

WEIS MARKETS INC  
Form 10-Q  
August 10, 2017  
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 July 1, 2017

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](http://www.weismarkets.com)

Not Applicable

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

Edgar Filing: WEIS MARKETS INC - Form 10-Q

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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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 [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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 10, 2017, there were issued and outstanding 26,898,443 shares of the registrant’s common stock.

---

WEIS MARKETS, INC.

TABLE OF CONTENTS

<u>FORM 10-Q</u>	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Income</u>	2
<u>Consolidated Statements of Comprehensive Income</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	16
<u>Item 4. Controls and Procedures</u>	16
<u>Part II. Other Information</u>	
<u>Item 6. Exhibits</u>	17
<u>Signatures</u>	17
<u>Exhibit 31.1 Rule 13a-14(a) Certification - CEO</u>	
<u>Exhibit 31.2 Rule 13a-14(a) Certification - CFO</u>	
<u>Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350</u>	

---

Table of Contents

## PART I – FINANCIAL INFORMATION

## ITEM I – FINANCIAL STATEMENTS

## WEIS MARKETS, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(dollars in thousands)	July 1, 2017	December 31, 2016
Assets		
Current:		
Cash and cash equivalents	\$ 17,582	\$ 14,653
Marketable securities	63,059	67,171
SERP investment	13,206	11,154
Accounts receivable, net	76,024	96,170
Inventories	267,077	276,783
Prepaid expenses and other current assets	14,457	16,310
Income taxes recoverable	715	1,625
Total current assets	452,120	483,866
Property and equipment, net	870,507	878,195
Goodwill	52,330	52,330
Intangible and other assets, net	17,737	16,913
Total assets	\$ 1,392,694	\$ 1,431,304
Liabilities		
Current:		
Accounts payable	\$ 178,732	\$ 199,159
Accrued expenses	32,187	50,947
Accrued self-insurance	13,186	19,330
Deferred revenue, net	4,815	6,730
Total current liabilities	228,920	276,166
Long-term debt	51,951	64,476
Postretirement benefit obligations	15,758	15,277
Accrued self-insurance	21,353	21,353
Deferred income taxes	125,076	119,445
Other	8,876	7,865
Total liabilities	451,934	504,582
Shareholders' Equity		
Common stock, no par value, 100,800,000 shares authorized, 33,047,807 shares issued, 26,898,443 shares outstanding	9,949	9,949
Retained earnings	1,076,950	1,062,778

Edgar Filing: WEIS MARKETS INC - Form 10-Q

Accumulated other comprehensive income (Net of deferred taxes of \$3,256 in 2017 and \$3,382 in 2016)	4,718	4,852
	1,091,617	1,077,579
Treasury stock at cost, 6,149,364 shares	(150,857)	(150,857)
Total shareholders' equity	940,760	926,722
Total liabilities and shareholders' equity	\$ 1,392,694	\$ 1,431,304
See accompanying notes to Consolidated Financial Statements.		

1

---

Table of Contents

WEIS MARKETS, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except shares and per share amounts)	13 Weeks Ended		26 Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Net sales	\$ 876,569	\$ 730,433	\$ 1,728,798	\$ 1,468,637
Cost of sales, including warehousing and distribution expenses	636,690	528,495	1,259,123	1,059,588
Gross profit on sales	239,879	201,938	469,675	409,049
Operating, general and administrative expenses	212,161	177,881	421,707	353,723
Income from operations	27,718	24,057	47,968	55,326
Investment income and interest expense	412	682	1,236	1,319
Income before provision for income taxes	28,130	24,739	49,204	56,645
Provision for income taxes	9,655	9,474	18,893	21,252
Net income	\$ 18,475	\$ 15,265	\$ 30,311	\$ 35,393
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	\$ 0.69	\$ 0.57	\$ 1.13	\$ 1.32
See accompanying notes to Consolidated Financial Statements.				

