

WEIS MARKETS INC  
Form 10-Q  
July 28, 2016  
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 25, 2016  
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 24-0755415  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1000 S. Second Street 17801-0471  
P. O. Box 471 (Zip Code)  
Sunbury, Pennsylvania  
(Address of principal executive offices)

Registrant's telephone number, including area code: (570) 286-4571 Registrant's web address: [www.weismarkets.com](http://www.weismarkets.com)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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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 (§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 July 28, 2016, there were issued and outstanding 26,898,443 shares of the registrant’s common stock.

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WEIS MARKETS, INC.

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## PART I – FINANCIAL INFORMATION

## ITEM I – FINANCIAL STATEMENTS

## WEIS MARKETS, INC.

## CONSOLIDATED BALANCE SHEETS

| (dollars in thousands)  | June 25, 2016<br>(unaudited) | December 26,<br>2015 |
|---|------------------------------|----------------------|
| <b>Assets</b>   |                              |                      |
| <b>Current:</b>   |                              |                      |
| Cash and cash equivalents   | \$ 34,255                    | \$ 17,596            |
| Marketable securities   | 78,380                       | 91,629               |
| SERP investment   | 10,343                       | 9,079                |
| Accounts receivable, net  | 69,799                       | 88,083               |
| Inventories   | 223,798                      | 229,399              |
| Prepaid expenses and other current assets   | 15,737                       | 17,198               |
| Income taxes recoverable  | -                            | 1,666                |
| Total current assets  | 432,312                      | 454,650              |
| Property and equipment, net   | 753,521                      | 738,985              |
| Goodwill  | 35,162                       | 35,162               |
| Intangible and other assets, net  | 7,794                        | 7,162                |
| Total assets  | \$ 1,228,789                 | \$ 1,235,959         |
| <b>Liabilities</b>  |                              |                      |
| <b>Current:</b>   |                              |                      |
| Accounts payable  | \$ 136,463                   | \$ 160,441           |
| Accrued expenses  | 43,624                       | 37,819               |
| Accrued self-insurance  | 17,038                       | 16,770               |
| Deferred revenue, net   | 4,195                        | 6,898                |
| Income taxes payable  | 4,406                        | -                    |
| Total current liabilities   | 205,726                      | 221,928              |
| Postretirement benefit obligations  | 14,043                       | 14,368               |
| Accrued self-insurance  | 22,761                       | 22,761               |
| Deferred income taxes   | 93,056                       | 97,020               |
| Other   | 1,038                        | 8,135                |
| Total liabilities   | 336,624                      | 364,212              |
| <b>Shareholders' Equity</b>   |                              |                      |
| Common stock, no par value, 100,800,000 shares authorized, 33,047,807 shares issued,<br>26,898,443 shares outstanding | 9,949                        | 9,949                |
| Retained earnings   | 1,027,148                    | 1,007,894            |
| Accumulated other comprehensive income<br>(Net of deferred taxes of \$4,134 in 2016 and \$3,323 in 2015)              | 5,925                        | 4,761                |

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|  |              |              |
|--|--------------|--------------|
| Treasury stock at cost, 6,149,364 shares   | 1,043,022    | 1,022,604    |
|  | (150,857)    | (150,857)    |
| Total shareholders' equity                 | 892,165      | 871,747      |
| Total liabilities and shareholders' equity | \$ 1,228,789 | \$ 1,235,959 |

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 |               |
|--|----------------|---------------|----------------|---------------|
|  | June 25, 2016  | June 27, 2015 | June 25, 2016  | June 27, 2015 |
| Net sales  | \$ 730,433     | \$ 718,380    | \$ 1,468,637   | \$ 1,430,806  |
| Cost of sales, including warehousing and distribution expenses | 528,495        | 519,461       | 1,059,588      | 1,036,772     |
| Gross profit on sales  | 201,938        | 198,919       | 409,049        | 394,034       |
| Operating, general and administrative expenses                 | 177,881        | 173,353       | 353,723        | 348,603       |
| Income from operations   | 24,057         | 25,566        | 55,326         | 45,431        |
| Investment income  | 682            | 585           | 1,319          | 1,117         |
| Income before provision for income taxes                       | 24,739         | 26,151        | 56,645         | 46,548        |
| Provision for income taxes                                     | 9,474          | 9,507         | 21,252         | 16,581        |
| Net income   | \$ 15,265      | \$ 16,644     | \$ 35,393      | \$ 29,967     |
| 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        | \$ 0.30       | \$ 0.60        | \$ 0.60       |
| Basic and diluted earnings per share                           | \$ 0.57        | \$ 0.62       | \$ 1.32        | \$ 1.12       |
| See accompanying notes to Consolidated Financial Statements    |                |               |                |               |

