

WEIS MARKETS INC
Form 10-Q
August 08, 2013

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**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 29, 2013**

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
www.weismarkets.com

Registrant's web address:

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)
company

Smaller reporting

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

As of August 8, 2013, there were issued and outstanding 26,898,443 shares of the registrant's common stock.

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PART I - FINANCIAL INFORMATION
ITEM I - FINANCIAL STATEMENTS
WEIS MARKETS, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	<u>June 29, 2013</u> (unaudited)	<u>December 29, 2012</u>
<u>Assets</u>		
Current:		
Cash and cash equivalents	\$ 36,317	\$ 21,439
Marketable securities	75,277	82,501
Accounts receivable, net	55,232	53,842
Inventories	233,952	245,243
Prepaid expenses	<u>16,771</u>	<u>10,132</u>
Total current assets	<u>417,549</u>	<u>413,157</u>
Property and equipment, net	667,584	638,634
Goodwill	35,162	35,162
Intangible and other assets, net	<u>3,790</u>	<u>3,487</u>
Total assets	\$ <u>1,124,085</u>	\$ <u>1,090,440</u>
<u>Liabilities</u>		
Current:		
Accounts payable	\$ 121,357	\$ 126,258
Accrued expenses	28,968	27,193
Accrued self-insurance	19,367	18,544
Deferred revenue, net	4,436	6,635
Income taxes payable	5,835	1,359
Deferred income taxes	<u>5,194</u>	<u>3,420</u>
Total current liabilities	<u>185,157</u>	<u>183,409</u>
Postretirement benefit obligations	16,916	15,206
Deferred income taxes	92,814	89,109
Other	<u>6,458</u>	<u>7,026</u>
Total liabilities	<u>301,345</u>	<u>294,750</u>
<u>Shareholders' Equity</u>		
Common stock, no par value, 100,800,000 shares authorized, 33,047,807 shares issued	9,949	9,949
Retained earnings	959,748	931,579
Accumulated other comprehensive income (Net of deferred taxes of \$2,725 in 2013 and \$3,506 in 2012)	<u>3,900</u>	<u>5,019</u>
Treasury stock at cost, 6,149,364 shares	<u>(150,857)</u>	<u>(150,857)</u>
Total shareholders' equity	<u>822,740</u>	<u>795,690</u>
Total liabilities and shareholders' equity	\$ <u>1,124,085</u>	\$ <u>1,090,440</u>

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 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	\$ 662,072	\$ 677,097	\$ 1,344,784	\$ 1,338,707
Cost of sales, including warehousing and distribution expenses	<u>471,750</u>	<u>489,498</u>	<u>963,335</u>	<u>967,983</u>
Gross profit on sales	190,322	187,599	381,449	370,724
Operating, general and administrative expenses	<u>152,705</u>	<u>152,290</u>	<u>312,917</u>	<u>304,986</u>
Income from operations	37,617	35,309	68,532	65,738
Investment income	1,824	1,162	2,802	2,219
Other income	<u>---</u>	<u>414</u>	<u>---</u>	<u>414</u>
Income before provision for income taxes	39,441	36,885	71,334	68,371
Provision for income taxes	<u>15,262</u>	<u>13,681</u>	<u>27,027</u>	<u>25,142</u>
Net income	\$ <u>24,179</u>	\$ <u>23,204</u>	\$ <u>44,307</u>	\$ <u>43,229</u>
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	\$ 0.90	\$ 0.86	\$ 1.65	\$ 1.61

*See accompanying notes to consolidated financial statements.***Page 2 of 14 (Form 10-Q)**