Table of Contents

WEIS MARKETS, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(dollars in thousands)	13 Weeks Ended		26 Weeks Ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Net income	\$ 18,475	\$ 15,265	\$ 30,311	\$ 35,393
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 \$137 and \$353, respectively for the 13 Weeks Ended and \$126 and \$922, respectively for the 26 Weeks Ended)	(198)	506	(134)	1,322
Reclassification adjustment for gains included in net income				
(Net of deferred taxes of \$0 and \$111, respectively for the 26 Weeks Ended)	-	-	-	(158)
Other comprehensive income (loss), net of tax	(198)	506	(134)	1,164
Comprehensive income, net of tax	\$ 18,277	\$ 15,771	\$ 30,177	\$ 36,557
See accompanying notes to Consolidated Financial Statements.				

Table of Contents

WEIS MARKETS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)	26 Weeks Ended	
	July 1, 2017	June 25, 2016
Cash flows from operating activities:		
Net income	\$ 30,311	\$ 35,393
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42,160	36,987
(Gain) loss on disposition of fixed assets	(1,034)	58
Gain on sale of marketable securities	-	(269)
Deferred income taxes	5,757	(4,775)
Changes in operating assets and liabilities:		
Inventories	9,706	5,601
Accounts receivable and prepaid expenses	21,429	19,745
Accounts payable and other liabilities	(40,409)	(25,187)
Income taxes	910	6,072
Other	490	729
Net cash provided by operating activities	69,320	74,354
Cash flows from investing activities:		
Purchase of property and equipment	(40,334)	(54,474)
Proceeds from the sale of property and equipment	2,106	146
Purchase of marketable securities	(6,788)	(1,284)
Proceeds from maturities of marketable securities	5,802	835
Proceeds from the sale of marketable securities	4,806	15,213
Purchase of intangible assets	(1,267)	(728)
Change in SERP investment	(2,052)	(1,264)
Net cash used in investing activities	(37,727)	(41,556)
Cash flows from financing activities:		
Payments on long-term debt	(12,525)	-
Dividends paid	(16,139)	(16,139)
Net cash used in financing activities	(28,664)	(16,139)
Net increase in cash and cash equivalents	2,929	16,659
Cash and cash equivalents at beginning of year	14,653	17,596
Cash and cash equivalents at end of period	\$ 17,582	\$ 34,255

See accompanying notes to Consolidated Financial Statements. There was \$12.4 million paid for income taxes in the first half of 2017 and \$19.7 million paid for income taxes in the first half of 2016. Cash paid for interest related to long-term debt was \$540 thousand and \$0 in the first half of 2017 and 2016, respectively.





Table of Contents

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), as amended by several subsequent ASU's, which 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. In August 2015, the FASB issued a one-year deferral of the effective date of this new guidance resulting in it now being effective for the Company beginning in fiscal year 2018. The Company is currently in the process of evaluating the impact of adoption of the ASU. The Company expects that the adoption of the ASU will not have a significant impact on the Company's point of sale product sales. The Company expects to adopt the new standard using the full retrospective method beginning December 31, 2017 and will further disclose the impact to the financial statements at that point.

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

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). ASU 2016-02 requires lessees to recognize assets and liabilities for the rights and obligations created by their leases with lease terms more than 12 months. ASU 2016-02 will become effective for annual periods beginning after December 15, 2018 and for interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of the ASU and expects the adoption to have a significant impact on the Company's Consolidated Balance Sheet.

In March 2016, the FASB issued ASU 2016-04 Liabilities – Extinguishments of Liabilities (Subtopic 405-20) Recognition of Breakage for Certain Prepaid Stored-Value Products. ASU 2016-04 requires that an entity must disclose the methodology and specific judgements made in applying the breakage recognized. ASU 2016-04 will become effective for the financial statements issued for the fiscal years beginning after December 15, 2017. Early application is permitted including adoption in an interim period. The Company expects that the adoption of the ASU will not have a significant impact on the Company's Consolidated Financial Statements.

Table of Contents

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 within "Current Assets" in the Company's Consolidated Balance Sheets. FASB has established three levels of inputs that may be used to measure fair value:

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

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

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

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

For Level 2 investment valuation, the Company utilizes standard pricing procedures of its investment advisory firm which includes 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.