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WEIS MARKETS, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

| (dollars in thousands)   | 13 Weeks Ended   |                  | 26 Weeks Ended   |                  |
|--|------------------|------------------|------------------|------------------|
|  | June 25,<br>2016 | June 27,<br>2015 | June 25,<br>2016 | June 27,<br>2015 |
| Net income   | \$ 15,265        | \$ 16,644        | \$ 35,393        | \$ 29,967        |
| Other comprehensive income (loss) by component, net of tax:  |                  |                  |                  |                  |
| Available-for-sale marketable securities   |                  |                  |                  |                  |
| Unrealized holding gains (losses) arising during period  |                  |                  |                  |                  |
| (Net of deferred taxes of \$353 and \$88, respectively for the 13 Weeks Ended and \$922 and \$76, respectively for the 26 Weeks Ended) | 506              | (127)            | 1,322            | (109)            |
| Reclassification adjustment for gains included in net income   |                  |                  |                  |                  |
| (Net of deferred taxes of \$0 and \$4, respectively for the 13 Weeks Ended and \$111 and \$7, respectively for the 26 Weeks Ended)     | -                | (5)              | (158)            | (8)              |
| Other comprehensive income (loss), net of tax  | 506              | (132)            | 1,164            | (117)            |
| Comprehensive income, net of tax   | \$ 15,771        | \$ 16,512        | \$ 36,557        | \$ 29,850        |
| See accompanying notes to Consolidated Financial Statements.   |                  |                  |                  |                  |

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WEIS MARKETS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

|  | 26 Weeks Ended |                  |
|--|----------------|------------------|
| (dollars in thousands)   | June 25, 2016  | June 27,<br>2015 |
| Cash flows from operating activities:  |                |                  |
| Net income   | \$ 35,393      | \$ 29,967        |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |                |                  |
| Depreciation   | 32,481         | 30,622           |
| Amortization   | 4,506          | 4,140            |
| Loss (gain) on disposition of fixed assets   | 58             | (271)            |
| Gain on sale of marketable securities  | (269)          | (15)             |
| Deferred income taxes  | (4,775)        | (7,169)          |
| Changes in operating assets and liabilities:   |                |                  |
| Inventories  | 5,601          | 8,680            |
| Accounts receivable and prepaid expenses   | 19,745         | 4,314            |
| Income taxes recoverable   | 1,666          | 612              |
| Accounts payable and other liabilities   | (25,187)       | (14,240)         |
| Income taxes payable   | 4,406          | 6,836            |
| Other  | 729            | 442              |
| Net cash provided by operating activities  | 74,354         | 63,918           |
| Cash flows from investing activities:  |                |                  |
| Purchase of property and equipment   | (54,474)       | (38,979)         |
| Proceeds from the sale of property and equipment                                     | 146            | 1,285            |
| Purchase of marketable securities  | (1,284)        | (13,512)         |
| Proceeds from maturities of marketable securities                                    | 835            | 600              |
| Proceeds from the sale of marketable securities                                      | 15,213         | 6,553            |
| Purchase of intangible assets  | (728)          | (1,446)          |
| Change in SERP investment  | (1,264)        | (1,388)          |
| Net cash used in investing activities  | (41,556)       | (46,887)         |
| Cash flows from financing activities:  |                |                  |
| Dividends paid   | (16,139)       | (16,139)         |
| Net cash used in financing activities  | (16,139)       | (16,139)         |
| Net increase in cash and cash equivalents  | 16,659         | 892              |
| Cash and cash equivalents at beginning of year                                       | 17,596         | 22,986           |
| Cash and cash equivalents at end of period   | \$ 34,255      | \$ 23,878        |

See accompanying notes to Consolidated Financial Statements.





