

WEIS MARKETS INC
Form 10-Q
August 07, 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 June 28, 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

(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.)

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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 [X] 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 [X] 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 [X]
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 [X]

As of August 7, 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

(dollars in thousands)	June 28, 2014 (unaudited)	December 28, 2013
Assets		
Current:		
Cash and cash equivalents	\$ 21,726	\$ 17,965
Marketable securities	65,113	63,093
SERP investment	10,268	8,752
Accounts receivable, net	67,526	57,193
Inventories	218,931	240,452
Prepaid expenses	15,800	17,293
Total current assets	399,364	404,748
Property and equipment, net	708,272	704,985
Goodwill	35,162	35,162
Intangible and other assets, net	3,632	3,347
Total assets	\$ 1,146,430	\$ 1,148,242
Liabilities		
Current:		
Accounts payable	\$ 123,457	\$ 133,568
Accrued expenses	29,310	27,416
Accrued self-insurance	19,411	19,333
Deferred revenue, net	3,771	7,056
Income taxes payable	1,583	1,628
Deferred income taxes	4,384	4,219
Total current liabilities	181,916	193,220
Postretirement benefit obligations	18,944	17,101
Deferred income taxes	94,681	97,934
Other	4,269	5,934
Total liabilities	299,810	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	982,447	971,022
Accumulated other comprehensive income (Net of deferred taxes of \$3,552 in 2014 and \$2,753 in 2013)	5,081	3,939
	997,477	984,910

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Treasury stock at cost, 6,149,364 shares	(150,857)	(150,857)
Total shareholders' equity	846,620	834,053
Total liabilities and shareholders' equity	\$ 1,146,430	\$ 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		26 Weeks Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	\$ 691,875	\$ 662,072	\$ 1,379,002	\$ 1,344,784
Cost of sales, including warehousing and distribution expenses	504,151	471,750	1,004,560	963,335
Gross profit on sales	187,724	190,322	374,442	381,449
Operating, general and administrative expenses	168,286	152,705	332,701	312,917
Income from operations	19,438	37,617	41,741	68,532
Investment income	656	1,824	1,409	2,802
Income before provision for income taxes	20,094	39,441	43,150	71,334
Provision for income taxes	7,296	15,262	15,586	27,027
Net income	\$ 12,798	\$ 24,179	\$ 27,564	\$ 44,307
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	\$ 0.48	\$ 0.90	\$ 1.02	\$ 1.65
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 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	\$ 12,798	\$ 24,179	\$ 27,564	\$ 44,307
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 \$162 and \$600 respectively for the 13 Weeks Ended and \$819 and \$173 respectively for the 26 Weeks Ended)	235	(964)	1,168	(358)
Reclassification adjustment for gains included in net income (Net of deferred taxes of \$2 and \$587 respectively for the 13 Weeks Ended and \$20 and \$608 respectively for the 26 Weeks Ended)	(3)	(735)	(26)	(761)
Other comprehensive income (loss), net of tax	232	(1,699)	1,142	(1,119)
Comprehensive income, net of tax	\$ 13,030	\$ 22,480	\$ 28,706	\$ 43,188
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 28, 2014	June 29, 2013
Cash flows from operating activities:		
Net income	\$ 27,564	\$ 44,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28,409	24,512
Amortization	3,886	3,511
Gain on disposition of fixed assets	(1,807)	(2,903)
Gain on sale of marketable securities	(46)	(1,369)
Gain on sale of intangible assets	-	(250)
Deferred income taxes	(3,887)	6,260
Changes in operating assets and liabilities:		
Inventories	21,521	11,291
Accounts receivable and prepaid expenses	(8,840)	(8,029)
Accounts payable and other liabilities	(11,246)	(3,360)
Income taxes payable	(45)	4,476
Other	214	(82)
Net cash provided by operating activities	55,723	78,364
Cash flows from investing activities:		
Purchase of property and equipment	(35,806)	(57,276)
Proceeds from the sale of property and equipment	2,158	3,386
Purchase of marketable securities	(3,213)	(7,820)
Proceeds from maturities of marketable securities	1,750	650
Proceeds from the sale of marketable securities	1,216	13,945
Purchase of intangible assets	(412)	(483)
Proceeds from the sale of intangible assets	-	250
Change in SERP investment	(1,516)	(1,521)
Net cash used in investing activities	(35,823)	(48,869)
Cash flows from financing activities:		
Dividends paid	(16,139)	(16,138)
Net cash used in financing activities	(16,139)	(16,138)
Net increase in cash and cash equivalents	3,761	13,357
Cash and cash equivalents at beginning of year	17,965	14,381

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Cash and cash equivalents at end of period	\$ 21,726	\$ 27,738
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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, but does not expect the impact to be material.