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 and interest expense" on the Company's Consolidated Statements of Income. Investment income was \$672 thousand and \$1.8 million in the second quarter and the first half of 2017, respectively. Investment income was \$682 thousand and \$1.3 million in the second quarter and the first half of 2016, respectively.

Marketable securities, as of July 1, 2017 and December 31, 2016, consisted of:

Gross      Gross

Edgar Filing: WEIS MARKETS INC - Form 10-Q

(dollars in thousands)	Amortized	Unrealized	Unrealized	Fair
July 1, 2017	Cost	Holding	Holding	Value
		Gains	Losses	
Available-for-sale:				
Level 1				
Equity securities	\$ 1,198	\$ 7,034	\$ -	\$ 8,232
Level 2				
Municipal bonds	53,888	1,039	(100)	54,827
	\$ 55,086	\$ 8,073	\$ (100)	\$ 63,059

(dollars in thousands)	Amortized	Gross	Gross	Fair
December 31, 2016	Cost	Unrealized	Unrealized	Value
		Holding	Holding	
		Gains	Losses	
Available-for-sale:				
Level 1				
Equity securities	\$ 1,198	\$ 8,162	\$ -	\$ 9,360
Level 2				
Municipal bonds	57,739	531	(459)	57,811
	\$ 58,937	\$ 8,693	\$ (459)	\$ 67,171

Maturities of marketable securities classified as available-for-sale at July 1, 2017, were as follows:

(dollars in thousands)	Amortized	Fair
	Cost	Value
Available-for-sale:		
Due within one year	\$ 6,154	\$ 6,213
Due after one year through five years	25,830	26,176
Due after five years through ten years	21,904	22,438
Equity securities	1,198	8,232
	\$ 55,086	\$ 63,059

Table of Contents

WEIS MARKETS, INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## (3) Marketable Securities (continued)

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

## (4) Accumulated Other Comprehensive Income

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

(dollars in thousands)	Unrealized Gains on Available-for-Sale Marketable Securities
Accumulated other comprehensive income balance as of December 31, 2016	\$ 4,852
Other comprehensive loss before reclassifications	(134)
Amounts reclassified from accumulated other comprehensive income	-
Net current period other comprehensive loss	(134)
Accumulated other comprehensive income balance as of July 1, 2017	\$ 4,718

Edgar Filing: WEIS MARKETS INC - Form 10-Q

The following table sets forth the effects on net income of the amounts reclassified out of accumulated other comprehensive income for the periods ended July 1, 2017 and June 25, 2016.

(dollars in thousands)	Location	Gains Reclassified from Accumulated Other Comprehensive Income to the Consolidated Statements of Income			
		13 Weeks Ended July 1, 2017	26 Weeks Ended June 25, 2016	13 Weeks Ended July 1, 2017	26 Weeks Ended June 25, 2016
Unrealized gains on available-for-sale marketable securities	Investment income	\$ -	\$ -	\$ -	\$ 269
	Provision for income taxes	-	-	-	(111)
Total amount reclassified, net of tax		\$ -	\$ -	\$ -	\$ 158

(5) Acquisitions

On August 1, 2016, the Company purchased five Mars Super Market stores located in Maryland. Weis Markets, Inc. acquired these locations and their operations in an effort to expand its presence in the Baltimore County region. The results of operations of the former Mars Super Market acquisition are included in the accompanying Consolidated Financial Statements from the date of acquisition. The five former Mars Super Market stores contributed \$22.7 million and \$45.9 million to sales in the second quarter and the first half of 2017, respectively. The cash purchase price paid was \$24.6 million for the property, equipment, inventories, prepaid expenses and goodwill related to this purchase. The Company accounted for this transaction as a business combination in accordance with the acquisition method. The fair value of intangibles was determined based on the discounted cash flow model and property and equipment were determined based on external appraisals. Weis Markets, Inc. assumed two lease obligations in the acquisition of the former Mars Super Market stores and entered into two new lease agreements. Goodwill of \$13.3 million has been recorded, based upon the expected benefits to be derived from new management business strategy and cost synergies. The goodwill is deductible for tax purposes.