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WEIS MARKETS, INC.

NOTES TO THE 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, other than the May 2016 and July 2016 definitive agreements to purchase the Mars Super Market and Food Lion Supermarket locations as disclosed in Note (6). For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the Company's latest Annual Report on Form 10-K.

(2) Current Relevant Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The standard was initially effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In August 2015, the FASB issued a one-year deferral of the effective date of this new guidance resulting in it now being effective for the Company beginning in fiscal year 2018. In March, April and May of 2016 the FASB issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, respectively, Revenue from Contracts with Customers (Topic 606) which amends the guidance in ASU 2014-09. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the ASU. The Company expects that the adoption of the ASU will not have a significant impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40)(Topic 718): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 provides guidance related to management's responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and to provide related note disclosures. The new requirements are effective for the annual periods ending after December 15, 2016, and for interim periods and annual periods thereafter. Early adoption is permitted. Adoption of the new ASU will not have an impact on the Company's Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 amends guidance on the measurement of inventory from lower of cost or market to net realizable value. The amendment applies to all inventory other than those measured by Last-In-First-Out (LIFO) and the Retail Inventory Method (RIM). The amendment is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. Adoption of the new ASU will not have a material impact on the Company's Consolidated Financial Statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 requires that any effect on earnings due to depreciation, amortization or other income effects, due to a change to the provisional amounts be recorded in the current period's financial statements as if the accounting had been completed at the acquisition date. The portion of the amount recorded in the current-period earnings, which would have been recorded in the previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date, must be presented separately on the face of the income statement or disclosed in the notes to the financial statements by line item. The amendment is effective for the fiscal year beginning after December 15, 2015. The amendments are to be applied prospectively to any adjustments occurring after the effective date. Adoption of the ASU did not have a current impact on the Company's 2016 Consolidated Financial Statements.

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WEIS MARKETS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(2) Current Relevant Accounting Standards (continued)

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 generally requires that equity investments (excluding equity method investments) be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 also modifies certain disclosure requirements related to financial assets and liabilities. Under existing GAAP, changes in fair value of available-for-sale equity investments are recorded in other comprehensive income. The Company expects that the adoption of ASU 2016-01 will likely have an impact on the net income reported in the Company's Consolidated Statements of Income but it is not expected to significantly impact the Company's comprehensive income or shareholders' equity. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with the cumulative effect of the adoption made to the balance sheet as of the date of adoption. Adoption will result in a reclassification of the related accumulated unrealized appreciation, net of applicable deferred income taxes, currently included in accumulated other comprehensive income to retained earnings, resulting in no impact on the Company's shareholders' equity.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). ASU 2016-02 requires lessees to recognize assets and liabilities for the rights and obligations created by their leases with lease terms more than 12 months. Current guidance only requires capital leases to be recognized on the balance sheet. However, the ASU 2016-02 now requires that both capital and operating leases be recognized on the balance sheet. The effect on cash flows will strictly depend on whether the lease is classified as an operating lease or capital lease. The ASU 2016-02 will require disclosures to aid investors and other financial statement users to better understand the amount, timing and uncertainty of the cash flows arising from leases. These disclosures are to include qualitative and quantitative information about the amounts recorded in the financial statements. This update will have limited impacts on the accounting for leases by lessors. However, new guidance contains targeted improvements to align, where necessary, the lessor's accounting with the lessee's accounting standards. ASU 2016-02 will become effective for annual periods beginning after December 15, 2018 and for interim periods within those fiscal years. Although the Company has not completed its assessment, the Company expects that the adoption of ASU 2016-02 will have a significant impact on the Company's Consolidated Balance Sheets.

