

WEIS MARKETS INC
Form 10-Q
November 06, 2014
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 September 27, 2014
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

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 November 6, 2014, there were issued and outstanding 26,898,443 shares of the registrant’s common stock.

WEIS MARKETS, INC.

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PART I – FINANCIAL INFORMATION

ITEM I – FINANCIAL STATEMENTS

WEIS MARKETS, INC.

CONSOLIDATED BALANCE SHEETS

	September 27, 2014 (unaudited)	December 28, 2013
(dollars in thousands)		
Assets		
Current:		
Cash and cash equivalents	\$ 25,244	\$ 17,965
Marketable securities	69,218	63,093
SERP investment	8,833	8,752
Accounts receivable, net	63,668	57,193
Inventories	219,732	240,452
Prepaid expenses	19,931	17,293
Total current assets	406,626	404,748
Property and equipment, net	712,819	704,985
Goodwill	35,162	35,162
Intangible and other assets, net	4,408	3,347
Total assets	\$ 1,159,015	\$ 1,148,242
Liabilities		
Current:		
Accounts payable	\$ 128,874	\$ 133,568
Accrued expenses	31,877	27,416
Accrued self-insurance	17,989	19,333
Deferred revenue, net	3,942	7,056
Income taxes payable	533	1,628
Deferred income taxes	7,857	4,219
Total current liabilities	191,072	193,220
Postretirement benefit obligations	17,946	17,101
Deferred income taxes	95,470	97,934
Other	2,256	5,934
Total liabilities	306,744	314,189
Shareholders' Equity		
Common stock, no par value, 100,800,000 shares authorized, 33,047,807 shares issued	9,949	9,949
Retained earnings	988,084	971,022
Accumulated other comprehensive income		
(Net of deferred taxes of \$3,556 in 2014 and \$2,753 in 2013)	5,095	3,939
	1,003,128	984,910
Treasury stock at cost, 6,149,364 shares	(150,857)	(150,857)

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Total shareholders' equity	852,271	834,053
Total liabilities and shareholders' equity	\$ 1,159,015	\$ 1,148,242
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		39 Weeks Ended	
	Sept. 27, 2014	Sept. 28, 2013	Sept. 27, 2014	Sept. 28, 2013
Net sales	\$ 683,893	\$ 661,412	\$ 2,062,894	\$ 2,006,196
Cost of sales, including warehousing and distribution expenses	498,216	478,649	1,502,776	1,441,984
Gross profit on sales	185,677	182,763	560,118	564,212
Operating, general and administrative expenses	165,733	164,919	498,433	477,835
Income from operations	19,944	17,844	61,685	86,377
Investment income	357	1,129	1,766	3,931
Income before provision for income taxes	20,301	18,973	63,451	90,308
Provision for income taxes	6,594	7,281	22,180	34,308
Net income	\$ 13,707	\$ 11,692	\$ 41,271	\$ 56,000
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	\$ 0.90	\$ 0.90
Basic and diluted earnings per share	\$ 0.51	\$ 0.43	\$ 1.53	\$ 2.08
See accompanying notes to consolidated financial statements				

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WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	13 Weeks Ended		39 Weeks Ended	
	Sept. 27, 2014	Sept. 28, 2013	Sept. 27, 2014	Sept. 28, 2013
(dollars in thousands)				
Net income	\$ 13,707	\$ 11,692	\$ 41,271	\$ 56,000
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 \$5 and \$85 respectively for the 13 Weeks Ended and \$824 and \$257 respectively for the 39 Weeks Ended)	14	(154)	1,182	(512)
Reclassification adjustment for gains included in net income (Net of deferred taxes of \$0 and \$162 respectively for the 13 Weeks Ended and \$21 and \$771 respectively for the 39 Weeks Ended)	-	(202)	(26)	(963)
Other comprehensive income (loss), net of tax	14	(356)	1,156	(1,475)
Comprehensive income, net of tax	\$ 13,721	\$ 11,336	\$ 42,427	\$ 54,525
See accompanying notes to consolidated financial statements.				