Table of Contents

WEIS MARKETS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(5) Acquisitions (continued)

In September 2016, the Company began its acquisition of 38 former Food Lion, LLC stores. Within eight weeks, ending in October 2016, Weis Markets acquired 21 Maryland, 13 Virginia and 4 Delaware former Food Lion, LLC stores. The results of operations of the 38 former Food Lion, LLC stores are included in the accompanying Consolidated Financial Statements from the date of acquisition. The Company accounted for this transaction as a business combination in accordance with the acquisition method. The fair value of intangibles was determined based on the discounted cash flow model and property and equipment were determined based on external appraisals. The acquired locations were part of a FTC forced divestiture in the approval process of the merger of Ahold and Delhaize Group, which resulted in a below fair value purchase price consideration. The cash purchase price paid was \$29.4 million for the property, equipment, inventories, prepaid expenses and liabilities. Weis Markets, Inc. assumed thirty lease obligations and ownership of eight locations. The Company recognized a gain of \$23.9 million on the purchase of the 38 former Food Lion, LLC stores. The 38 former Food Lion, LLC stores contributed \$95.2 million and \$188.9 million to sales in the second quarter and the first half of 2017, respectively.

On October 30, 2016, Weis Markets acquired a former Nell's Family Market store located in East Berlin, Pa from C&S Wholesale Grocers. The results of operations of the former Nell's Family Market acquisition are included in the accompanying Consolidated Financial Statements from the date of acquisition. The purchase price was \$13.0 million, of which \$3.4 million is payable over a 4 year term for the property, equipment, inventory, prepaid expenses and liabilities. The Company accounted for this transaction as a business combination in accordance with the acquisition method. The fair value of intangibles was determined based on the discounted cash flow model and property and equipment were determined based on external appraisals. The former Nell's Family Market contributed \$4.6 million and \$8.7 million to sales in the second quarter and the first half of 2017, respectively. Goodwill of \$3.9 million has been recorded, based upon the expected benefits to be derived from new management business strategy and cost synergies. The goodwill is deductible for tax purposes.

The pro forma information includes historical results of operations of the 38 former Food Lion Supermarket and 5 former Mars Super Market stores but does not include efficiencies, cost reductions, synergies or investments in lower prices for the Company's customers expected to result from the acquisitions. The unaudited pro forma financial information is not necessarily indicative of the results that actually would have occurred had the 38 former Food Lion Supermarket and the 5 former Mars Super Market stores been acquired at the beginning of 2016. Pro forma results of sales, assuming the acquisitions had taken place at the beginning of 2016, are included in the following table. The Company does not have reliable information to provide additional pro forma disclosures.

13 Weeks Ended

26 Weeks Ended

(dollars in thousands)	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Sales	\$ 876,569	\$ 870,645	\$ 1,728,798	\$ 1,748,968

#### (6) Long-Term Debt

On September 1, 2016, Weis Markets entered into a revolving credit agreement with Wells Fargo Bank, National Association (the Credit Agreement). The Credit Agreement provides for an unsecured revolving credit facility with an aggregate principal amount not to exceed \$100.0 million with an additional discretionary amount available of \$50.0 million. On March 13, 2017, the unsecured revolving credit facility was increased to \$120.0 million. As of July 1, 2017, \$52.0 million of the available \$120.0 million was borrowed from the credit facility. The loan will bear interest on the outstanding principal amount at the one month LIBOR rate plus the applicable margin rate of 0.65% until its maturity on September 1, 2019. The loan was used to fund the recent acquisitions and the Company's working capital requirements. The only financial covenant in the credit facility requires the Company's trailing twelve month EBITDA to be at least \$75.0 million. The Credit Agreement is also being utilized by the Company for \$15.2 million of outstanding letters of credit as of July 1, 2017. 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.

Interest expense related to long-term debt for the period ended July 1, 2017 was \$260 thousand and \$533 thousand for the second quarter and the first half of 2017, respectively.

Table of Contents

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 31, 2016, filed with the U.S. Securities and Exchange Commission, as well as the cautionary statement captioned "Forward-Looking Statements" immediately following this analysis.