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WEIS MARKETS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	<u>13 Weeks Ended</u>		<u>26 Weeks Ended</u>	
	<u>June 29, 2013</u>	<u>June 30, 2012</u>	<u>June 29, 2013</u>	<u>June 30, 2012</u>
Net income	\$ 24,179	\$ 23,204	\$ 44,307	\$ 43,229
Other comprehensive (loss) income by component, net of tax:				
Available-for-sale marketable securities				
Unrealized holding (losses) gains arising during period				
(Net of deferred taxes of \$600 and \$603 respectively for the 13 Weeks Ended and \$173 and \$517 respectively for the 26 Weeks Ended)	(964)	810	(358)	686
Reclassification adjustment for gains included in net income				
(Net of deferred taxes of \$587 and \$313 respectively for the 13 Weeks Ended and \$608 and \$314 respectively for the 26 Weeks Ended)	(735)	(392)	(761)	(394)
Other comprehensive (loss) income, net of tax	(1,699)	418	(1,119)	292
Comprehensive income, net of tax	\$ 22,480	\$ 23,622	\$ 43,188	\$ 43,521

See accompanying notes to consolidated financial statements.

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WEIS MARKETS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(dollars in thousands)

	26 Weeks Ended	
	<u>June 29, 2013</u>	<u>June 30, 2012</u>
Cash flows from operating activities:		
Net income	\$ 44,307	\$ 43,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	24,512	21,749
Amortization	3,511	3,014
(Gain) loss on disposition of fixed assets	(2,903)	278
Gain on sale of marketable securities	(1,369)	(708)
Gain on sale of intangible assets	(250)	---
Gain on acquisition of business	---	(414)
Changes in operating assets and liabilities:		
Inventories	11,291	(8,981)
Accounts receivable and prepaid expenses	(8,029)	(5,869)
Income taxes recoverable	---	1,187
Accounts payable and other liabilities	(3,360)	1,298
Income taxes payable	4,476	12,087
Deferred income taxes	6,260	(3,078)
Other	<u>(82)</u>	<u>356</u>
Net cash provided by operating activities	<u>78,364</u>	<u>64,148</u>
Cash flows from investing activities:		
Purchase of property and equipment	(57,276)	(40,358)
Proceeds from the sale of property and equipment	3,386	304
Purchase of marketable securities	(7,820)	(9,835)
Proceeds from maturities of marketable securities	650	---
Proceeds from the sale of marketable securities	13,945	17,436
Acquisition of business	---	(6,116)
Purchase of intangible assets	(483)	(90)
Proceeds from the sale of intangible assets	<u>250</u>	<u>---</u>
Net cash used in investing activities	<u>(47,348)</u>	<u>(38,659)</u>
Cash flows from financing activities:		
Dividends paid	<u>(16,138)</u>	<u>(16,138)</u>
Net cash used in financing activities	<u>(16,138)</u>	<u>(16,138)</u>
Net increase in cash and cash equivalents	14,878	9,351
Cash and cash equivalents at beginning of year	<u>21,439</u>	<u>37,392</u>
Cash and cash equivalents at end of period	\$ <u>36,317</u>	\$ <u>46,743</u>

See accompanying notes to consolidated financial statements.

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WEIS MARKETS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

(1) Significant Accounting Policies

Basis of Presentation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring deferrals and accruals) considered necessary for a fair presentation have been included. The operating results for the periods presented are not necessarily indicative of the results to be expected for the full year. 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 February 2013, FASB issued additional authoritative guidance on comprehensive income and the reporting of amounts reclassified out of accumulated other comprehensive income. This guidance requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This new guidance is effective prospectively for reporting periods beginning after December 15, 2012. Adoption of this new guidance required additional disclosures and presentation of items impacting other comprehensive income but did not have an impact on the Company's consolidated financial statements.

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WEIS MARKETS, INC.
NOTES TO 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 engages an independent firm to value a sample of the Company's municipal bond holdings in order to validate the investment's assigned fair value.