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WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)	39 Weeks Ended	
	Sept. 27, 2014	Sept. 28, 2013
Cash flows from operating activities:		
Net income	\$ 41,271	\$ 56,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	43,763	37,502
Amortization	5,737	5,321
Gain on disposition of fixed assets	(2,531)	(2,586)
Impairment of fixed assets	-	2,088
Gain on sale of marketable securities	(46)	(1,734)
Gain on sale of intangible assets	-	(250)
Deferred income taxes	371	9,370
Changes in operating assets and liabilities:		
Inventories	20,720	11,824
Accounts receivable and prepaid expenses	(9,113)	(8,490)
Income taxes recoverable	-	(4,624)
Accounts payable and other liabilities	(7,524)	5,997
Income taxes payable	(1,095)	(1,359)
Other	117	(21)
Net cash provided by operating activities	91,670	109,038
Cash flows from investing activities:		
Purchase of property and equipment	(58,027)	(89,286)
Proceeds from the sale of property and equipment	3,288	3,626
Purchase of marketable securities	(8,138)	(10,570)
Proceeds from maturities of marketable securities	2,250	650
Proceeds from the sale of marketable securities	1,651	17,984
Purchase of intangible assets	(1,125)	(698)
Proceeds from the sale of intangible assets	-	250
Change in SERP investment	(81)	(1,096)
Net cash used in investing activities	(60,182)	(79,140)
Cash flows from financing activities:		
Dividends paid	(24,209)	(24,209)
Net cash used in financing activities	(24,209)	(24,209)
Net increase in cash and cash equivalents	7,279	5,689
Cash and cash equivalents at beginning of year	17,965	14,381
Cash and cash equivalents at end of period	\$ 25,244	\$ 20,070

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. 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 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. 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 on its consolidated financial statements, but does not expect the impact to be material.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 amends guidance on reporting discontinued operations only if the disposal of a component of an entity or group of components of an entity represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. It also allows companies to have significant continuing involvement and continuing cash flows with the discontinued operations. Additional disclosures are also required for discontinued operations and individually material disposal transactions that do not meet the definition of a discontinued operation. The standard should be applied prospectively for all disposals of components of an entity and for all businesses that, on acquisition, are classified as held for sale that occurred within annual periods beginning on or after December 15, 2014, including interim periods within that reporting period. The Company is currently in the process of evaluating the impact of adoption of the ASU on its 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 footnote 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.

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WEIS MARKETS, INC.

NOTES TO THE 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. 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 engaged an independent firm to value a sample of the Company's municipal bond holdings in order to validate the investment's assigned fair value.

The Company accrues interest on its 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 September 27, 2014 and December 28, 2013, consisted of:

Gross	Gross
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(dollars in thousands)	Amortized	Unrealized	Unrealized	Fair
September 27, 2014	Cost	Holding Gains	Holding Losses	Value
Available-for-sale:				
Level 1				
Equity securities	\$ 1,198	\$ 6,935	\$ -	\$ 8,133
Level 2				
Municipal bonds	59,369	1,808	(92)	61,085
	\$ 60,567	\$ 8,743	\$ (92)	\$ 69,218

(dollars in thousands)	Amortized	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
December 28, 2013	Cost			
Available-for-sale:				
Level 1				
Equity securities	\$ 970	\$ 7,239	\$ -	\$ 8,209
Level 2				
Municipal bonds	55,431	686	(1,233)	54,884
	\$ 56,401	\$ 7,925	\$ (1,233)	\$ 63,093

Maturities of marketable securities classified as available-for-sale at September 27, 2014, were as follows:

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due within one year	\$ 4,940	\$ 4,970
Due after one year through five years	41,637	43,005
Due after five years through ten years	12,192	12,510
Due after ten years	600	600
Equity securities	1,198	8,133
	\$ 60,567	\$ 69,218

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WEIS MARKETS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(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 on Available-for-Sale Marketable Securities
Accumulated other comprehensive income balance as of December 28, 2013	\$ 3,939
Other comprehensive income before reclassifications	1,182
Amounts reclassified from accumulated other comprehensive income	(26)
Net current period other comprehensive income	1,156
Accumulated other comprehensive income balance as of September 27, 2014	\$ 5,095

The following table sets forth the effects on net income of the amounts reclassified out of accumulated other comprehensive income for the periods ended September 27, 2014 and September 28, 2013.