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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 June 28, 2014 and December 28, 2013, consisted of:

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(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
June 28, 2014				
Available-for-sale:				
Level 1				
Equity securities	\$ 1,198	\$ 6,934	\$ -	\$ 8,132
Level 2				
Municipal bonds	55,282	1,803	(104)	56,981
	\$ 56,480	\$ 8,737	\$ (104)	\$ 65,113

(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
December 28, 2013				
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 June 28, 2014, were as follows:

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due within one year	\$ 3,935	\$ 3,965
Due after one year through five years	39,405	40,822
Due after five years through ten years	11,942	12,194
Equity securities	1,198	8,132
	\$ 56,480	\$ 65,113

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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	1,168
Amounts reclassified from accumulated other comprehensive income	(26)
Net current period other comprehensive income	1,142
Accumulated other comprehensive income balance as of June 28, 2014	\$ 5,081

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 28, 2014 and June 29, 2013.

(dollars in thousands)	Location	Gains (Losses) Reclassified from Accumulated Other Comprehensive Income to the Consolidated Statements of Income			
		13 Weeks Ended		26 Weeks Ended	
		June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Unrealized gains on available-for-sale marketable securities	Investment income	\$ 5	\$ 1,322	\$ 46	\$ 1,369
	Provision for income taxes	(2)	(587)	(20)	(608)

Total amount reclassified, net of tax	\$ 3	\$ 735	\$ 26	\$ 761
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(5) Reclassifications

The Company reclassified the \$8.8 million balance related to “SERP investment” (consisting of level 1 mutual funds) out of “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 26 weeks of 2013 was immaterial.

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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 June 28, 2014, the Company operated 165 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		26 Weeks Ended		Percent Changes 2014 vs. 2013			
					13 Weeks		26 Weeks	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	Ended	Ended		
Net sales	\$ 691,875	\$ 662,072	\$ 1,379,002	\$ 1,344,784	4.5	%	2.5	%
Cost of sales, including warehousing and distribution	504,151	471,750	1,004,560	963,335	6.9		4.3	

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expenses								
Gross profit on sales	187,724	190,322	374,442	381,449	(1.4)	(1.8)		
Gross profit margin	27.1 %	28.7 %	27.2 %	28.4 %				
Operating, general and administrative expenses	168,286	152,705	332,701	312,917	10.2	6.3		
O, G & A, percent of net sales	24.3 %	23.1 %	24.1 %	23.3 %				
Income from operations	19,438	37,617	41,741	68,532	(48.3)	(39.1)		
Operating margin	2.8 %	5.7 %	3.0 %	5.1 %				
Investment income	656	1,824	1,409	2,802	(64.0)	(49.7)		
Investment income, percent of net sales	0.1 %	0.3 %	0.1 %	0.2 %				
Income before provision for income taxes	20,094	39,441	43,150	71,334	(49.1)	(39.5)		
Provision for income taxes	7,296	15,262	15,586	27,027	(52.2)	(42.3)		
Effective tax rate	36.3 %	38.7 %	36.1 %	37.9 %				
Net income	\$ 12,798	\$ 24,179	\$ 27,564	\$ 44,307	(47.1)%	(37.8)%		
Net income, percent of net sales	1.8 %	3.7 %	2.0 %	3.3 %				
Basic and diluted earnings per share	\$ 0.48	\$ 0.90	\$ 1.02	\$ 1.65	(46.7)%	(38.2)%		

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 4.5 % in the second quarter of 2014, compared to the same period in 2013. Excluding fuel sales, total store sales increased 3.9%. In 2014, the Company's second quarter sales benefited from the Easter holiday period. Traditionally, sales surge during the week leading up to Easter. Management estimates the incremental holiday sales impact was approximately \$8.6 million in total store sales in 2014. However, in 2013 the Easter holiday sales fell entirely in the Company's first quarter. Adjusting for the Easter holiday shift, total store sales increased 3.2% in the second quarter of 2014, compared to the same quarter in 2013. The Company's year-to-date total store sales increased 2.5% compared to the first twenty-six weeks of 2013. Excluding fuel sales, the Company's year-to-date total store sales increased 2.1% compared to the first half 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 2.9% in the second quarter of 2014 compared to the same quarter in 2013. Excluding fuel sales, comparable store sales increased 2.2% in second quarter of 2014 compared to the same period in 2013. As discussed above, in contrast to 2013, the Company's second quarter 2014 sales received the benefit of the Easter holiday. Adjusting for the Easter holiday shift, comparable store sales increased 1.5% in the second quarter of 2014 compared to the same quarter 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 0.8% compared to the first twenty-six weeks of 2013. Excluding fuel sales, comparable store sales increased 0.5% compared to the first half of 2013.