Marketable securities, as of June 29, 2013 and December 29, 2012, consisted of:

<i>(dollars in thousands)</i>	<u>Amortized</u>	<u>Gross</u> <u>Unrealized</u> <u>Holding</u>	<u>Gross</u> <u>Unrealized</u> <u>Holding</u>	<u>Fair</u>
<i>June 29, 2013</i>	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
Available-for-sale:				
<u>Level 1</u>				
Equity securities	\$ 1,074	\$ 7,467	\$ ---	\$ 8,541
<u>Level 2</u>				
Municipal bonds	<u>67,578</u>	<u>728</u>	<u>(1,570)</u>	<u>66,736</u>
	\$ <u>68,652</u>	\$ <u>8,195</u>	\$ <u>(1,570)</u>	\$ <u>75,277</u>
		<u>Gross</u> <u>Unrealized</u> <u>Holding</u>	<u>Gross</u> <u>Unrealized</u> <u>Holding</u>	<u>Fair</u>
<i>(dollars in thousands)</i>	<u>Amortized</u>	<u>Unrealized</u> <u>Holding</u>	<u>Unrealized</u> <u>Holding</u>	<u>Value</u>
<i>December 29, 2012</i>	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
Available-for-sale:				
<u>Level 1</u>				
Equity securities	\$ 1,136	\$ 7,714	\$ ---	\$ 8,850
<u>Level 2</u>				
Municipal bonds	<u>72,840</u>	<u>1,308</u>	<u>(497)</u>	<u>73,651</u>

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\$ 73,976 \$ 9,022 \$ (497) \$ 82,501

Maturities of marketable securities classified as available-for-sale at June 29, 2013, were as follows:

<i>(dollars in thousands)</i>	<u>Amortized</u> <u>Cost</u>	<u>Fair</u> <u>Value</u>
Available-for-sale:		
Due within one year	\$ 7,158	\$ 6,848
Due after one year through five years	41,983	41,447
Due after five years through ten years	16,936	16,940
Due after ten years	1,501	1,501
Equity securities	<u>1,074</u>	<u>8,541</u>
	<u>\$ 68,652</u>	<u>\$ 75,277</u>

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WEIS MARKETS, INC.
NOTES TO 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.

<i>(dollars in thousands)</i>	Unrealized Gains on Available-for-Sale Marketable Securities
Accumulated other comprehensive income balance as of December 29, 2012	\$ 5,019
Other comprehensive loss before reclassifications	(358)
Amounts reclassified from accumulated other comprehensive income	(761)
Net current period other comprehensive loss	(1,119)
Accumulated other comprehensive income balance as of June 29, 2013	\$ 3,900

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 29, 2013 and June 30, 2012.

		Gains (Losses) Reclassified from Accumulated Other Comprehensive Income to the Consolidated Statements of Income			
		13 Weeks Ended		26 Weeks Ended	
<i>(dollars in thousands)</i>	Location	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Unrealized gains on available-for-sale marketable securities	Investment income	\$ 1,322	\$ 705	\$ 1,369	\$ 708
	Provision for income taxes	(587)	(313)	(608)	(314)
Total amount reclassified, net of tax		\$ 735	\$ 392	\$ 761	\$ 394

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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 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 29, 2012, 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 29, 2013, the Company operated 164 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)*

					Percent	
					Changes	
					2013	
vs. 2012						
13 26						
Weeks Weeks						
Ended Ended						
13 Weeks Ended						
26 Weeks Ended						
June 29, June 30, June 29, June 30,						
2013 2012 2013 2012						
For the Periods Ended June 29, 2013 and June 30, 2012						
Net sales	\$ 662,072	\$ 677,097	\$ 1,344,784	\$ 1,338,707	(2.2)%	0.5 %
Cost of sales, including warehousing and distribution expenses	471,750	489,498	963,335	967,983	(3.6)	(0.5)
Gross profit on sales	190,322	187,599	381,449	370,724	1.5	2.9
Gross profit margin	28.7%	27.7%	28.4%	27.7%		
Operating, general and administrative expenses	152,705	152,290	312,917	304,986	0.3	2.6
O, G & A, percent of net sales	23.1%	22.5%	23.3%	22.8%		
Income from operations	37,617	35,309	68,532	65,738	6.5	4.3

