

WEIS MARKETS INC  
Form 10-Q  
August 05, 2010

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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 26, 2010**

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)

Smaller reporting company ☐

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

As of August 5, 2010, there were issued and outstanding 26,898,492 shares of the registrant's common stock.

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**WEIS MARKETS, INC.**

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

|   | <u>June 26, 2010</u><br>(unaudited) | <u>December 26, 2009</u> |
|---|-------------------------------------|--------------------------|
| <b><u>Assets</u></b>  |                                     |                          |
| Current:  |                                     |                          |
| Cash and cash equivalents   | \$ 109,339                          | \$ 67,065                |
| Marketable securities   | 15,135                              | 18,079                   |
| Accounts receivable, net  | 44,534                              | 52,215                   |
| Inventories   | 219,822                             | 223,015                  |
| Prepaid expenses  | <u>7,078</u>                        | <u>6,254</u>             |
| <b>Total current assets</b>   | <u>395,908</u>                      | <u>366,628</u>           |
| Property and equipment, net   | 506,153                             | 510,882                  |
| Goodwill  | 35,162                              | 35,162                   |
| Intangible and other assets, net  | <u>3,648</u>                        | <u>3,843</u>             |
| <b>Total assets</b>   | <u>\$ 940,871</u>                   | <u>\$ 916,515</u>        |
| <b><u>Liabilities</u></b>   |                                     |                          |
| Current:  |                                     |                          |
| Accounts payable  | \$ 114,444                          | \$ 130,685               |
| Accrued expenses  | 31,454                              | 30,227                   |
| Accrued self-insurance  | 20,942                              | 21,998                   |
| Deferred revenue, net   | 3,760                               | 6,731                    |
| Income taxes payable  | 23,374                              | 484                      |
| Deferred income taxes   | <u>3,854</u>                        | <u>3,344</u>             |
| <b>Total current liabilities</b>  | <u>197,828</u>                      | <u>193,469</u>           |
| Postretirement benefit obligations  | 14,373                              | 13,850                   |
| Deferred income taxes   | <u>16,228</u>                       | <u>18,432</u>            |
| <b>Total liabilities</b>  | <u>228,429</u>                      | <u>225,751</u>           |
| <b><u>Shareholders' Equity</u></b>  |                                     |                          |
| Common stock, no par value, 100,800,000 shares authorized,<br>33,047,807 shares issued                      | 9,949                               | 9,949                    |
| Retained earnings   | 849,332                             | 827,042                  |
| Accumulated other comprehensive income<br>(Net of deferred taxes of \$2,848 in 2010 and \$3,283 in<br>2009) | <u>4,016</u>                        | <u>4,628</u>             |
|   | 863,297                             | 841,619                  |
| Treasury stock at cost, 6,149,315 shares  | <u>(150,855)</u>                    | <u>(150,855)</u>         |
| <b>Total shareholders' equity</b>   | <u>712,442</u>                      | <u>690,764</u>           |
| <b>Total liabilities and shareholders' equity</b>   | <u>\$ 940,871</u>                   | <u>\$ 916,515</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>26 Weeks Ended</b> |                      |
|--|-----------------------|----------------------|-----------------------|----------------------|
|  |                       |                      | <b>June 26,</b>       |                      |
|  | <b>June 26, 2010</b>  | <b>June 27, 2009</b> | <b>2010</b>           | <b>June 27, 2009</b> |
| Net sales  | \$ 653,677            | \$ 615,378           | \$ 1,221,618          |                      |
| Cost of sales, including warehousing and distribution expenses | 469,068               | 449,953              | 891,701               |                      |
| Gross profit on sales  | 184,609               | 166,365              | 329,917               |                      |
| Operating, general and administrative expenses                 | 152,107               | 143,385              | 281,838               |                      |
| Income from operations   | 32,502                | 22,919               | 48,079                |                      |
| Investment income  | 267                   | 363                  | 749                   |                      |
| Income before provision for income taxes                       | 32,769                | 23,282               | 48,828                |                      |
| Provision for income taxes                                     | 12,260                | 8,072                | 17,105                |                      |
| Net income   | \$ 20,509             | \$ 15,207            | \$ 31,723             |                      |
| Weighted-average shares outstanding, basic                     | 26,898,492            | 26,926,898           | 26,942,047            |                      |
| Weighted-average shares outstanding, diluted                   | 26,898,606            | 26,926,898           | 26,942,047            |                      |
| Cash dividends per share                                       | \$ 0.29               | \$ 0.29              | \$ 0.58               |                      |
| Basic and diluted earnings per share                           | \$ 0.76               | \$ 0.56              | \$ 1.18               |                      |

See accompanying notes to consolidated financial statements.

