

WEIS MARKETS INC  
Form 10-Q  
May 08, 2008

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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 **March 29, 2008**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-5039

**WEIS MARKETS, INC.**

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation or organization)

24-0755415

(I.R.S. Employer Identification No.)

1000 S. Second Street  
P. O. Box 471

Sunbury, Pennsylvania

(Address of principal executive offices)

17801-0471

(Zip Code)

Registrant's telephone number, including area code: (570) 286-4571  
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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of May 8, 2008, there were issued and outstanding 26,967,165 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>March 29, 2008</u>	<u>December 29, 2007</u>
	(unaudited)	
<b><u>Assets</u></b>		
Current:		
Cash and cash equivalents	\$ 63,268	\$ 41,187
Marketable securities	24,384	26,182
Accounts receivable, net	39,962	48,460
Inventories	183,381	193,732
Prepaid expenses	4,606	3,317
Income taxes recoverable	<u>4,683</u>	<u>8,074</u>
<b>Total current assets</b>	<u>320,284</u>	<u>320,952</u>
Property and equipment, net	504,818	499,246
Goodwill	15,722	15,722
Intangible and other assets, net	<u>4,248</u>	<u>4,149</u>
<b>Total assets</b>	<u>\$ 845,072</u>	<u>\$ 840,069</u>
<b><u>Liabilities</u></b>		
Current:		
Accounts payable	\$ 115,452	\$ 111,555
Accrued expenses	23,756	23,036
Accrued self-insurance	23,371	23,442
Payable to employee benefit plans	1,702	1,400
Deferred income taxes	<u>4,475</u>	<u>4,134</u>
<b>Total current liabilities</b>	<u>168,756</u>	<u>163,567</u>
Postretirement benefit obligations	14,260	14,027
Deferred income taxes	<u>13,598</u>	<u>14,247</u>
<b>Total liabilities</b>	<u>196,614</u>	<u>191,841</u>
<b><u>Shareholders' Equity</u></b>		
Common stock, no par value, 100,800,000 shares authorized, 33,044,507 and 33,044,357 shares issued, respectively	9,835	9,830
Retained earnings	780,995	779,760
Accumulated other comprehensive income (Net of deferred taxes of \$4,490 in 2008 and \$5,205 in 2007)	<u>6,330</u>	<u>7,339</u>
	797,160	796,929
Treasury stock at cost, 6,077,342 and 6,077,311 shares, respectively	<u>(148,702)</u>	<u>(148,701)</u>
<b>Total shareholders' equity</b>	<u>648,458</u>	<u>648,228</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 845,072</u>	<u>\$ 840,069</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)

	<b>13 Weeks Ended</b>	
	<b>March 29, 2008</b>	<b>March 31, 2007</b>
Net sales	\$ 595,666	\$ 571,795
Cost of sales, including warehousing and distribution expenses	<u>442,944</u>	<u>420,254</u>
Gross profit on sales	152,722	151,541
Operating, general and administrative expenses	<u>140,597</u>	<u>131,790</u>
Income from operations	12,125	19,751
Investment income	<u>841</u>	<u>691</u>
Income before provision for income taxes	12,966	20,442
Provision for income taxes	<u>3,910</u>	<u>7,037</u>
Net income	\$ <u>9,056</u>	\$ <u>13,405</u>
Weighted-average shares outstanding, basic	26,967,170	26,990,797
Weighted-average shares outstanding, diluted	26,967,649	27,003,494
Cash dividends per share	\$ 0.29	\$ 0.29
Basic and diluted earnings per share	\$ 0.34	\$ 0.50

*See accompanying notes to consolidated financial statements.*

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

	<b>13 Weeks Ended</b>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 9,056	\$ 13,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,060	11,285
Amortization	1,488	1,866
(Gain) loss on disposition of fixed assets	(205)	74
Changes in operating assets and liabilities:		
Inventories	10,351	2,950
Accounts receivable and prepaid expenses	7,209	3,023
Income taxes recoverable	3,391	---
Accounts payable and other liabilities	5,081	948
Income taxes payable	---	7,145
Deferred income taxes	407	(974)
Other	<u>74</u>	<u>(56)</u>
Net cash provided by operating activities	<u>47,912</u>	<u>39,666</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(18,025)	(15,749)
Proceeds from the sale of property and equipment	210	58
Purchase of intangible asset	<u>(199)</u>	<u>---</u>
Net cash used in investing activities	<u>(18,014)</u>	<u>(15,691)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	5	267
Dividends paid	(7,821)	(7,828)
Purchase of treasury stock	<u>(1)</u>	<u>(516)</u>
Net cash used in financing activities	<u>(7,817)</u>	<u>(8,077)</u>
Net increase in cash and cash equivalents	22,081	15,898
Cash and cash equivalents at beginning of year	<u>41,187</u>	<u>27,545</u>
Cash and cash equivalents at end of period	\$ <u>63,268</u>	\$ <u>43,443</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. For further information, refer to the consolidated financial statements and footnotes thereto included in the company's latest Annual Report on Form 10-K.