Company Summary

Weis Markets is a conventional supermarket chain that operates 204 retail stores with a total of 23,000 associates located in Pennsylvania and six surrounding states: Delaware, Maryland, New Jersey, New York, Virginia and West Virginia. Its products sold include 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 store product selection includes national, local and private brands and the Company promotes by using Everyday Low Price, Low Price Guarantee and Loyalty programs. The Loyalty program includes fuel rewards that may be redeemed at the Company's fuel stations or one of its third party fuel station partners.

Utilizing its own centrally located distribution center and transportation fleet, Weis Markets self distributes approximately 67% of product with the remaining being supplied by direct store vendors. In addition, the Company has three manufacturing facilities which process milk, ice cream and fresh meat products. The corporate offices are located in Sunbury, Pa where the Company was founded in 1912. The Company's operations are reported as a single reportable segment.

In 2016, Weis Markets acquired five Mars Super Market locations in Baltimore County, Md, 38 Food Lion stores throughout Maryland, Virginia and Delaware, and a Nell's Family Market in East Berlin, Pa. The completion of these individual acquisitions expanded the Company's footprint into Virginia and Delaware, and increased its store count by 25 percent. Beginning August 1, 2016, the Company converted the 44 stores to Weis Markets stores in 96 days ending in November, during which it interviewed and hired more than 2,000 team members who were previously employed at the acquired locations. In 2017, the acquired store group is providing a positive cash flow for the Company as management continues to develop the stores using its business model. Although there are no pending acquisitions, the Company continues to investigate acquisition opportunities as well as grow its existing store base organically.

On March 9, 2017, the Company opened its new 65,000 square-foot prototype store next to a major competitor in Enola, Pa. Designated the “Community Market” format, the store features a brand new store layout and unique features to elevate the shopping experience including a pub, grill and ice cream parlor, featuring the Company’s own ice cream. The store contains a Pennsylvania foods section and more than 1,900 organic and gluten-free products, along with a mix-and-match pick K-cup 12-packs section and a Chobani Yogurt Bar. The Company plans to review the success of the new features and utilize them where appropriate in other stores.

9

---

Table of Contents

WEIS MARKETS, INC.

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

(continued)

## Results of Operations

## Analysis of Consolidated Statements of Income

	13 Weeks Ended		26 Weeks Ended		Percentage Changes			
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016	2017 vs. 2016 13 Weeks Ended	2017 vs. 2016 26 Weeks Ended		
(dollars in thousands except per share amounts)								
Net sales	\$ 876,569	\$ 730,433	\$ 1,728,798	\$ 1,468,637	20.0	%	17.7	%
Cost of sales, including warehousing and distribution expenses	636,690	528,495	1,259,123	1,059,588	20.5		18.8	
Gross profit on sales	239,879	201,938	469,675	409,049	18.8		14.8	
Gross profit margin	27.4 %	27.6 %	27.2 %	27.9 %				
Operating, general and administrative expenses	212,161	177,881	421,707	353,723	19.3		19.2	
O, G & A, percent of net sales	24.2 %	24.4 %	24.4 %	24.1 %				
Income from operations	27,718	24,057	47,968	55,326	15.2		(13.3)	
Operating margin	3.2 %	3.3 %	2.8 %	3.8 %				
Investment income and interest expense	412	682	1,236	1,319	(39.6)		(6.3)	
Investment income and interest expense, percent of net sales	0.1 %	0.1 %	0.1 %	0.1 %				
Income before provision for income taxes	28,130	24,739	49,204	56,645	13.7		(13.1)	
Income before provision for income taxes, percent of net sales	3.2 %	3.4 %	2.8 %	3.9 %				
Provision for income taxes	9,655	9,474	18,893	21,252	1.9		(11.1)	
Effective income tax rate	34.3 %	38.3 %	38.4 %	37.5 %				
Net income	\$ 18,475	\$ 15,265	\$ 30,311	\$ 35,393	21.0	%	(14.4)	%
Net income, percent of net sales	2.1 %	2.1 %	1.8 %	2.4 %				
Basic and diluted earnings per share	\$ 0.69	\$ 0.57	\$ 1.13	\$ 1.32	21.0	%	(14.4)	%