In March 2016, the FASB issued ASU 2016-04 Liabilities – Extinguishments of Liabilities (Suptopic 405-20) Recognition of Breakage for Certain Prepaid Stored-Value Products. ASU 2016-04 requires the debtor to derecognize a liability, such as a prepaid stored-value product, if and only if it has been extinguished by paying the creditor in cash, other financial assets, goods or services or if the debtor is relieved of its obligation legally, either judicially or by the creditor. ASU 2016-04 also requires that an entity must disclose the methodology and specific judgements made in applying the breakage recognized. ASU 2016-04 will become effective for the financial statements issued for the fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early application is permitted including adoption in an interim period. The Company is currently in the process of evaluating the impact

of adoption of the ASU. The Company expects that the adoption of the ASU will not have a significant impact on the Company's Consolidated Financial Statements.

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WEIS MARKETS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(3) Investments

The Company's marketable securities are all classified as available-for-sale within "Current Assets" in the Company's Consolidated Balance Sheets. 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 municipal 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. 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. In addition, the Company engages an independent firm to value a sample of the Company's municipal bond holdings annually in order to validate the investment's assigned fair value.

The Company accrues interest on its municipal bond portfolio throughout the life of each bond held. Dividends from the equity securities are recognized as received. Both interest and dividends are recognized in "Investment income" on the Company's Consolidated Statements of Income.

Marketable securities, as of June 25, 2016 and December 26, 2015, consisted of:

Gross      Gross

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| (dollars in thousands) | Amortized | Unrealized | Unrealized | Fair      |
|------------------------|-----------|------------|------------|-----------|
| June 25, 2016          | Cost      | Holding    | Holding    | Value     |
|                        |           | Gains      | Losses     |           |
| Available-for-sale:    |           |            |            |           |
| Level 1                |           |            |            |           |
| Equity securities      | \$ 1,198  | \$ 8,102   | \$ -       | \$ 9,300  |
| Level 2                |           |            |            |           |
| Municipal bonds        | 67,123    | 1,968      | (11)       | 69,080    |
|                        | \$ 68,321 | \$ 10,070  | \$ (11)    | \$ 78,380 |

| (dollars in thousands) | Amortized | Gross      | Gross      | Fair      |
|------------------------|-----------|------------|------------|-----------|
| December 26, 2015      | Cost      | Unrealized | Unrealized | Value     |
|                        |           | Holding    | Holding    |           |
|                        |           | Gains      | Losses     |           |
| Available-for-sale:    |           |            |            |           |
| Level 1                |           |            |            |           |
| Equity securities      | \$ 1,198  | \$ 6,682   | \$ -       | \$ 7,880  |
| Level 2                |           |            |            |           |
| Municipal bonds        | 82,347    | 1,468      | (66)       | 83,749    |
|                        | \$ 83,545 | \$ 8,150   | \$ (66)    | \$ 91,629 |

Maturities of marketable securities classified as available-for-sale at June 25, 2016, were as follows:

| (dollars in thousands)                 | Amortized | Fair      |
|--|-----------|-----------|
|  | Cost      | Value     |
| Available-for-sale:                    |           |           |
| Due within one year                    | \$ 6,142  | \$ 6,188  |
| Due after one year through five years  | 44,922    | 45,824    |
| Due after five years through ten years | 16,059    | 17,068    |
| Equity securities                      | 1,198     | 9,300     |
|  | \$ 68,321 | \$ 78,380 |

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WEIS MARKETS, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## (3) Investments (continued)

The Company also maintains a non-qualified supplemental executive retirement plan and a non-qualified pharmacist deferred compensation plan for certain of its associates which allows them to defer income to future periods. Participants in the plans earn a return on their deferrals based on mutual fund investments. The Company chooses to invest in the underlying mutual fund investments to offset the liability associated with the non-qualified deferred compensation plans. Such investments are reported on the Company's Consolidated Balance Sheets as "SERP investment," are classified as trading securities and are measured at fair value using Level 1 inputs with gains and losses included in "Investment income" on the Company's Consolidated Statements of Income. The changes in the underlying liability to the associate are recorded in "Operating, general and administrative expenses."