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Operating margin	5.7%	5.2%	5.1%	4.9%		
Investment income	1,824	1,162	2,802	2,219	57.0	26.3
Investment income, percent of net sales	0.3%	0.2%	0.2%	0.2%		
Other income	---	414	---	414	(100.0)	(100.0)
Other income, percent of net sales	---	0.1%	---	0.0%		
Income before provision for income taxes	39,441	36,885	71,334	68,371	6.9	4.3
Provision for income taxes	15,262	13,681	27,027	25,142	11.6	7.5
Effective tax rate	38.7%	37.1%	37.9%	36.8%		
Net income	\$ 24,179	\$ 23,204	\$ 44,307	\$ 43,229	4.2 %	2.5 %
Net income, percent of net sales	3.7%	3.4%	3.3%	3.2%		
Basic and diluted earnings per share	\$ 0.90	\$ 0.86	\$ 1.65	\$ 1.61	4.7 %	2.5 %

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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)

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.

Net Sales

The Company's revenues are earned and cash is generated as merchandise is sold to customers at the point of sale. Discounts, except those provided by a vendor, are recognized as a reduction in sales as products are sold or over the life of a promotional program if redeemable in the future.

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 sales were affected by the Easter holiday period, which fell in the first quarter this year and the second quarter last year. Management estimates the holiday sales impact between the quarters was approximately \$8.6 million. Comparable store sales decreased 4.8%, while total store sales decreased 2.2% in the second quarter of 2013, compared to the same quarter in 2012. Excluding fuel sales, comparable store sales decreased 5.0% in the second quarter of 2013 compared to the same quarter in 2012, while total sales decreased 2.3%. The Company's year-to-date comparable store sales decreased 2.0%, while total store sales increased 0.5% compared to the first twenty-six weeks of 2012. Excluding fuel sales, the Company's year-to-date comparable store sales decreased by 2.3%, while total store sales increased 0.3% compared to the first half of 2012.

The Company's operating regions continue to be hindered by slow economic growth, high unemployment and declining household income, particularly in Northeastern Pennsylvania, New York's Southern Tier and parts of Central Pennsylvania. Many customers remain cautious in their spending and continue to focus on value and long-term savings. To meet these needs, the Company continued to make significant investments in its "Get Grillin'" and "Price Freeze" promotional programs. In March, the Company entered into another round of its "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. The Company also launched an eleventh round of its "Price Freeze" program on July 14, 2013. This program froze prices on more than 1,500 products for a thirteen-week period.

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-two Weis Gas-n-Go locations.

The Company continued to employ a disciplined marketing and advertising strategy, along with targeted promotional activity in key markets, to help maintain its market share and increase its profits. During the second quarter of 2013, the Company generated a 0.1% increase in average sales per customer transaction while the number of identical customer store visits decreased by 5.0%. The Company's year-to-date average sales per customer transaction increased 1.2%, while the number of identical customer store visits declined by 3.2%. The Company's Gold Card program, an extension of its existing Preferred Club Shopper program, which was launched in preparation for the Company's 100th anniversary celebration in 2012, remains in place. The Gold Card program targets the Company's best shoppers with personalized offers and strong values to help them save money.

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

Results of Operations (continued)

Comparable pharmacy sales decreased 5.2% in the second quarter of 2013 and 5.9% year-to-date, compared to the same periods in 2012. Due to the conversion of brand drugs to generic, pharmacy sales in 2013 were impacted by a \$5.0 million and \$11.5 million decline for the second quarter and year-to-date, respectively, compared to the same periods in 2012. The brand to generic conversion of Lipitor and Plavix has now cycled, allowing the Company to generate more comparable prescription sales for the remaining of the fiscal year. However, the Company anticipates significant brand to generic conversions to occur over the next year. Generics are sold at lower retail prices, decreasing total pharmacy sales. As part of management's strategy to offset this decline, the Company has expanded its immunization programs.