**(2) Current Relevant Accounting Standards**

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

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

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

**(3) Comprehensive Income**

The components of comprehensive income, net of related tax, for the periods ended March 29, 2008 and March 31, 2007 are as follows:

<i>(dollars in thousands)</i>	<b><u>13 Weeks Ended</u></b>	
	<b><u>2008</u></b>	<b><u>2007</u></b>
Net income	\$ 9,056	\$ 13,405
Other comprehensive income (loss) by component, net of tax:		



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Unrealized holding (losses) gains arising during period (Net of deferred taxes of \$715 and \$444, respectively)	(1,009)	626
Reclassification adjustment for gains included in net income (Net of taxes of \$0 and \$0, respectively)	<u>---</u>	<u>---</u>
Other comprehensive income (loss), net of tax	<u>(1,009)</u>	<u>626</u>
Comprehensive income, net of tax	\$ <u>8,047</u>	\$ <u>14,031</u>

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

**OVERVIEW**

Weis Markets, Inc. was founded in 1912 by Sigmund and Harry Weis in Sunbury, Pennsylvania. Today, the company ranks among the top 50 food and drug retailers in the United States in revenues generated. As of March 29, 2008, the company operated 155 retail food stores in Pennsylvania and four surrounding states: Maryland, New Jersey, West Virginia and New York. In addition to its retail food stores, the company operates 28 SuperPetz pet supply stores in ten states: Alabama, Georgia, Indiana, Maryland, Michigan, North Carolina, Ohio, Pennsylvania, South Carolina and Tennessee.

Company revenues are generated in its retail food stores from the sale of a wide variety of consumer products including groceries, dairy products, frozen foods, meats, seafood, fresh produce, floral, prescriptions, deli/bakery products, prepared foods, fuel and general merchandise items, such as health and beauty care and household products. The company supports its retail operations through a centrally located distribution facility, its own transportation fleet, four manufacturing facilities and its administrative offices. The company's operations are reported as a single reportable segment.

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

**OPERATING RESULTS**

Total sales for the first quarter ended March 29, 2008 increased 4.2% to \$595.7 million compared to sales of \$571.8 million in the same quarter of 2007, while comparable store sales increased 3.9% compared to a 4.4% increase in 2007 over 2006.

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

According to federal economic reports, wholesale prices in 2007 increased faster than retail prices paid by consumers. This trend continued in the first quarter of 2008 as wholesale food prices increased at an unadjusted annualized rate of 6.7%, outpacing the food-at-home price inflation of 5.2%. Management does not feel it can accurately measure the full impact of product inflation and deflation on retail pricing due to changes in the types of merchandise sold between periods, shifts in customer buying patterns and the fluctuation of competitive factors. However, as with other retailers, the company continues to experience substantial cost increases in most food commodities, which have outpaced the retail prices paid by its customers. The company believes it will be able to recapture its traditional gross margins as it progresses through the second quarter with price increases gradually being passed along to its customers.

Due to the uncertain economy and the high cost of gasoline, the company believes its customers are more cautious in their spending and are making fewer store visits. The company continues to maintain an aggressive pricing and promotional program to retain its market share in an extremely competitive market environment. As a result of its promotional strategy, the supermarket store customer count increased 1.0% while comparable store customer count increased 1.7%, compared to the same quarter a year ago. The average sale per customer transaction in the first quarter increased 3.4% while its average sale per customer transaction for comparable stores increased 2.2%.

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

Gross profit of \$152.7 million at 25.6% of sales, increased \$1.2 million or 0.8% versus the same quarter last year and the gross profit rate decreased 0.9%. In addition to the disparity between wholesale and retail price inflation, cost of sales was also impacted by the company's diesel fuel costs which increased 35.4% compared to the first quarter in 2007. At this time, management is unaware of any other events or trends that may cause a material change to its overall financial operation due to fluctuations in product costs.

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

**OPERATING RESULTS (continued)**

The first quarter operating, general and administrative expenses of \$140.6 million at 23.6% of sales, increased \$8.8 million or 6.7% compared to the same quarter in 2007. As a percentage of sales, operating expenses increased 0.6% over the first quarter last year. 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 and accounted for 0.5% of the rate increase. Employee-related costs increased 7.5% compared to the same period a year ago.