## (4) Accumulated Other Comprehensive Income

All balances in accumulated other comprehensive income are related to available-for-sale marketable securities. The following table sets forth the balance of the Company's accumulated other comprehensive income, net of tax.

| (dollars in thousands)   | Unrealized Gains<br>on Available-for-Sale<br>Marketable Securities |
|--|--|
| Accumulated other comprehensive income balance as of December 26, 2015 | \$ 4,761   |
| Other comprehensive income before reclassifications                    | 1,322  |
| Amounts reclassified from accumulated other comprehensive income       | (158)  |
| Net current period other comprehensive income                          | 1,164  |
| Accumulated other comprehensive income balance as of June 25, 2016     | \$ 5,925   |

The following table sets forth the effects on net income of the amounts reclassified out of accumulated other comprehensive income for the periods ended June 25, 2016 and June 27, 2015.

Gains Reclassified from  
Accumulated Other Comprehensive Income to the  
Consolidated Statements of Income



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| (dollars in thousands)                                       | Location                   | 13 Weeks Ended   |                  | 26 Weeks Ended   |                  |
|--|----------------------------|------------------|------------------|------------------|------------------|
|  |                            | June 25,<br>2016 | June 27,<br>2015 | June 25,<br>2016 | June 27,<br>2015 |
| Unrealized gains on available-for-sale marketable securities |                            |                  |                  |                  |                  |
|  | Investment income          | \$ -             | \$ 9             | \$ 269           | \$ 15            |
|  | Provision for income taxes | -                | (4)              | (111)            | (7)              |
| Total amount reclassified, net of tax                        |                            | \$ -             | \$ 5             | \$ 158           | \$ 8             |

(5) Income Taxes

Cash paid for federal income taxes was \$17.5 million and \$15.5 million in the first half of 2016 and 2015, respectively.

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WEIS MARKETS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(6) Acquisitions

In May 2016, the Company announced plans to purchase five Mars Super Market stores located in Maryland. The Company will acquire these locations and operations in an effort to expand its presence in the Baltimore County region and plans to complete the acquisition in the third quarter of 2016.

In July 2016, the Company announced it had reached a definitive agreement with Food Lion, LLC to purchase the assets of 38 Food Lion Supermarket locations operating in the states of Maryland, Virginia and Delaware. The completion of the intended purchase, pending regulatory approval, is estimated to be completed in the fourth quarter of 2016. With this purchase 21 Maryland stores, 13 Virginia stores, and 4 Delaware stores, will be added to the Company's store count.

(7) Basis of Presentation

In conjunction with the September 26, 2015 quarterly financial statement close process, and while researching alternative methods to calculate retained claim liability for the Company's self-insured workers compensation and general liability insurance programs, the Company discovered errors in the application of the actuarial methods used to estimate the obligation of future payments resulting from claims due to past events. These errors primarily related to the Company's selection of loss development factors and the application of such factors to the population of claims. The impact of these prior period misstatements to the Company's Consolidated Financial Statements resulted in the understatement of workers compensation and general liability expense with a corresponding understatement of self-insurance liabilities over multiple fiscal periods through June 27, 2015. Consequently, the Company has restated certain prior period amounts to correct these errors.

Based on an analysis of quantitative and qualitative factors in accordance with SEC Staff Accounting Bulletins 99 and 108, the Company concluded that these errors were not material to the consolidated financial position, results of operations or cash flows as presented in the Company's quarterly and annual financial statements that have been previously filed in the Company's Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. As a result, amendment of such reports was not required. In preparing the Company's Consolidated Financial Statements for the thirteen and thirty-nine weeks ended September 26, 2015 and for each of the three years in the period ended December 26, 2015, the Company made appropriate revisions to its Consolidated Financial Statements for historical periods. Such changes were reflected in the financial results for the thirteen and thirty-nine weeks ended September 26, 2015 and are also reflected in the historical financial results included in these Consolidated Financial Statements.