(dollars in thousands)	Location	Gains (Losses) Reclassified from Accumulated Other Comprehensive Income to the Consolidated Statements of Income			
		13 Weeks Ended		39 Weeks Ended	
		Sept. 27, 2014	Sept. 28, 2013	Sept. 27, 2014	Sept. 28, 2013
Unrealized gains on available-for-sale marketable securities					
	Investment income	\$ -	\$ 364	\$ 47	\$ 1,734
	Provision for income taxes	-	(162)	(21)	(771)
Total amount reclassified, net of tax		\$ -	\$ 202	\$ 26	\$ 963

(5) Correction for Immaterial Prior Period Misstatements

The Company corrected the \$8.8 million balance related to “SERP investment” (consisting of level 1 mutual funds) by removing it from “Cash and cash equivalents” in the 2013 Consolidated Balance Sheet. The opening cash impact on the 2013 Consolidated Statement of Cash Flows was \$7.1 million and the change to investing activities in the first 39 weeks of 2013 was immaterial. The Company also corrected the “(Gain)/loss on disposition/impairment of fixed assets” originally reported as a net gain of \$498 thousand in the September 28, 2013 Consolidated Statement of Cash Flows into the “Gain on disposition of fixed assets” of \$2.6 million and the “Impairment of fixed assets” of \$2.1 million. There is no cash impact on the 2013 Consolidated Statement of Cash Flows related to this change, since both line items still net to the originally reported \$498 thousand.

(6) Impairment Charges

The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the net undiscounted cash flows expected to be generated by the asset. An impairment loss would be recorded for the excess of net book value over the fair value of the asset impaired. The fair value is estimated based on expected discounted future cash flows. In accordance with Accounting Standards Codification No. 360, Property, Plant and Equipment, the Company recorded a pre-tax charge of \$2.1 million in the third quarter of 2013 for the impairment of long-lived assets, including equipment and leasehold improvements. The charge was a result of management determining that the net book value of four properties was impaired. This charge was included as a component of “Operating, general and administrative expenses.”

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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 28, 2013, 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 September 27, 2014, the Company operated 163 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)	13 Weeks Ended		39 Weeks Ended		Percent Changes 2014 vs. 2013			
	Sept. 27, 2014	Sept. 28, 2013	Sept. 27, 2014	Sept. 28, 2013	13 Weeks Ended		39 Weeks Ended	
Net sales	\$ 683,893	\$ 661,412	\$ 2,062,894	\$ 2,006,196	3.4	%	2.8	%
Cost of sales, including warehousing and distribution expenses	498,216	478,649	1,502,776	1,441,984	4.1		4.2	

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Gross profit on sales	185,677		182,763		560,118		564,212		1.6		(0.7)
Gross profit margin	27.2	%	27.6	%	27.2	%	28.1	%			
Operating, general and administratives expenses	165,733		164,919		498,433		477,835		0.5		4.3
O, G & A, percent of net sales	24.2	%	24.9	%	24.2	%	23.8	%			
Income from operations	19,944		17,844		61,685		86,377		11.8		(28.6)
Operating margin	2.9	%	2.7	%	3.0	%	4.3	%			
Investment income	357		1,129		1,766		3,931		(68.4)		(55.1)
Investment income, percent of net sales	0.1	%	0.2	%	0.1	%	0.2	%			
Income before provision for income taxes	20,301		18,973		63,451		90,308		7.0		(29.7)
Provision for income taxes	6,594		7,281		22,180		34,308		(9.4)		(35.4)
Effective tax rate	32.5	%	38.4	%	35.0	%	38.0	%			
Net income	\$ 13,707		\$ 11,692		\$ 41,271		\$ 56,000		17.2	%	(26.3) %
Net income, percent of net sales	2.0	%	1.8	%	2.0	%	2.8	%			
Basic and diluted earnings per share	\$ 0.51		\$ 0.43		\$ 1.53		\$ 2.08		18.6	%	(26.4) %

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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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 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 3.3% in the third quarter of 2014, compared to the same period in 2013. Excluding fuel sales, total store sales increased 2.9%. The Company's year-to-date total store sales increased 2.8% compared to the first thirty-nine weeks of 2013. Excluding fuel sales, the Company's year-to-date total store sales increased 2.4% compared to the first thirty-nine weeks of 2013.

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 2.6% in the third quarter of 2014 compared to the same quarter in 2013. Excluding fuel sales, comparable store sales increased 2.2% in third quarter of 2014 compared to the same period in 2013. The Company attributes the sales increase to the Company's current pricing initiatives and sales building programs. The Company's year-to-date comparable store sales increased 1.4% compared to the first thirty-nine weeks of 2013. Excluding fuel sales, comparable store sales increased 1.1% compared to the first thirty-nine weeks of 2013.

The Company continues to make progress in a market impacted by a stagnant economy. It attributes the increased sales to its continued investments in lower pricing and disciplined sales building programs. This includes targeted promotional activity in key regional markets and its Everyday Lower Prices (EDLP) and Lowest Price Guarantee promotional programs. The EDLP program lowered prices on more than 1,000 regularly purchased items. The Lowest Price Guarantee program offers discounts on four items every week that the Company guarantees to be the lowest compared to local competitors. Compared to the third quarter of 2013, the Company generated a 1.5% increase

in average sales per customer transaction in the third quarter of 2014, while identical customer store visits increased by 1.4%. The Company's year-to-date average sales per customer transaction increased 1.5%, while the number of identical customer store visits remained virtually the same as compared to 2013.

The Company's results also benefited from increased operational efficiencies and improved in-stock conditions at store level. In addition, the Company's Gold Card program, an extension of its existing Preferred Club Shopper program, continues to target the Company's best shoppers with personalized offers and strong values to help them save money. The Company also 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 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-six Weis Gas-n-Go locations.

Comparable center store sales increased 0.1% in the third quarter of 2014, but decreased 0.6% year-to-date, compared to the same periods in 2013. Comparable dairy sales increased 4.2% in the third quarter of 2014 and 2.6% year-to-date as compared to the same periods in 2013. These increases are mainly attributed to commodity price inflation throughout the dairy category, with milk, cheese and butter seeing the largest increases. Despite the significant commodity price inflation, the Company was able to maintain stable unit sales as compared to last year, through the continual promotion of dairy products in the EDLP and Lowest Price Guarantee programs.

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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)

Comparable fresh sales increased 3.3% and 2.1% in the third quarter and first thirty-nine weeks of 2014, respectively, compared to the same periods in 2013. Comparable meat sales increased 3.1% in the third quarter of 2014 and 2.7% year-to-date, compared to the same periods in 2013. In January 2014, management introduced the program "Great Meals Start Here," which is based on superior customer service along with educating our customers on our quality and our ability to cut our fresh meat within the stores. This program coupled with price inflation; more strategic meat advertising; and a focus on improving store conditions and resetting the stores to better serve our customers' needs has led to the increase in meat sales. Comparable seafood sales increased 4.6% in the third quarter of 2014 and 5.1% year-to-date, compared to the same periods in 2013. The 2014 increase is credited to the Company's renewed attention to promoting fresh seafood items, enhancing product variety and the Company's ongoing commitment to the EDLP program. Comparable food service sales increased 7.9% in the third quarter of 2014 and 5.2% year-to-date, compared to the same periods in 2013. This increase is due to increased promotional activity on key items within the department, partially through the EDLP program; an emphasis on delivering consistent product quality; and the conversion to "fresh" fried chicken in 48 stores. However, in September 2013, sales were negatively affected by deli salad recalls due to a disruption in supply, which also played a factor in the above variances.

Comparable pharmacy sales increased 10.5% in the third quarter of 2014 and 8.1% year-to-date, compared to the same periods in 2013. Pharmacy sales experienced significant price inflation in 2014 but were negatively affected in 2013 due to the conversion of brand to generic drugs. In addition to price inflation, the sales increase is also attributed to an increased number of prescriptions being filled, partially due to the Company's in-store pet medication and medication synchronization programs, as well as some of the Company's stores having expanded pharmacy hours. The number of prescriptions being filled increased by 3.7% and 2.0% for the third quarter and the first thirty-nine weeks of 2014, respectively, compared to the same periods in 2013.

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.

According to the latest U.S. Bureau of Labor Statistics' report, the annual Seasonally Adjusted Food-at-Home Consumer Price Index increased 1.7% compared to an increase of 1.0% 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 2014, the Company has achieved a gross profit rate of 27.2% for the quarter and year-to-date, compared to a gross profit rate of 27.6% and 28.1% for the quarter and year-to-date, respectively, in 2013. The gross profit rate declined as a result of the implementation of the Company's Three Ways to Save sales initiative, which consisted of the EDLP and Lowest Price Guarantee programs throughout the first three quarters, the "Price Freeze" program in the first quarter and the "Get Grillin'" program in the second quarter.

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 remained unchanged in the third quarter and the first thirty-nine weeks of 2014 compared to the same periods of 2013. According to the U.S. Department of Energy, the thirteen week average diesel fuel price for the Central Atlantic States in both the third quarter of 2014 and 2013 was \$3.98 per gallon. The 2014 thirty-nine week average diesel fuel price for the Central Atlantic States was \$4.12 per gallon compared to \$4.03 per gallon in the same period in 2013, for an average increase of \$0.09 per gallon. Based upon the U.S. Energy Information Administration's current projections, the Company is expecting diesel fuel prices to marginally decrease through the end of the year.

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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)

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, equipment depreciation, leasehold amortization and costs for outside provided services.

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. A majority of our associates are paid hourly rates related to federal and state minimum wage laws. Although we have and will continue to attempt to pass along any increased labor costs through food price increases, there can be no assurance that all such increased labor costs can be reflected in our prices or that increased prices will be absorbed by consumers without diminishing consumer spending to some degree. However, to date, we have not experienced a significant reduction in profit margins as a result of changes in such laws, and management does not anticipate any significant related future reductions in gross profits.

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." Employee-related costs decreased 0.5% and 0.4% in the third quarter and the first thirty-nine weeks of 2014, respectively, compared to the same periods in 2013. As a percent of sales, employee-related costs decreased 0.6% in the third quarter and 0.5% year-to-date compared to the same periods in 2013. The Company's self-insured health care benefit expenses increased 11.8% in the third quarter, but decreased 10.0% in the first thirty-nine weeks of 2014, compared to the same periods in 2013. Year-to-date, the Company incurred less expensive self-insured healthcare claims, compared to last year. 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 decreased 0.2% in the third quarter and 0.3% in the first thirty-nine weeks of 2014 compared to the same periods of 2013.

On September 21, 2013, the Company entered into a separation agreement with the former President and Chief Executive Officer. The Company's 2013 third quarter "Operating, general and administrative expenses" were negatively impacted by the charge of \$6.1 million worth of estimated expenses related to the separation agreement.

Depreciation and amortization expense was \$17.2 million, or 2.5% of net sales, for the third quarter of 2014 compared to \$14.8 million, or 2.2% of net sales for the third quarter of 2013. Depreciation and amortization expense was \$49.5 million, or 2.4% of net sales, for the first thirty-nine weeks of 2014 compared to \$42.8 million, or 2.1% of net sales, for the first thirty-nine weeks of 2013. 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.

The Company recognized pre-tax gains of \$2.6 million and \$2.9 million in the first thirty-nine weeks of 2014 and 2013, respectively, from the sale of two properties in both years.

In the third quarter of 2013, the Company determined that the asset value of four properties was impaired. As a result, the Company recognized an impairment loss of \$2.1 million. See Note 6 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for more information on the Company's impairment charges.

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 conservation technologies, procurement strategies and associate energy awareness programs to manage and reduce consumption. Due to these efforts in the third quarter, the Company's utility expense decreased \$46 thousand or 0.5% compared to the third quarter 2013. However, these expenses increased \$1.5 million or 5.0% in the first thirty-nine weeks of 2014 compared to the same period in 2013. The increase is primarily due to higher capacity charges and below average temperatures in the Mid-Atlantic States, the Company's operating region, in the first quarter of 2014.

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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)

Investment Income

The Company's investment portfolio consists of marketable securities, which currently includes municipal bonds and equity securities, as well as the Company's SERP investment, which is comprised of mutual funds that are maintained within the Company's non-qualified supplemental executive retirement plan and the non-qualified pharmacist deferred compensation plan. The Company classifies all of its municipal bonds and equity securities as available-for-sale. Investment income declined \$772 thousand for the third quarter and \$2.2 million for the first thirty-nine weeks of 2014 as compared to the same periods in 2013. This decrease is primarily attributed to fewer sales of equity securities and a decline in the Company's SERP investment. In the third quarter of 2013, the Company recognized a gain of \$357 thousand on the sale of equity securities. However, no equity securities were sold in the third quarter of 2014. In the first thirty-nine weeks of 2013, the Company recognized an additional \$1.4 million on the sale of equity securities, compared to the same period in 2014. The Company's SERP investment decreased by \$394 thousand and \$605 thousand in the third quarter and the first thirty-nine weeks of 2014, respectively, compared to the same periods in 2013.