Comparable petroleum sales decreased 9.9% in the second quarter of 2013 and 8.3% year-to-date, compared to the same periods in 2012. The decline is attributed to a combination of fewer gallons sold and decreasing retail gas prices. The Company's average retail price among the Weis Gas-n-Go locations decreased \$0.04 from the second quarter of 2013 compared to the same quarter in 2012. Comparable meat sales decreased 5.7% in the second quarter of 2013 and 2.4% year-to-date, compared to the same periods in 2012. Meat sales were impacted by customers continuing to shift their purchasing behavior to lower retailed items and the Company running more aggressive meat ads to drive business, causing some sales deflation compared to last year. Comparable frozen food sales decreased 5.5% in the second quarter of 2013 and 4.0% year-to-date, compared to the same periods last year. Even though the Company's overall sales declined in the second quarter of 2013, comparable produce sales increased 1.0% year-to-date, compared to the first half of 2012. This increase is attributed to an increase in produce units sold, solid in-store execution of merchandising plans and hotter ads in key categories.

The Company is committed to maintaining retail prices, but recognizes that inflationary pressures could cause the Company to raise prices in order to maintain margin rates.

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), warehouse and transportation costs, as well as manufacturing facility operations.

In 2013, management implemented new inventory control buying procedures that will increase warehouse efficiencies. Under this new buying procedure, a decrease in inventories in the Company's warehouse is expected. Holding less inventory helps increase product freshness, reduce product spoilage and improve inventory shrink. The Company's inventories have decreased by \$11.3 million since the beginning of the 2013.

According to the latest U.S. Bureau of Labor Statistics' report, the annual Seasonally Adjusted Food-at-Home Consumer Price Index increased 1.1% compared to an increase of 4.8% for the same period last year. The annual Seasonally Adjusted Producer Price Index for Finished Consumer Foods increased at a rate of 2.6% as of the second quarter of 2013 compared to an increase of 5.2% as of the second quarter of 2012. Despite fluctuating retail and wholesale prices, in 2013, the Company has been able to maintain a gross profit rate of 28.7% and 28.4% for the quarter and year-to-date, respectively, compared to a gross profit rate of 27.2% for both the quarter and year-to-date in 2012. 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.

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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 2013 compared to the same periods in 2012. According to the U.S. Department of Energy, the average diesel fuel price for the Central Atlantic States increased \$0.08 per gallon to \$3.90 per gallon as of June 24, 2013, compared to \$3.82 per gallon as of June 25, 2012. Based upon the U.S. Energy Information Administration's current projections, the Company is expecting diesel fuel prices to remain fairly steady throughout the rest of 2013.

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 and deflation on retail pricing due to changes in the types of merchandise sold between periods, shifts in customer buying patterns and the fluctuation of competitive factors.

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.

Employee-related costs such as wages, employer paid taxes, health care benefits and retirement plans, comprise over 60% of the total operating, general and administrative expenses. Employee-related costs increased 0.6% in the second quarter and 3.6% in the first half of 2013, compared to the same periods last year. As a percent of sales, employee-related costs increased 0.4% in the second quarter and 0.5% year-to-date compared to the same periods in 2012. 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 increased 0.6% compared to the second quarter and 0.4% in the first half of 2013 compared to the same periods in 2012.

Depreciation and amortization expense was \$14.2 million, or 2.2% of net sales, for the second quarter 2013 compared to \$12.4 million, or 1.8% of net sales for the second quarter 2012. Depreciation expense was \$28.0 million, or 2.1% of net sales, for the first half of 2013 compared to \$24.8 million, or 1.8% of net sales, for the first half of 2012. The increase in depreciation expense, in total dollars, 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's interchange fees for accepting credit and debit cards decreased 0.8% in the second quarter of 2013 and increased 0.6% year-to-date, compared to the same periods in 2012. The Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act authorized the Federal Reserve to set rules to implement caps on debit card interchange fees. As a result of these rules, the Company estimates that its "Operating, general and administrative

expenses" were impacted by a 0.20% decline in debit card interchange fees as a percent of debit card sales.