Table of Contents

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

## Results of Operations (continued)

## Net Sales

## Analysis of Sales

	Percentage Changes			
	2017 vs. 2016			
	13 Weeks		26 Weeks	
July 1, 2017	Ended		Ended	
Net sales	20.0	%	17.7	%
Net sales, excluding fuel sales	20.2		17.7	
Comparable store sales	3.7		1.7	
Comparable store sales, excluding fuel sales	3.4		1.2	
Comparable store sales, adjusted for holiday impact	2.7		1.9	
Comparable store sales, adjusted for holiday impact, excluding fuel sales	2.3		1.4	
Average sales per customer transaction	0.8		(1.3)	
Identical customer store visits	0.5	%	0.6	%

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.

The Company's second quarter 2017 sales benefited from the Easter holiday, which fell in the first quarter last year. In 2016, Easter sales week occurred on the last week of the first quarter. Management estimates the incremental Easter holiday sales impact was approximately \$7.1 million in the second quarter. Due to the Company's 2016 fiscal year being comprised of 53 weeks, the first quarter of 2017 did not include a New Year holiday sales week. Management estimates the incremental holiday sales impact was approximately \$3 million during the first half of the year.

According to the latest U.S. Bureau of Labor Statistics' report, the annual Seasonally Adjusted Food-at-Home Consumer Price Index decreased 1.5% compared to a decrease of 0.1% 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. According to the U.S. Department of Energy, the thirteen week average price of gasoline in the Central Atlantic States increased 7.7% or \$0.19 per gallon in the second quarter of 2017 compared to the same quarter in 2016. The 2017 twenty-six week average price of gasoline for the Central Atlantic States increased 14.5% or \$0.33 per gallon.

The Company experienced significant deflation for the second quarter of 2017 in meat, produce and bakery items while grocery, dairy and general merchandise items were slightly inflationary. Comparing the first half of 2017 to the first half of 2016, the majority of the items sold were at lower prices than a year ago. By increasing the number of items sold, the Company was partially able to offset the impact of deflation. Pharmacy sales increased as script counts grew proportionally. Fuel sales benefited from inflation as comparable fuel sales rose 11.9% and 15.0% during the second quarter and the first half of 2017, respectively. In addition, the impact of winter weather events in the first half of 2017 and 2016, negatively affected the sales comparison by an estimated \$7 million on a comparable store basis.

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

#### Cost of Sales and Gross Profit

Cost of sales consists of direct product costs (net of discounts and allowances), distribution center and transportation costs, as well as manufacturing facility operations. Almost all of the increase in cost of sales in 2017 as compared to 2016 is due to the increased sales volume in 2017. Both direct product cost and distribution cost increase when sales volume increases.



Table of Contents

WEIS MARKETS, INC.

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

(continued)

Results of Operations (continued)

Cost of Sales and Gross Profit (continued)

The majority of the 0.2% decline in gross profit margin in the second quarter of 2017 as compared to the same period in the prior year was attributable to the increased transportation costs for the acquired stores that are further from the Company's distribution center. The majority of the 0.7% decline in gross profit margin between the first half of 2017 and 2016 occurred in the first quarter of 2017 and was attributable to lower than average winter sales volume due to lack of winter weather events. Decreased sales volume negatively impacts the gross profit margin by increasing inventory shrinkage, increasing fixed distribution costs comparative rate and decreasing the margin between product cost and retail pricing in a deflationary market due to slower inventory turns.

Non-cash LIFO inventory valuation adjustments changed from expense of \$0.2 million and \$0.9 million for the second quarter and the first half of 2016, respectively, to income of \$0.5 million and \$0.6 million for the same periods in 2017, accounting for 0.1% of the gross profit increase in the second quarter of 2017 versus the same period in 2016.

Although the Company experienced product cost inflation and deflation in various commodities for the quarters presented, management cannot accurately measure the full impact of inflation or deflation on costs 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

The majority of the increase in operating, general and administrative expenses was driven by increased sales volume.