Provision for Income Taxes

The effective income tax rate was 32.5% and 38.4% for the third quarter of 2014 and 2013, respectively. The decline is due to several one-time permanent tax differences which increased the effective income tax rate during the thirteen weeks ended September 28, 2013, which did not reoccur during the thirteen weeks ended September 27, 2014. For the first thirty-nine weeks of 2014 and 2013, the effective income tax rate was 35.0% and 38.0%, respectively. The effective income tax rate through the first three quarters of 2014 is consistent with the federal statutory rate of 35%. Historically, the effective income tax rate differed from the federal statutory rate, primarily due to the effect of state taxes, net of permanent differences. Currently, the effect of state taxes, net of permanent differences, is not materially impacting the effective income tax rate.

Liquidity and Capital Resources

During the first thirty-nine weeks of 2014, the Company generated \$91.7 million in cash flows from operating activities compared to \$109.0 million for the same period in 2013. Cash flows from operating activities were impacted as a result of a \$20.7 million and \$11.8 million decrease in inventories in 2014 and 2013, respectively. In the second quarter of 2013, management implemented a new inventory control buying procedure that increased distribution center efficiencies to help reduce inventory and improve product freshness. Since the beginning of the fiscal year, working capital increased 1.9% compared to a decrease of 4.2% in the first thirty-nine weeks of 2013.

Net cash used in investing activities was \$60.2 million compared to \$79.1 million in the first thirty-nine weeks of 2014 and 2013, respectively. These funds were used primarily to purchase property and equipment in the quarters presented. Property and equipment purchases during the first thirty-nine weeks of 2014 totaled \$58.0 million compared to \$89.3 million in the first thirty-nine weeks of 2013. As a percentage of sales, capital expenditures were 2.8% and 4.5% in the first thirty-nine weeks of 2014 and 2013, respectively.

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 distribution facilities and transportation fleet. Management estimates that its current development plans will require an investment of approximately \$77.0 million in 2014. The investment reduction for 2014 is a result of project completion dates shifting from 2014 to 2015. Company management remains committed to the capital expansion program and fully expects to invest the previously reported amount of \$101.0 million.

Net cash used in financing activities was \$24.2 million in the first thirty-nine weeks of 2014 and 2013, which solely consisted of dividend payments to shareholders. At September 27, 2014, the Company had a \$30 million line of credit, of which \$18.0 million was committed to outstanding letters of credit. 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 \$.90 in the first thirty-nine weeks of 2014 and 2013. At its regular meeting held in October, the Board of Directors unanimously approved a quarterly dividend of \$.30 per share, payable on November 17, 2014 to shareholders of record on November 3, 2014. 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.

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WEIS MARKETS, INC.

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

Liquidity and Capital Resources (continued)

The Company has no other commitment of capital resources as of September 27, 2014, other than the lease commitments on its store facilities under operating leases that expire at various dates through 2029. The Company anticipates funding its working capital requirements and its \$77.0 million 2014 capital expansion program through cash and investment reserves and future internally generated cash flows from operations.

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates as they relate to available-for-sale securities and any future long-term debt borrowings. The Company's marketable securities portfolio currently consists of municipal bonds and equity securities. Other short-term investments are classified as cash equivalents on the Consolidated Balance Sheets.

Critical Accounting Policies and 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 2013 Annual Report on Form 10-K. There have been no changes to the Critical Accounting Policies since the Company filed its Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

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.

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WEIS MARKETS, INC.

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 nine months ended September 27, 2014. 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 28, 2013 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 28, 2013 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 September 27, 2014. 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 September 27, 2014, 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 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 there into duly authorized.

WEIS MARKETS, INC.
(Registrant)

Date 11/06/2014 S/Jonathan H. Weis
Jonathan H. Weis
Vice Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

Date 11/06/2014 /S/Scott F. Frost
Scott F. Frost
Senior Vice President, Chief Financial Officer

and Treasurer
(Principal Financial Officer)