</u>	<u>974,954</u>	(0.9)	(0.7)
Gross profit on sales	187,599	182,657	370,724	361,160	2.7	2.6
Gross profit margin	27.7%	27.0%	27.7%	27.0%		
Operating, general and administrative expenses	152,290	150,967	304,986	301,218	0.9	1.3
O, G & A, percent of net sales	<u>22.5%</u>	<u>22.3%</u>	<u>22.8%</u>	<u>22.5%</u>		
Income from operations	35,309	31,690	65,738	59,942	11.4	9.7
Operating margin	5.2%	4.7%	4.9%	4.5%		

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Investment income	1,162	951	2,219	2,042	22.2	8.7
Investment income, percent of net sales	0.2%	0.1%	0.2%	0.2%		
Other income	414	---	414	---	---	---
Other income, percent of net sales	0.1%	---	0.0%	---		
Income before provision for income taxes	36,885	32,641	68,371	61,984	13.0	10.3
Provision for income taxes	13,681	11,940	25,142	22,683	14.6	10.8
Effective tax rate	37.1%	36.6%	36.8%	36.6%		
Net income	\$ 23,204	\$ 20,701	\$ 43,229	\$ 39,301	12.1 %	10.0 %
Net income, percent of net sales	3.4%	3.1%	3.2%	2.9%		
Basic and diluted earnings per share	\$ 0.86	\$ 0.77	\$ 1.61	\$ 1.46	11.7 %	10.3 %

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WEIS MARKETS, INC.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

Results of Operations (continued)

Net Sales

The Company's revenues are earned and cash is generated as merchandise is sold to customers at the point of sale. Discounts, except those provided by a vendor, are recognized as a reduction in sales as products are sold or over the life of a promotional program if redeemable in the future.

When calculating the percentage change in comparable store sales, the Company defines a new store to be comparable when it has been in operation for five full quarters. Relocated stores and stores with expanded square footage are included in comparable store sales since these units are located in existing markets and are open during construction. Planned store dispositions are excluded from the calculation. The Company only includes retail food stores in the calculation.

Comparable store sales increased 0.4% in the second quarter of 2012 compared to the same quarter in 2011, while total store sales increased 0.7%. Excluding fuel sales, comparable store sales increased 0.5% in the second quarter of 2012 compared to the same quarter in 2011, while total store sales increased 0.7%. The Company's year-to-date comparable store sales increased 0.7% compared to the first half of 2011, while total store sales increased 0.8% over the first twenty-six weeks of 2011. Excluding fuel sales, the Company's year-to-date comparable store sales and total store sales both increased 0.4% compared to the first half of 2011.

Slow economic growth and high unemployment continue to impact the Company's markets. Many customers remain cautious in their spending and continue to focus on value and long term savings. To meet these needs, the Company continued to make significant investments in its "Get Grillin'" and "Price Freeze" promotional programs. On April 8, 2012, the Company entered into another round of its "Get Grillin'" promotional program. The "Get Grillin'" promotional program was a thirteen-week reduced pricing program on top items throughout the store that our customers found to be the most seasonally relevant. This program lowered prices on approximately 1,200 items. The Company also launched a ninth round of "Price Freeze" on July 15, 2012. In honor of the Company's 100th anniversary, this program froze prices on over 1,000 items for 100 days.

In addition to the "Price Freeze" and "Get Grillin'" programs, the Company offered its "Gas Rewards" program in most markets. The "Gas Rewards" program allows Weis Preferred Shoppers club card members to earn gas discounts resulting from their in-store purchases. Customers can redeem these gas discounts at Sheetz convenience stores, located in most of the Company's markets, at Manley's Mighty Mart Valero locations, in the Binghamton, NY market or at any of the twenty-one Weis Gas-n-Go locations.

The Company continued to employ a disciplined marketing and advertising strategy, along with targeted promotional activity in key markets, to help maintain its market share and increase its profits. During the second quarter of 2012, the Company generated a 1.9% increase in average sales per customer transaction while the number of identical customer store visits decreased by 1.2%. The Company's year-to-date average sales per customer transaction increased 2.0% while the number of identical customer store visits declined by 1.1%. In the fourth quarter of 2011, in

preparation for the Company's 100th anniversary celebration in 2012, the Company launched its Gold Card program, an extension of its existing Preferred Club Shopper program. The Gold Card program targets the Company's best shoppers with personalized offers and strong values to help them save money.

In 2011, the Company launched "Your Neighbors, Our Farmers" local produce campaign, highlighting the long-term contributions of thirteen farmers and their families who supply Weis Markets' stores with local produce. The Company remains committed to buying local produce, which helps conserve resources and benefits the economies of the states where Weis Markets operates stores. Produce sales increased 3.7% in the second quarter of 2012 and 2.9% year-to-date compared to the same periods in 2011. This increase is attributed to a combination of an increase in produce units sold, solid in-store execution of merchandising plans and hotter ads in key categories. In addition, floral sales increased 7.1% in the first half of 2012 compared to the first half of 2011, as a result of clement weather and strong Valentine's Day and Easter sales efforts. Floral sales increases are also being observed on a weekly basis due to improved quality, variety and selection, as well as in-store freshness, merchandising and customer service.

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WEIS MARKETS, INC.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

Results of Operations (continued)

The Company is committed to maintaining retail prices, but recognizes that inflationary pressures could cause the Company to raise prices in order to maintain margin rates.

Management remains confident in its ability to generate sales growth in a highly competitive environment, but also understands some competitors have greater financial resources and could use these resources to take measures which could adversely affect the Company's competitive position.

Cost of Sales and Gross Profit

Cost of sales consists of direct product costs (net of discounts and allowances), warehouse and transportation costs, as well as manufacturing facility operations.

According to the latest U.S. Bureau of Labor Statistics' report, the annual Seasonally Adjusted Food-at-Home Consumer Price Index increased 4.8% compared to an increase of 2.5% for the same period last year. The annual Seasonally Adjusted Producer Price Index for Finished Consumer Foods increased at a rate of 5.2% for the second quarter of 2012 compared to an increase of 4.5% as of the second quarter of 2011. For the quarter and year-to-date, the Company has been able to maintain a gross profit rate of 27.7% in 2012 and 27.0% in 2011, despite fluctuating retail and wholesale prices.

The Company's profitability is impacted by the cost of oil. Fluctuating fuel prices affect the delivered cost of product and the cost of other petroleum-based supplies such as plastic bags. Cost of sales was impacted by a 4.1% increase for the second quarter and a 7.6% increase year-to-date in the cost of diesel fuel used by the Company to deliver goods from its distribution center to its stores as compared to the same periods in 2011. According to the U.S. Department of Energy, the average diesel fuel price for the Central Atlantic states decreased \$0.22 per gallon to \$3.79 per gallon as of June 30, 2012, compared to \$4.01 per gallon as of June 25, 2011. Based upon the U.S. Energy Information Administration's current projections, the Company is expecting diesel fuel prices to stabilize for the remainder of the year with only modest increases, if any.

Although the Company experienced product cost inflation and deflation in various commodities for both quarters presented, management does not feel it can accurately measure the full impact of inflation and deflation on retail pricing due to changes in the types of merchandise sold between periods, shifts in customer buying patterns and the fluctuation of competitive factors.

Operating, General and Administrative Expenses

Business operating costs including expenses generated from administration and purchasing functions, are recorded in "Operating, general and administrative expenses." Business operating costs include items such as wages, benefits, utilities, repairs and maintenance, advertising costs and credits, rent, insurance, equipment depreciation, leasehold amortization and costs for outside provided services.

Employee-related costs such as wages, employer paid taxes, health care benefits and retirement plans, comprise over 60% of the total operating, general and administrative expenses. Employee-related costs increased 2.1% in the second quarter and 3.2% in the first half of 2012 compared to the same periods last year. As a percent of sales, employee-related costs increased 0.3% in the second quarter and 0.4% year-to-date compared to the same periods in 2011. The Company's self-insured health care benefits increased 2.0% in the second quarter and 6.6% year-to-date, compared to the same periods in 2011. Management expects health care benefit costs to increase approximately 5% in fiscal 2012 and continues to evaluate various programs to reduce this expense. The Company remains concerned about the potential impact that The Patient Protection and Affordable Care Act will have on its future operating expenses. As a percent of sales, direct store labor increased 0.2% in the second quarter and 0.1% in the first half of 2012 compared to the same periods in 2011.