Employee-related costs such as wages, employer paid taxes, health care benefits and retirement plans, comprise approximately 60% of the total "Operating, general and administrative expenses." As a percent of sales, direct store labor decreased 0.3% and 0.1% in the second quarter and the first half of 2017, respectively, compared to the same periods in 2016. The Company continues to monitor store labor efficiencies and develop labor standards to reduce cost while maintaining the Company's customer service expectations.

The Company's self-insured health care benefit expenses decreased \$213 thousand or 3.3% and \$689 thousand or 5.7% in the second quarter and the first half of 2017, respectively, compared to the same periods last year. The variance is mainly attributed to a decrease in claims costs. However, the Company remains concerned about the impact that The Patient Protection and Affordable Care Act (ACA) will have on its future operating expenses.

Depreciation and amortization expense was \$21.2 million, or 2.4% of net sales during the second quarter of 2017 compared to \$18.6 million or 2.5% of net sales during the second quarter of 2016. Depreciation and amortization expense was \$42.1 million, or 2.4% of net sales during the first half of 2017 compared to \$37.0 million or 2.5% of net sales during the first half of 2016. The increase in depreciation and amortization expense was the result of additional capital expenditures as the Company implements its capital expansion program and the 2016 acquisitions. See the Liquidity and Capital Resources section for further information regarding the Company's capital expansion program.

Table of Contents

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

## Results of Operations (continued)

## Operating, General and Administrative Expenses (continued)

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

(dollars in thousands)	13 Weeks Ended		
	Increase	Increase (Decrease)	as a % of
July 1, 2017	(Decrease)	sales	
Employee-related expenses	\$ 14,977	(0.8)	%
Depreciation and amortization	2,404	(0.1)	
Utility expense	2,075	0.1	
Advertising expense	2,753	0.2	
Rent expense	2,559	0.1	
Third-party services and repairs	\$ 5,762	0.3	%

  

(dollars in thousands)	26 Weeks Ended		
	Increase	Increase (Decrease)	as a % of
July 1, 2017	(Decrease)	sales	
Employee related expenses	\$ 33,441	(0.3)	%
Depreciation and amortization	4,789	(0.1)	
Financial transaction fee expense	3,177	0.1	
Utility expense	4,116	0.1	
Advertising expense	3,794	0.1	

Edgar Filing: WEIS MARKETS INC - Form 10-Q

Rent expense	5,201	0.1	
Third-party services and repairs	\$ 11,516	0.3	%

The dollar amount increases in the above expense items are primarily driven by the acquisition of five former Mars Super Market stores, 38 former Food Lion stores and a former Nell's Family Market store in the second half of 2016. The Company expects the percent of sales to decrease over time as it develops the acquisition stores' sales and implements cost saving strategies.

Employee-related expenses increased in 2017 for the reasons noted above, primarily related to increases in sales volume. Hourly employees, particularly part time employees, are required to work increased hours when there is growth in sales volume. Increases in employee related expenses were offset by continued savings realized from a store labor efficiency project in 2015 and decreases in insurance claims costs.

Depreciation and amortization increased in 2017 for the reasons noted above and as a result of the Company's store capital expenditure program and technology investments.

Advertising expense increased as a result of the 2016 acquisitions and strategic investments in broadcast advertising.

Table of Contents

WEIS MARKETS, INC.

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

(continued)

Results of Operations (continued)

Provision for Income Taxes

The effective income tax rate was 38.4% and 37.5% in the first half of 2017 and 2016, respectively. The increase in the effective income tax rate is due to a discrete item recorded in the first quarter of 2017. Historically, the effective income tax rate differed from the federal statutory rate, primarily due to the effect of state taxes, net of permanent differences.

Liquidity and Capital Resources

The primary sources of cash are cash flows generated from operations and borrowings under the 2016 revolving credit agreement from Wells Fargo Bank, NA. The Company's revolving credit agreement has a principal amount of \$100.0 million with an additional discretionary availability of \$50.0 million. On March 13, 2017, the Company was approved to access \$20.0 million of the discretionary amount bringing the Company's immediate borrowing capacity to \$120.0 million. As of July 1, 2017 the Company's unused availability under the revolving credit agreement was \$52.8 million with \$52.0 million of borrowings outstanding and \$15.2 million of letters of credit outstanding. 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. On July 17, 2017, the Company decided to reduce the unsecured revolving credit facility to \$100.0 million.