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The effect of these errors increased net income by \$214,000, or \$0.01 per share, for the thirteen weeks ended June 27, 2015 and by \$428,000, or \$0.02 per share, for the twenty-six weeks ended June 27, 2015. Additional information about these corrections, including a reconciliation of each financial statement line item affected, has been included in Note 7 to the Company's Consolidated Financial Statements contained in its Quarterly Report on Form 10-Q for the period ended September 26, 2015.

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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 Consolidated 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 26, 2015, 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. Today, the Company ranks among the top 50 food and drug retailers in the United States in revenues generated. As of June 25, 2016, 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 (HBC) 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

|  | 13 Weeks Ended |               | 26 Weeks Ended |               | Percentage Changes<br>2016 vs. 2015 |                   |
|--|----------------|---------------|----------------|---------------|-------------------------------------|-------------------|
| (dollars in thousands except per<br>share amounts) | June 25, 2016  | June 27, 2015 | June 25, 2016  | June 27, 2015 | 13 Weeks<br>Ended                   | 26 Weeks<br>Ended |

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|  |            |            |              |              |       |   |      |   |
|--|------------|------------|--------------|--------------|-------|---|------|---|
| Net sales  | \$ 730,433 | \$ 718,380 | \$ 1,468,637 | \$ 1,430,806 | 1.7   | % | 2.6  | % |
| Cost of sales, including warehousing and distribution expenses | 528,495    | 519,461    | 1,059,588    | 1,036,772    | 1.7   |   | 2.2  |   |
| Gross profit on sales  | 201,938    | 198,919    | 409,049      | 394,034      | 1.5   |   | 3.8  |   |
| Gross profit margin  | 27.6       | %          | 27.7         | %            | 27.9  | % | 27.5 | % |
| Operating, general and administrative expenses                 | 177,881    | 173,353    | 353,723      | 348,603      | 2.6   |   | 1.5  |   |
| O, G & A, percent of net sales                                 | 24.4       | %          | 24.1         | %            | 24.1  | % | 24.4 | % |
| Income from operations   | 24,057     | 25,566     | 55,326       | 45,431       | (5.9) |   | 21.8 |   |
| Operating margin   | 3.3        | %          | 3.6          | %            | 3.8   | % | 3.2  | % |
| Investment income  | 682        | 585        | 1,319        | 1,117        | 16.6  |   | 18.1 |   |
| Investment income, percent of net sales                        | 0.1        | %          | 0.1          | %            | 0.1   | % | 0.1  | % |
| Income before provision for income taxes                       | 24,739     | 26,151     | 56,645       | 46,548       | (5.4) |   | 21.7 |   |
| Income before provision for income taxes, percent of net sales | 3.4        | %          | 3.6          | %            | 3.9   | % | 3.3  | % |
| Provision for income taxes                                     | 9,474      | 9,507      | 21,252       | 16,581       | (0.3) |   | 28.2 |   |
| Effective income tax rate                                      | 38.3       | %          | 36.4         | %            | 37.5  | % | 35.6 | % |
| Net income   | \$ 15,265  | \$ 16,644  | \$ 35,393    | \$ 29,967    | (8.3) | % | 18.1 | % |
| Net income, percent of net sales                               | 2.1        | %          | 2.3          | %            | 2.4   | % | 2.1  | % |
| Basic and diluted earnings per share                           | \$ 0.57    | \$ 0.62    | \$ 1.32      | \$ 1.12      | (8.1) | % | 17.9 | % |

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.

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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 provided to customers by the Company at the point of sale are recognized as a reduction in sales as products are sold or over the life of a promotional program if redeemable in the future. Discounts provided by vendors, usually in the form of paper coupons, are not recognized as a reduction in sales provided the coupons are redeemable at any retailer that accepts coupons.

Total store sales increased 1.6% in the second quarter of 2016, compared to the same period in 2015. Excluding fuel sales, total store sales increased 1.8%. The Company's year-to-date total store sales increased 2.6% compared to the first twenty-six weeks of 2015. Excluding fuel sales, the Company's year-to-date total store sales increased 2.7% compared to the first twenty-six weeks of 2015.