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WEIS MARKETS, INC.
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OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

Results of Operations (continued)

Depreciation expense was \$24.8 million, or 1.8% of net sales, for the first half of 2012 compared to \$28.1 million, or 2.1% of net sales, for the first half of 2011. In the first quarter of 2012, the Company changed its accounting policy for property and equipment. The decrease in depreciation expense resulted from the Company's change in depreciation method from accelerated methods to straight-line, despite additional capital expenditures as the Company implements its capital expansion program. See Note 1 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for more information on the Company's change in accounting estimate related to depreciation expense. See the Liquidity and Capital Resources section for further information regarding the Company's capital expansion program.

The Company's interchange fees for accepting credit and debit cards decreased 4.3% in the second quarter of 2012 and 2.1% year-to-date, compared to the same periods in 2011. The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act authorized the Federal Reserve to set rules to implement caps on debit card interchange fees. The Federal Reserve released its final rules, which indicate there will be a reduction in fees. However, the Company is currently unable to determine the full impact of these rules on its "Operating, general and administrative expenses".

Retail store profitability is sensitive to volatility in utility costs due to the amount of electricity and gas required to operate the Company's stores and facilities. The Company is responding to this volatility in operating costs by employing technologies, procurement strategies and associate energy awareness programs to manage and reduce consumption. Through these initiatives, with the added benefit of mild winter and spring weather and a declining market in electricity costs, the Company's utility expense decreased by 5.4% in the second quarter of 2012 and 9.0% year-to-date, compared to the same periods in 2011.

The Company may not be able to recover rising expenses through increased prices charged to its customers. Any delay in the Company's response to unforeseen cost increases or competitive pressures that prevent its ability to raise prices may cause earnings to suffer. Management does not foresee a change in these trends in the near future.

Other Income

Upon completion, the Company recognized a gain of \$414,000 on the bargain purchase of three former Genuardi locations in the Delaware Valley region of Pennsylvania, from Safeway Inc., in the second quarter of 2012.

Investment Income

The Company's investment portfolio consists of marketable securities which currently includes municipal bonds and equity securities. The Company classifies all of its marketable securities as available-for-sale. Investment income increased \$211,000 in the second quarter of 2012 compared to the same period a year ago, primarily due to a \$195,000 increase in gains recognized on the sale of equity securities. In the first half of 2012 the Company experienced a \$362,000 decrease in gains recognized on the sale of equity securities compared to the first half of 2011. However, this decline was primarily offset by an increase in the Company's investment income during the first half of 2012,

resulting from strategic investment decisions weighed heavily toward municipal bonds, starting at the end of 2010.

Provision for Income Taxes

The effective income tax rate was 36.8% in the first half of 2012 compared to 36.6% in the first half of 2011. The effective income tax rate differs from the federal statutory rate of 35% primarily due to the effect of state taxes, net of permanent differences.

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WEIS MARKETS, INC.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

Results of Operations (continued)

Income is earned by selling merchandise at price levels that produce revenues in excess of cost of merchandise sold and operating and administrative expenses. Although the Company may experience short term fluctuations in its earnings due to unforeseen short-term operating cost increases, it historically has been able to increase revenues and maintain stable earnings from year to year.

Liquidity and Capital Resources

During the first twenty-six weeks of 2012, the Company generated \$64.1 million in cash flows from operating activities compared to \$62.8 million for the same period in 2011. Since the beginning of the fiscal year, working capital increased 3.4% compared to an increase of 5.6% in the same period of 2011.

Net cash used in investing activities was \$38.7 million compared to \$85.5 million in the first half of 2012 and 2011, respectively. These funds were used primarily to purchase marketable securities and property and equipment in the quarters presented. The Company purchased \$9.8 million of marketable securities in the first half of 2012 and \$50.0 million in the first half of 2011. However, the Company sold \$17.4 million of marketable securities in the first half of 2012 compared to \$6.6 million in the first half of 2011. Property and equipment purchases during the first half of 2012 totaled \$40.4 million compared to \$47.4 million in the first half of 2011. In addition, the Company invested \$6.1 million in the acquisition of three former Genuardi's stores. As a percentage of sales, capital expenditures including the acquisition were 3.5% in the first half of 2012 and 2011.