Pennsylvania, where the majority of the company's stores are located, increased the minimum wage rate twice in 2007 totaling \$2.00 per hour. Although the company paid its associates more than the minimum wage rate, the increase impacted associate rates well above minimum wage. In addition, the company increased associate rates in neighboring states.

Interchange fees for accepting credit/debit cards increased 15.6% compared to the same period in 2007. The company remains extremely concerned about the continuing rise in interchange fees for accepting credit/debit card transactions. The company continues to work with a wide variety of corporations and associations to reduce interchange rates through legislative and regulatory initiatives.

In the first quarter, the company's investment income totaled \$841,000 at 0.1% of sales, an increase of \$150,000 or 21.7% compared to the same period a year ago.

The effective tax rate for the first quarter of 2008 and 2007 was 30.2% and 34.4%, respectively. 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 relating to tax-free income. Decreased taxable state income in the first quarter is responsible for the decline in effective rate compared to the first quarter a year ago.

For the three-month period ending March 29, 2008, net income of \$9.1 million decreased 32.4% compared to the same period last year. Basic and diluted earnings per share of \$.34 for the quarter decreased \$.16 or 32.0% compared to 2007.

**LIQUIDITY AND CAPITAL RESOURCES**

During the first quarter of 2008, the company generated \$47.9 million in cash flows from operating activities compared to \$39.7 million for the same period in 2007. Inventory, accounts receivable and income taxes recoverable reductions were responsible for the first quarter 2008 cash flow increase compared to the first quarter of 2007. Since the beginning of this fiscal year, working capital decreased \$5.9 million or 3.7%.

Net cash used in investing activities in the first quarter of 2008 amounted to \$18.0 million compared to the \$15.7 million used in 2007. Capital expenditures for the quarter totaled \$18.0 million compared to \$15.7 million in 2007. The company estimated its capital expenditure plans would require an investment of \$78.9 million in 2008. This plan includes 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 company processing and distribution

facilities.

Net cash used in financing activities during the first quarter of 2008 was \$7.8 million compared to \$8.1 million in 2007. In 2008, the company's treasury stock purchases amounted to \$1,000 in the quarter compared to \$516,000 in the first quarter last year. The Board of Directors' 2004 resolution authorizing the purchase of one million shares of treasury stock has a remaining balance of 822,802 shares.

Cash dividends of \$7.8 million were paid to shareholders in the first quarter of 2008, the same amount paid in 2007. At its regular meeting held in April, the Board of Directors unanimously approved a quarterly dividend of \$.29 per share, payable on May 19, 2008 to shareholders of record on May 5, 2008.

The company has no other commitment of capital resources as of March 29, 2008, 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 \$78.9 million capital expansion program through internally generated cash flows from operations.

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

**Critical Accounting Policies**

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 2007 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 year ended December 29, 2007.

**FORWARD-LOOKING STATEMENTS**

In addition to historical information, this 10-Q Report may contain forward-looking statements. Any forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; business conditions in the retail industry; the regulatory environment; rapidly changing technology and competitive factors, including increased competition with regional and national retailers; and price pressures. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as of the date hereof. The company undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents the company files periodically with the Securities and Exchange Commission.

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**WEIS MARKETS, INC.**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative Disclosure - There have been no material changes in the company's market risk during the three months ended March 29, 2008. 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, 2007 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, 2007 and is incorporated herein by reference.

**ITEM 4. CONTROLS AND PROCEDURES**

The Chief Executive Officer and the Chief Financial Officer of the company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of a date within 90 days prior to the date of the filing of this Report, that the company's disclosure controls and procedures are effective 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, is 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 is 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.

There were no significant changes in the company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

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**WEIS MARKETS, INC.  
PART II - OTHER INFORMATION**

**Item 4. Submission of Matters to a Vote of Security Holders**

(a) The Annual Meeting of the Shareholders of Weis Markets, Inc. was held on Wednesday, April 23, 2008, at 10:00 a.m., Eastern Daylight Time, at the principal office of the company, 1000 South Second Street, Sunbury, PA 17801.

(b) Proxies for the meeting were solicited pursuant to Regulation 14 under the Act, there was no solicitation in opposition to the nominees as listed in the proxy statement, and all such nominees were elected.

(c) The meeting was held for the following purposes:

1. To elect seven directors to serve, subject to provisions of the by-laws, until the next Annual Meeting of Shareholders or until their respective successors have qualified.
2. To ratify the appointment of the independent registered public accounting firm for the current fiscal year.
3. To act upon such other business as may properly come before such meeting, or any adjournments or postponements thereof.

The official ballot from the meeting, submitted to the Secretary by the Judge of Elections, disclosed the following tabulation of votes: