WEIS MARKETS INC
Form 10-Q
August 07, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 28, 2008**

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 Registrant's web address: www.weismarkets.com

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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ]

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

As of August 7, 2008, there were issued and outstanding 26,965,899 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)

		June 28, 2008 (unaudited)		December 29, 2007
Assets				
Current:				
Cash and cash equivalents	$	48,530	$	41,187
Marketable securities		23,288		26,182
Accounts receivable, net		41,888		48,460
Inventories		194,947		193,732
Prepaid expenses		4,751		3,317
Income taxes recoverable		8,788		8,074
Total current assets		322,192		320,952
Property and equipment, net		509,946		499,246
Goodwill		15,722		15,722
Intangible and other assets, net		4,343		4,149
Total assets	$	852,203	$	840,069
Liabilities				
Current:				
Accounts payable	$	116,095	$	111,555
Accrued expenses		25,786		23,036
Accrued self-insurance		23,310		23,442
Payable to employee benefit plans		1,143		1,400
Deferred income taxes		2,207		4,134
Total current liabilities		168,541		163,567
Postretirement benefit obligations		14,821		14,027
Deferred income taxes		16,026		14,247
Total liabilities		199,388		191,841
Shareholders' Equity				
Common stock, no par value, 100,800,000 shares authorized, 33,044,507 and 33,044,357 shares issued, respectively		9,835		9,830
Retained earnings		786,011		779,760
Accumulated other comprehensive income (Net of deferred taxes of $4,023 in 2008 and $5,205 in 2007)		5,672		7,339
		801,518		796,929
Treasury stock at cost, 6,077,370 and 6,077,311 shares, respectively		(148,703)		(148,701)
Total shareholders' equity		652,815		648,228
Total liabilities and shareholders' equity	$	852,203	$	840,069

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 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net sales	$ 603,393	$ 578,891	$ 1,193,059	$ 1,150,607
Cost of sales, including warehousing and distribution expenses	445,309	424,681	881,253	844,854
Gross profit on sales	158,084	154,210	311,806	305,753
Operating, general and administrative expenses	139,279	126,560	259,876	258,349
Income from operations	18,805	27,650	51,930	47,404
Investment income	627	771	1,468	1,464
Income before provision for income taxes	19,432	28,421	53,398	48,868
Provision for income taxes	6,596	10,264	18,506	17,305
Net income	$ 12,836	$ 18,157	$ 34,892	$ 31,563
Weighted-average shares outstanding, basic	26,967,159	[illegible]	26,967,165	26,989,728
Weighted-average shares outstanding, diluted	26,967,159	[illegible]	26,967,165	27,001,904
Cash dividends per share	$ 0.29	$ 0.29	$ 0.58	$ 0.58
Basic and diluted earnings per share	$ 0.48	$ 0.67	$ 1.29	$ 1.17

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	
	June 28, 2008	June 30, 2007
Cash flows from operating activities:		
Net income	$ 21,892	$ 31,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,695	23,148
Amortization	3,002	3,778
Gain on disposition of fixed assets	(7)	(5,207)
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	5,138	(1,792)
Inventories	(1,215)	2,879
Income taxes recoverable	(714)	(1,894)
Accounts payable and other liabilities	7,695	443
Income taxes payable	---	(1,317)
Deferred income taxes	1,034	(400)
Other	45	300
Net cash provided by operating activities	59,565	51,501
Cash flows from investing activities:		
Purchase of property and equipment	(36,416)	(33,309)
Proceeds from the sale of property and equipment	227	6,121
Proceeds from maturities of marketable securities	---	13,781
Purchase of intangible assets	(395)	---
Net cash used in investing activities	(36,584)	(13,407)
Cash flows from financing activities:		
Proceeds from issuance of common stock	5	294
Dividends paid	(15,641)	(15,654)
Purchase of treasury stock	(2)	(528)
Net cash used in financing activities	(15,638)	(15,888)
Net increase in cash and cash equivalents	7,343	22,206
Cash and cash equivalents at beginning of year	41,187	27,545
Cash and cash equivalents at end of period	$ 48,530	$ 49,751

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. 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 September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 did not have a material impact on the company's financial statements. Marketable securities represent the only item recorded on the Company's balance sheets at fair value. Marketable securities are all classified as available-for-sale and values are derived solely from level 1 inputs.