The Company's capital expansion program includes the construction of new superstores, the expansion and remodeling of existing units, the acquisition of sites for future expansion, new technology purchases and the continued upgrade of the Company's processing and distribution facilities. Management estimates that its current development plans will require an investment of approximately \$110.0 million in 2012. The investment reduction for 2012 is a result of project completion dates shifting from 2012 to 2013. Company management remains committed to the capital expansion program and fully expects to invest the previously reported amount of \$125.0 million

Net cash used in financing activities was \$16.1 million and \$15.6 million in the first half of 2012 and 2011, respectively, which solely consisted of dividend payments to shareholders. At June 30, 2012, the Company had outstanding letters of credit of \$11.8 million. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company. The Company does not anticipate drawing on any of them.

Total cash dividend payments on common stock, on a per share basis, amounted to \$.60 for the first half of 2012 compared to \$.58 in the first half of 2011. At its regular meeting held in July, the Board of Directors unanimously approved a quarterly dividend of \$.30 per share, payable on August 3, 2012 to shareholders of record as of July 20, 2012. The Board of Directors' 2004 resolution authorizing the repurchase of up to one million shares of the Company's common stock has a remaining balance of 752,468 shares.

The Company has no other commitment of capital resources as of June 30, 2012, other than the lease commitments on its store facilities under operating leases that expire at various dates through 2028. The Company anticipates funding its working capital requirements and its \$125.0 million capital expansion program through cash and investment reserves and future internally generated cash flows from operations. The Company has entered into a \$50 million short-term credit facility agreement to fund working capital needs and potential acquisitions. Currently, the Company does not have an outstanding liability related to the short-term credit facility agreement.

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WEIS MARKETS, INC.
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(continued)

Critical Accounting Estimates

The Company has chosen accounting policies that it believes are appropriate to accurately and fairly report its operating results and financial position, and the Company applies those accounting policies in a consistent manner. The Significant Accounting Policies are summarized in Note 1 to the Consolidated Financial Statements included in the 2011 Annual Report on Form 10-K. However, in the first quarter of 2012, the Company changed its accounting policy for the depreciation of property and equipment. See Note 1 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for more information on the Company's change in accounting estimate related to depreciation expense. There have been no other changes to the Critical Accounting Policies since the Company filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Forward-Looking Statements

In addition to historical information, this 10-Q Report may contain forward-looking statements, which are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Any forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; business conditions in the retail industry; the regulatory environment; rapidly changing technology and competitive factors, including increased competition with regional and national retailers; and price pressures. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as of the date hereof. The Company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the Company files periodically with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative Disclosure - There have been no material changes in the Company's market risk during the six months ended June 30, 2012. Quantitative information is set forth in Item 7a on the Company's Annual Report on Form 10-K under the caption "Quantitative and Qualitative Disclosures About Market Risk," which was filed for the fiscal year ended December 31, 2011 and is incorporated herein by reference.

Qualitative Disclosure - This information is set forth in the Company's Annual Report on Form 10-K under the caption "Liquidity and Capital Resources," within "Management's Discussion and Analysis of Financial Condition and Results of Operations," which was filed for the fiscal year ended December 31, 2011 and is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer, together with the Company's Disclosure Committee, evaluated the Company's disclosure controls and procedures as of the fiscal quarter ended June 30, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports was accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the evaluation described above, there was no change in the Company's internal control over financial reporting during the fiscal quarter ended June 30, 2012, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**WEIS MARKETS, INC.
PART II - OTHER INFORMATION**

ITEM 6. EXHIBITS

Exhibits

- Exhibit 18 Letter re: Change in Accounting Principles
- Exhibit 31.1 Rule 13a-14(a) Certification - CEO
- Exhibit 31.2 Rule 13a-14(a) Certification - CFO
- Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements 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.

WEIS MARKETS, INC.
(Registrant)

Date 08/09/2012

/S/ David J. Hepfinger
David J. Hepfinger
President and Chief Executive Officer
(Principal Executive Officer)

Date 08/09/2012

/S/ Scott F. Frost
Scott F. Frost
Senior Vice President, Chief Financial
Officer,
and Treasurer
(Principal Financial Officer)