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 1.8% in the second quarter of 2016 compared to the same quarter in 2015. Excluding fuel sales, comparable store sales increased 2.0% in second quarter of 2016 compared to the same period in 2015. Even though the second quarter sales increased, the Company's second quarter sales were negatively impacted due to the Easter holiday period, which fell in the second quarter last year but in the first quarter in 2016. Management estimated that the holiday sales impact between the quarters was approximately \$7.1 million or a decrease in comparable store sales of 1.0% in the second quarter of 2016. The Company's year-to-date comparable store sales increased 2.7% compared to the first twenty-six weeks of 2015. Excluding fuel sales, comparable store sales increased 2.8% compared to the first twenty-six weeks of 2015.

The Company attributes the increased sales to its continued strategic pricing investments and ongoing improvement of its store assortment by market. This includes targeted promotional activity in key regional markets and its Everyday Lower Prices (EDLP) and Lowest Price Guarantee promotional programs. Compared to the second quarter of 2015,

the Company experienced a 2.3 % decrease in the average sales per customer transaction in the second quarter of 2016, while identical customer store visits increased by 4.3%. The Company's year-to-date average sales per customer transaction decreased 1.7%, while the number of identical customer store visits increased 4.5% compared to 2015.

The Company's results also benefited from improved store level, supply chain and store support efficiencies to deliver a better customer experience, which increased customer traffic and overall market share. In addition, the Weis Preferred Club Shopper program continues to target customer members with personalized offers and digital coupons to help them save money. As part of this loyalty program, the Company continues to offer 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 any of the thirty-one Weis Gas-n-Go locations, as well as participating third-party gas retail locations such as Sheetz convenience stores, which are located in most of the Company's markets.

Comparable produce sales increased 3.0% and 4.6% in the second quarter and first twenty-six weeks of 2016, respectively, compared to the same periods in 2015. The 2016 produce sales increase can be attributed to expanding the vegetable options and the launch of the new Kid Zone program in the second quarter as well as aggressive advertising and well executed training programs. The increase in sales was also impacted by inflation in comparison to other categories.

Comparable deli and food service sales increased 8.8% in the second quarter of 2016 and 9.2% year-to-date, compared to the same periods in 2015. Although this category was impacted by deflation, the increase was also driven by new deli meat and cheese displays, expanded lunch options, the rotisserie chicken program and continued success in the Food Service Meal Solutions program.

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(continued)

Results of Operations (continued)

Net Sales (continued)

Comparable bakery sales increased 10.2% in the second quarter of 2016 and 11.7% in the first twenty-six weeks of 2016, compared to the same periods in 2015. Bakery sales increased due to the addition of new programs, EDLPs and inflation throughout the first half of 2016.

Comparable pharmacy sales increased 9.2% and 9.6% in the second quarter and first half of 2016, respectively, compared to the same periods in 2015. The pharmacy sales increase was driven by an increased number of filled prescriptions, primarily due to an increased acceptance of additional preferred third-party insurance plans as well as expanded pharmacy hours.

Comparable fuel sales decreased 13.4% and 11.5% in the second quarter and first twenty-six weeks of 2016, respectively, compared to the same periods in 2015. Fuel sales decreased as a result of the decline in retail fuel prices. According to the U.S. Department of Energy, the thirteen week average price of gasoline in the Central Atlantic States decreased 12.9% or \$0.36 per gallon in the second quarter of 2016, compared to the same quarter in 2015. Year-to-date, the average price of gasoline in the Central Atlantic States decreased 14.8% or \$0.40 per gallon, compared to the first twenty-six weeks of 2015. As an offset, the year-to-date gallons sold have increased 3.5% compared to 2015 as a result of a strong gas rewards program.

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), distribution center and transportation costs, as well as manufacturing facility operations. Almost all of the increase in cost of sales in 2016 as compared to 2015 was due to the increased sales volume in 2016. Both direct product cost and distribution cost increase when sales volume increases.