The Company's investment portfolio consists of marketable securities, which currently includes municipal bonds and equity securities. As of July 1, 2017, the portfolio totaled \$63.1 million. Management anticipates maintaining the investment portfolio, but has the ability to liquidate if needed.

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 currently plans to invest approximately \$90.0 million in its capital expansion program in 2017.

The Company expects that cash generated from operations and available under the 2016 revolving credit agreement will fund its working capital requirements, debt requirements, capital expansion program, acquisitions and dividends. The Company has no other commitment of capital resources as of July 1, 2017, other than the lease commitments on its store facilities and transportation equipment under operating leases that expire at various dates through 2033.

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.

#### Quarterly Cash Dividends

At its regular meeting held in July, the Board of Directors unanimously approved a quarterly dividend of \$0.30 per share, payable on August 14, 2017 to shareholders of record on July 31, 2017. The Company expects to continue paying regular cash dividends on a quarterly basis. However, the Board of Directors reconsiders the declaration of dividends quarterly. The Company pays these dividends at the discretion of the Board of Directors and the continuation of these payments and the amount of the dividends depends upon the results of operations, the financial condition of the Company and other factors which the Board of Directors deems relevant.

Table of Contents

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

## Liquidity and Capital Resources (continued)

## Cash Flow Information

(dollars in thousands)	26 Weeks Ended		2017 vs. 2016
	July 1, 2017	June 25, 2016	
Net cash provided by (used in):			
Operating activities	\$ 69,320	\$ 74,354	\$ (5,034)
Investing activities	(37,727)	(41,556)	3,829
Financing activities	(28,664)	(16,139)	(12,525)

## Operating

Cash flows from operating activities decreased in the first half of 2017 as compared to the first half of 2016 mainly as a result of long-term incentive payments to associates of \$11.8 million paid in the first quarter of 2017.

## Investing

Property and equipment purchases during the first half of 2017 totaled \$40.3 million compared to \$54.5 million in the first half of 2016. The decrease of \$14.2 million was partially attributable to the Company purchasing five properties in the first half of 2016. As a percentage of sales, capital expenditures were 2.3% and 3.7% in the first half of 2017 and 2016, respectively. In 2016, the Company sold \$15.2 million of marketable securities as it prepared to finance future acquisitions. In 2017, the Company plans to maintain its marketable securities portfolio at its current level.

## Financing

The Company paid dividends of \$16.1 million in the first half of both 2017 and 2016. In 2017, payments on the revolving credit agreement increased net cash used in financing activities by \$12.5 million. The Company anticipates payments on the revolving credit agreement to continue throughout the remainder of 2017.

## 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 2016 Annual Report on Form 10-K. There have been no changes to the Significant Accounting Policies since the Company filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

## 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.



Table of Contents

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 fiscal quarter ended July 1, 2017. Quantitative information is set forth in Item 7a on the Company's Annual Report on Form 10-K under the caption "Quantitative and Qualitative Disclosures About Market Risk," which was filed for the fiscal year ended December 31, 2016 and is incorporated herein by reference.

Qualitative Disclosure - This information is set forth in the Company's Annual Report on Form 10-K under the caption "Liquidity and Capital Resources," within "Management's Discussion and Analysis of Financial Condition and Results of Operations," which was filed for the fiscal year ended December 31, 2016 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 July 1, 2017. 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 July 1, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

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 thereunto duly authorized.

WEIS MARKETS, INC.  
(Registrant)

Date 08/10/2017 /S/Jonathan H. Weis  
Jonathan H. Weis  
Chairman,  
President and Chief Executive Officer  
(Principal Executive Officer)

Date 08/10/2017 /S/Scott F. Frost  
Scott F. Frost  
Senior Vice President, Chief Financial Officer

and Treasurer  
(Principal Financial Officer)

---