The Company's operating region continues to be impacted by slow economic growth, particularly in Northeastern Pennsylvania and New York's Southern Tier. In addition, the Company's customers were affected by the reduction in food stamp/SNAP (the United States Department of Agriculture's Supplemental Nutrition Assistance Program) spending in its stores, which accelerated in the fourth quarter of 2013 with the reduction in SNAP benefits that went into effect November 1, 2013. It is possible that improving economic conditions and the lower unemployment rate in Pennsylvania, where the Company operates 122 stores, have contributed to the decline in SNAP sales. However, many customers still remain cautious in their spending and continue to focus on value and long-term savings.

To meet these challenges, the Company made significant investments in its "Price Freeze" and "Get Grillin'" promotional programs. The Company launched a twelfth round of its "Price Freeze" program on December 29, 2013, which has proven to be an enduring and relevant promotion for our customers during challenging economic times. This program froze prices on more than 2,000 products for a thirteen-week period. On March 30, 2014, the Company entered into another "Get Grillin'" promotional program. The "Get Grillin'" promotional program was a fifteen-week reduced pricing program on top items throughout the store that our customers found to be the most seasonally relevant. This program lowered prices on approximately 1,200 items.

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

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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)

To help maintain the Company's market share, management focused on its marketing and advertising strategy, including targeted promotional activity in key regional markets. In the first half of 2014, the Company ran an aggressive sales building program, notably its Three Ways to Save sales initiative, which included the seasonal "Price Freeze" or "Get Grillin'" program, Everyday Lower Prices (EDLP) and Lowest Price Guarantee program. The EDLP program lowered prices on more than 1,000 items that our customers are likely to use on a daily basis. The Lowest Price Guarantee program offers discounts on four items every week that the Company guarantees to be the lowest compared to other local competitors. Altogether, these three sales initiatives lowered prices on more than 2,000 products. During the second quarter of 2014, the Company generated a 1.6% increase in average sales per customer transaction, while the number of identical customer store visits increased by 1.3%. The Company's year-to-date average sales per customer transaction increased 1.6%, while the number of identical customer store visits decreased by 0.9%.

Comparable center store sales increased 0.1% in the second quarter of 2014, but decreased by 1.0% year-to-date, compared to the same periods in 2013. Comparable dairy sales increased 4.0% in the second quarter of 2014 and 1.7% year-to-date as compared to the same periods in 2013. This increase is attributed to milk, cheese and butter commodity price inflation, increased advertising and the promotion of dairy products within the Company's Lowest Price Guarantee program. Comparable meat sales increased 4.7% in the second quarter of 2014 and 2.4% year-to-date, compared to the same periods in 2013. In January 2014, management introduced the program "Great Meals Starts Here," which is based on superior customer service along with educating our customers on our quality, programs and our ability to cut our fresh meat within our stores. This program coupled with more aggressive meat advertising and price inflation has led to the increase in meat sales. Comparable seafood sales increased 8.0% in the second quarter of 2014 and 5.3% year-to-date, compared to the same periods in 2013. The 2014 increase is credited to the Company's renewed focus on promoting fresh seafood items by enhancing product variety, the Company's ongoing commitment to the EDLP program and shrimp price inflation.

Comparable fuel sales increased 21.3% in the second quarter of 2014 and 8.7% year-to-date, compared to the same periods in 2013. The fuel sales increase is mainly due to increasing retail fuel prices. According to the Energy Information Administration, the average price of gasoline in the Central Atlantic States increased 4.5%, or \$0.17 per gallon, in the second quarter of 2014, compared to the same quarter in 2013. Year-to-date, the average price of gasoline in the Central Atlantic States increased 0.8% or \$0.03 per gallon, compared to the first half of 2013.

Comparable pharmacy sales increased 9.0% in the second quarter of 2014 and 6.8% 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.