In February 2008, FASB issued FASB Staff Position No. 157-2 ("FSP 157-2") which delays the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the provisions of FSP 157-2 to determine the potential impact, if any, the adoption will have on its financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value at specified election dates. The fair value option may be applied instrument by instrument (with a few exceptions), is irrevocable and is applied only to entire instruments and not to portions of instruments. Unrealized gains and losses on items for which the fair value option has been elected are to be reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The company has chosen not to elect the fair value option, therefore the adoption of SFAS 159 did not have an impact on the company's financial statements.

(3) Comprehensive Income
The components of comprehensive income, net of related tax, for the periods ended June 28, 2008 and June 30, 2007 are as follows:

	13 Weeks Ended		26 Weeks Ended	
(dollars in thousands)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007

Net income	$ 12,836	$ 18,157	$ 21,892	$ 31,563
Other comprehensive income by component, net of tax:				
Unrealized holding (losses) gains arising during period (Net of deferred taxes of $467 and $303 respectively for the 13 Weeks Ended and $1,182 and $747 respectively for the 26 Weeks Ended)	(659)	427	(1,667)	1,053
Comprehensive income, net of tax	$ 12,177	$ 18,584	$ 20,225	$ 32,616

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

OVERVIEW
Weis Markets, Inc. was founded in 1912 by Sigmund and Harry 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 28, 2008, the company operated 156 retail food stores in Pennsylvania and four surrounding states: Maryland, New Jersey, West Virginia and New York. In addition to its retail food stores, the company operates 28 SuperPetz pet supply stores in ten states: Alabama, Georgia, Indiana, Maryland, Michigan, North Carolina, Ohio, Pennsylvania, South Carolina and Tennessee.

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, prescriptions, deli/bakery products, prepared foods, 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, four manufacturing facilities and its administrative offices. The company's operations are reported as a single reportable segment.

The following analysis should be read in conjunction with the Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q, the 2007 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission, as well as the cautionary statement captioned "Forward-Looking Statements" immediately following this analysis.

OPERATING RESULTS
Total sales for the second quarter ended June 28, 2008 increased 4.2% to $603.4 million compared to sales of $578.8 million in the same quarter of 2007. Comparable store sales in the second quarter increased 4.3% compared to a 3.2% increase in 2007. Sales for the first half of this year increased 4.2% to $1.20 billion compared to $1.15 billion in 2007, while comparable store sales increased 4.5% compared to a 3.6% increase in 2007 over 2006.

When calculating the percentage change in comparable store sales, the company defines a new store to be comparable the week following one full year of operation. Relocated stores and stores with expanded square footage are included in comparable sales since these units are located in existing markets and are open during construction. When a store is closed, sales generated from that unit in the prior year are subtracted from total company sales starting the same week of closure in the prior year and continuing from that point forward.

The company continues to maintain an aggressive pricing and promotional program to retain its market share in an extremely competitive market environment. As a result of its promotional strategy, the supermarket store customer count increased 0.9% in the first half of 2008 as compared to the first half a year ago, while comparable store customer count increased 1.3%. Year to date, the company's average sale per customer increased 3.6% while its average sale per customer for comparable stores increased 2.8%.

Management does not feel it can accurately measure the full impact of product 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. The company believes its customers are more cautious in their spending and are making fewer store visits due to the uncertain economy and the high cost of gasoline.

According to federal economic reports, wholesale food prices increased 6.7% in the first half of this year, more than two percentage points above the inflation rate for retail food-at-home prices. As with other food retailers, the company also experienced substantial cost increases for most food commodities, which outpaced increases in retail prices paid by its customers.

During the second quarter, the company made strides recapturing its traditional gross margins. It gradually passed on price increases to its customers as it had projected at the end of the first quarter.

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

OPERATING RESULTS (continued)
Cost of sales consists of direct product costs (net of discounts and allowances), warehouse costs, transportation costs and manufacturing facility costs. In recent years, many vendors have converted promotional incentives to reimbursements based on sales movement data recorded at the point of sale rather than for cases purchased. Management expects this trend to continue, but notes that it should have no discernible impact on the company's overall gross profit results.

Gross profit of $158.1 million at 26.2% of sales, increased $3.9 million or 2.5% versus the same quarter last year and the gross profit rate decreased 0.4%. The year-to-date gross profit at 25.9% of sales increased $5.1 million or 1.7%, while the gross profit rate decreased 0.7%. In addition to the disparity between wholesale and retail price inflation, cost of sales was also impacted by the company's diesel fuel costs which increased 85.0% compared to the second quarter in 2007. Because of the significant wholesale price inflation, the company increased the accrual to its LIFO reserve by an additional $900,000 in the quarter compared to the same period a year ago. At this time, management is unaware of any other events or trends that may cause a material change to its overall financial operation due to fluctuations in product costs.