According to the latest U.S. Bureau of Labor Statistics' report, the annual Seasonally Adjusted Food-at-Home Consumer Price Index decreased 0.1% compared to an increase of 2.5% for the same period last year. Even though the U.S. Bureau of Labor Statistics' index rates may be reflective of a trend, it will not necessarily be indicative of the Company's actual results. Despite the fluctuation of retail and wholesale prices in 2016, the Company has achieved a gross profit rate of 27.6% and 27.9% for the quarter and year-to-date, respectively, compared to a gross profit rate of 27.7% and 27.5% for the quarter and year-to-date, respectively, in 2015. The year-to-date increase in gross profit rate was driven by a shift in sales mix from fuel sales to grocery sales which carry a higher profit margin.

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Results of Operations (continued)

Cost of Sales and Gross Profit (continued)

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. As a percentage of sales, the cost of diesel fuel used by the Company to deliver goods from its distribution center to its stores decreased 0.1% in the second quarter and in the first twenty-six weeks of 2016 compared to the same periods in 2015. Although the Company experienced a decrease in these costs, the decline was minimized due to higher fuel usage resulting from more store deliveries to meet the higher sales demand. According to the U.S. Department of Energy, the thirteen week average diesel fuel price for the Central Atlantic States in the second quarter of 2016 was \$2.41 per gallon compared to \$3.13 per gallon in the same period in 2015 for an average decrease of 22.9% or \$0.72 per gallon. The 2016 twenty-six week average diesel fuel price for the Central Atlantic States was \$2.34 per gallon compared to \$3.16 per gallon in the same period in 2015 for an average decrease of 26.1% or \$0.83 per gallon. Based upon the U.S. Energy Information Administration's current projections, the Company is expecting diesel fuel prices to remain fairly steady throughout the second half of 2016.

Although the Company experienced product cost inflation and deflation in various commodities for both quarters presented, management cannot accurately measure the full impact of inflation or 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, depreciation, leasehold amortization and costs for outside provided services. The majority of the increase in operating, general and administrative expenses was driven by increased sales.

The Company may not be able to recover rising expenses through increased prices charged to its customers. The majority of our associates were paid hourly rates related to federal and state minimum wage laws. The Company increased the base hourly rate for associates to \$9 per hour, as of August 2, 2015, in order to attract and retain talented associates with a goal of delivering best-in-class customer service. The Company has decided not to increase prices to offset this hourly wage rate increase.

Employee-related costs such as wages, employer paid taxes, health care benefits and retirement plans, comprise approximately 60% of the total “Operating, general and administrative expenses.” As a percent of sales, direct store labor increased 0.3% in the second quarter of 2016 and 0.2% year-to-date compared to the same periods in 2015. The increase in base hourly rate for associates to \$9 per hour and related wage compression had an estimated cost of \$2.8 million in the second quarter of 2016 and \$5.5 million year-to-date. Increases in employee related expenses were offset by savings realized from a store labor efficiency project.

The Company’s self-insured health care benefit expenses increased \$1.1 million or 21.3% in the second quarter and \$329,000 or 2.8% in the first half of 2016, compared to the same periods in 2015. The year-to-date variance is mainly attributed to an increase in group health costs. The Company remains concerned about the impact that The Patient Protection and Affordable Care Act (ACA) will have on its future operating expenses. Based on the ACA definition of full time employment, there is approximately an 18% increase in full time employees, which is currently estimated to cost the Company \$1.0 million annually.

Depreciation and amortization expense was \$18.6 million, or 2.5% of net sales for the second quarter of 2016, compared to \$17.5 million, or 2.4% of net sales for the second quarter of 2015. Depreciation and amortization expense was \$37.0 million, or 2.5% of net sales for the first half of 2016, compared to \$34.8 million or 2.4% of net sales for the first half of 2015. The increase in depreciation and amortization expense was the result of additional capital expenditures as the Company implements its capital expansion program. See the Liquidity and Capital Resources section for further information regarding the Company’s capital expansion program.

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Results of Operations (continued)

Operating, General and Administrative Expenses (continued)

A breakdown of the material increases (decreases) as a percent of sales in "Operating, general and administrative expenses," as compared to the prior year, is as follows:

|       |       |
|-------|-------|
| 13    | 26    |
| Weeks | Weeks |
| Ended | Ended |