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 1.2 % compared to an increase of 1.1% 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 27.1% and 27.2% for the quarter and year-to-date, respectively, compared to a gross profit rate of 28.7% and 28.4% 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.

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WEIS MARKETS, INC.

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

Results of Operations (continued)

The Company's profitability is impacted by the cost of oil. Fluctuating fuel prices affect the delivered cost of product and the cost of other petroleum-based supplies such as plastic bags. 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 second quarter and first half of 2014 compared to the same periods of 2013. According to the U.S. Department of Energy, the 13-week average diesel fuel price for the Central Atlantic States in the second quarter of 2014 was \$4.15 per gallon compared to \$3.95 per gallon in the same period in 2013, for an average increase of \$0.20 per gallon. The 26-week average diesel fuel price for the Central Atlantic States in the first half of 2014 was \$4.19 per gallon compared to \$4.06 per gallon in the same period in 2013, for an average increase of \$0.13 per gallon. Based upon the U.S. Energy Information Administration's current projections, the Company is expecting diesel fuel prices to remain fairly steady through year end.

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 increased 3.6% in the second quarter, but decreased 0.3% in the first half of 2014, compared to the same periods in 2013. As a percent of sales, employee-related costs decreased 0.1% in the second quarter and 0.4% year-to-date compared to the same periods in 2013. The Company's self-insured health care benefit expenses increased 24.1% in the second quarter, but decreased 20.5% in the first half 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 0.5% in the second quarter and 0.3% in the first half of 2014 compared to the same periods of 2013.

Depreciation and amortization expense was \$16.2 million, or 2.3% of net sales, for the second quarter of 2014 compared to \$14.2 million, or 2.2% of net sales for the second quarter of 2013. Depreciation and amortization expense was \$32.3 million, or 2.3% of net sales, for the first half of 2014 compared to \$28.0 million, or 2.1% of net sales, for the first half 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 a pre-tax gain of \$1.7 million in the first half of 2014 from the sale of a property and pre-tax gains totaling \$2.9 million in the first half of 2013 from the sale of two properties.

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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)

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. Despite these efforts, the Company's utility expense increased \$577,000 or 6.2% in the second quarter and increased \$1.6 million or 7.8% in the first half of 2014, compared to the same periods in 2013. The increase is primarily due to below average temperatures in the Mid-Atlantic States, the Company's operating region, in the first quarter of 2014.

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 \$1.2 million for the second quarter and \$1.4 million for the first half of 2014 as compared to the same periods in 2013. This decrease is primarily attributed to the sale of equity securities. In the second quarter of 2013, the Company recognized a gain of \$1.1 million on the sale of equity securities. However, no equity securities were sold in the second quarter of 2014.

Provision for Income Taxes

The effective income tax rate was 36.1% in the first half of 2014 compared to 37.9% in the first half of 2013. The effective income tax rate differs from the federal statutory rate of 35% primarily due to the effect of state taxes, net of permanent differences.

Liquidity and Capital Resources

During the first twenty-six weeks of 2014, the Company generated \$55.7 million in cash flows from operating activities compared to \$78.4 million for the same period in 2013. Cash flows from operating activities were impacted as a result of a \$21.5 million decrease in inventories. 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 2.8% compared to an increase of 1.2% in the first half of 2013.

Net cash used in investing activities was \$35.8 million compared to \$48.9 million in the first half 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 half of 2014 totaled \$35.8 million compared to \$57.3 million in the first half of 2013. As a percentage of sales, capital expenditures were 2.6% and 4.3% in the first half 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 \$101.0 million in 2014.

Net cash used in financing activities was \$16.1 million in the first half of 2014 and 2013, which solely consisted of dividend payments to shareholders. At June 28, 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.

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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)

Total cash dividend payments on common stock, on a per share basis, amounted to \$.60 in the first half of 2014 and 2013. At its regular meeting held in July, the Board of Directors unanimously approved a quarterly dividend of \$.30 per share, payable on August 4, 2014 to shareholders of record on July 21, 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.

The Company has no other commitment of capital resources as of June 28, 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 \$101.0 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, equity securities and 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. 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 six months ended June 28, 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 June 28, 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 June 28, 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 08/07/2014 /S/Jonathan H. Weis
Jonathan H. Weis
Vice Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

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Date 08/07/2014 /S/Scott F. Frost
Scott F. Frost
Senior Vice President, Chief Financial Officer
and Treasurer
(Principal Financial Officer)