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. The Company's utility expense decreased \$314,000 or 3.3% in the second quarter but increased \$269,000 or 1.4% year-to-date, compared to the same periods in 2012. The decrease in the second quarter is attributed to the Mid-Atlantic States, the Company's operating region, having cooler temperatures. The cooler weather allowed the Company's refrigeration and air conditioning units to use less energy to maintain temperatures. However, in the first quarter of 2013, the Company's operating region had below-average temperatures compared to the first quarter of 2012, increasing heating expenses. The higher heating expenses in the first quarter offset the favorable cooling expenses experienced in the second quarter, resulting in an increase in utilities expense year-to-date.

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(continued)

Results of Operations (continued)

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. Management does not foresee a change in these trends in the near future.

Other Income

Upon completion, the Company recognized a gain of \$414,000 on the bargain purchase of three former Genuardi locations in the Delaware Valley region of Pennsylvania, from Safeway Inc., in the second quarter of 2012.

Investment Income

The Company's investment portfolio consists of marketable securities which currently includes municipal bonds and equity securities. The Company classifies all of its marketable securities as available-for-sale. In 2013, investment income increased \$662,000 in the second quarter and \$583,000 year-to-date compared to the same periods in 2012, primarily due to a \$511,000 increase in gains recognized on the sale of equity securities in the second quarter.

Provision for Income Taxes

The effective income tax rate was 37.9% in the first half of 2013 compared to 36.8% in the first half of 2012. 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 2013, the Company generated \$78.4 million in cash flows from operating activities compared to \$64.1 million for the same period in 2012. Cash flows from operating activities were impacted as a result of an \$11.3 million decrease in inventories, mainly due to new inventory control buying procedures implemented in the first half of 2013. Management expects inventory levels to continue to decrease throughout 2013, as compared to 2012. Since the beginning of the fiscal year, working capital increased 1.2% compared to an increase of 3.4% in the first half of 2012.

Net cash used in investing activities was \$47.3 million compared to \$38.7 million in the first half of 2013 and 2012, respectively. These funds were used primarily to purchase marketable securities and property and equipment in the quarters presented. The Company purchased \$7.8 million of marketable securities in the first half of 2013 and \$9.8 million in the first half of 2012. However, the Company sold \$13.9 million of marketable securities in the first half of 2013 compared to \$17.4 million in the first half of 2012. Property and equipment purchases during the first half of 2013 totaled \$57.3 million compared to \$40.4 million in the first half of 2012. In addition, the Company invested \$6.1 million in the acquisition of three former Genuardi's stores in 2012. As a percentage of sales, capital expenditures, including the acquisition, were 4.3% and 3.5% in the first half of 2013 and 2012, respectively. The Company also had proceeds from the sale of property and equipment of \$3.4 million in the first half of 2013 compared to \$304,000 in the same period of 2012. The majority of the proceeds in 2013 resulted from the sale of two properties in the second

quarter for a total of \$3.2 million.

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. Management estimates that its current development plans will require an investment of approximately \$135.0 million in 2013.

Net cash used in financing activities was \$16.1 million in the first half of 2013 and 2012, which solely consisted of dividend payments to shareholders. At June 29, 2013, the Company had outstanding letters of credit of \$13.5 million. 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.
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(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 2013 and 2012. At its regular meeting held in July, the Board of Directors unanimously approved a quarterly dividend of \$.30 per share, payable on August 5, 2013 to shareholders of record on July 22, 2013. 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 29, 2013, other than the lease commitments on its store facilities under operating leases that expire at various dates through 2028. The Company anticipates funding its working capital requirements and its \$135.0 million capital expansion program through cash and investment reserves and future internally generated cash flows from operations.

Critical Accounting 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 2012 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 29, 2012.

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.

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 29, 2013. 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 29, 2012 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 29, 2012 and is incorporated herein by reference.

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WEIS MARKETS, INC.

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 29, 2013. 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 29, 2013, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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 08/08/2013

/S/ David J. Hepfinger

David J. Hepfinger

President and Chief Executive Officer

(Principal Executive Officer)

Date 08/08/2013

/S/ Scott F. Frost

Scott F. Frost

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Senior Vice President, Chief Financial
Officer
and Treasurer
(Principal Financial Officer)

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