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

|   | <b>26 Weeks Ended</b>       |                             |
|---|-----------------------------|-----------------------------|
|   | <b><u>June 26, 2010</u></b> | <b><u>June 27, 2009</u></b> |
| <b>Cash flows from operating activities:</b>                                      |                             |                             |
| Net income  | \$ 37,891                   | \$ 31,723                   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |                             |
| Depreciation  | 23,690                      | 22,301                      |
| Amortization  | 3,280                       | 3,119                       |
| (Gain) loss on disposition of fixed assets  | (1,285)                     | 69                          |
| Gain on sale of marketable securities   | (223)                       | ---                         |
| Changes in operating assets and liabilities:                                      |                             |                             |
| Inventories   | 3,193                       | (12,649)                    |
| Accounts receivable and prepaid expenses  | 6,857                       | 5,613                       |
| Income taxes recoverable  | ---                         | (4,434)                     |
| Accounts payable and other liabilities  | (18,518)                    | 24,965                      |
| Income taxes payable  | 22,890                      | (738)                       |
| Deferred income taxes   | (1,259)                     | (914)                       |
| Other   | <u>34</u>                   | <u>(112)</u>                |
| Net cash provided by operating activities   | <u>76,550</u>               | <u>68,943</u>               |
| <b>Cash flows from investing activities:</b>                                      |                             |                             |
| Purchase of property and equipment  | (22,683)                    | (18,596)                    |
| Proceeds from the sale of property and equipment                                  | 1,922                       | 258                         |
| Proceeds from maturities of marketable securities                                 | 1,745                       | 2,197                       |
| Proceeds from the sale of marketable securities                                   | <u>341</u>                  | <u>---</u>                  |
| Net cash used in investing activities   | <u>(18,675)</u>             | <u>(16,141)</u>             |
| <b>Cash flows from financing activities:</b>                                      |                             |                             |
| Dividends paid  | (15,601)                    | (15,630)                    |
| Purchase of treasury stock  | <u>---</u>                  | <u>(1,688)</u>              |
| Net cash used in financing activities   | <u>(15,601)</u>             | <u>(17,318)</u>             |
| Net increase in cash and cash equivalents   | 42,274                      | 35,484                      |
| Cash and cash equivalents at beginning of year                                    | <u>67,065</u>               | <u>59,351</u>               |
| Cash and cash equivalents at end of period  | \$ <u>109,339</u>           | \$ <u>94,835</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 January 2010, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance on fair value measurements. The guidance requires previous fair value hierarchy disclosures to be further disaggregated by class of assets and liabilities. In addition, significant transfers between Levels 1 and 2 of the fair value hierarchy are required to be disclosed. The guidance was effective for interim and annual reporting periods ending after December 15, 2009. Adoption of the new guidance did not have an impact on the Company's consolidated financial position, as this guidance relates only to additional disclosures.

**(3) Comprehensive Income**

The components of comprehensive income, net of related tax, for the periods ended June 26, 2010 and June 27, 2009 are as follows:

|   | <u><b>13 Weeks Ended</b></u> |                             | <u><b>26 Weeks Ended</b></u> |                             |
|---|------------------------------|-----------------------------|------------------------------|-----------------------------|
| <i>(dollars in thousands)</i>   | <u><b>June 26, 2010</b></u>  | <u><b>June 27, 2009</b></u> | <u><b>June 26, 2010</b></u>  | <u><b>June 27, 2009</b></u> |
| Net income  | \$ 20,509                    | \$ 15,205                   | \$ 37,891                    | \$ 31,723                   |
| Other comprehensive income by component,<br>net of tax:   |                              |                             |                              |                             |
| Unrealized holding (losses) gains arising<br>during period (Net of deferred taxes of \$202<br>and \$31 respectively for the 13 Weeks Ended<br>and \$341 and \$312 respectively for the 26<br>Weeks Ended) | (286)                        | 44                          | (481)                        | (439)                       |
| Reclassification adjustment for gains<br>included in net income (Net of taxes of \$93<br>and \$0 respectively for the 26 Weeks Ended)   | ---                          | ---                         | (130)                        | ---                         |
| Comprehensive income, net of tax  | \$ <u>20,223</u>             | \$ <u>15,249</u>            | \$ <u>37,280</u>             | \$ <u>31,284</u>            |

**(4) Reclassification**

The Company reclassified certain immaterial amounts in the Consolidated Balance Sheets and Consolidated



Statements of Income.

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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 26, 2009, filed with the U.S. Securities and Exchange Commission, as well as the cautionary statement captioned "Forward-Looking Statements" immediately following this analysis.

**Overview**

Founded in 1912 by Harry and Sigmund Weis, Weis Markets, Inc., which is based in Sunbury, Pennsylvania, currently ranks among the top 50 food and drug retailers in the United States in revenues generated. As of June 26, 2010, the Company operated 164 retail food stores in Pennsylvania and four surrounding states: Maryland, New Jersey, New York and West Virginia.

The Company generates its revenues 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 also operated 21 SuperPetz pet supply stores as of June 26, 2010. 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)*

For the Periods Ended June 26, 2010

and June 27, 2009

|  | <b>13 Weeks Ended</b>    |                          | <b>26 Weeks Ended</b>    |                          | <b>Percent Changes<br/>2010 vs. 2009</b> |                               |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--|-------------------------------|
|  | <b>June 26,<br/>2010</b> | <b>June 27,<br/>2009</b> | <b>June 26,<br/>2010</b> | <b>June 27,<br/>2009</b> | <b>13<br/>Weeks<br/>Ended</b>            | <b>26<br/>Weeks<br/>Ended</b> |
| Net sales  | \$ 653,677               | \$ 615,378               | \$ 1,317,932             | \$ 1,221,618             | 6.2 %                                    | 7.9 %                         |
| Cost of sales, including<br>warehousing and distribution<br>expenses | 469,068                  | 449,173                  | 953,393                  | 891,701                  | 4.4                                      | 6.9                           |
| Gross profit on sales  | 184,609                  | 166,205                  | 364,539                  | 329,917                  | 11.1                                     | 10.5                          |
| Gross profit margin  | 28.2%                    | 27.0%                    | 27.7%                    | 27.0%                    |  |                               |
| Operating, general and<br>administrative expenses                    | 152,107                  | 143,286                  | 305,357                  | 281,838                  | 6.2                                      | 8.3                           |
| O, G & A, percent of net<br>sales                                    | 23.3%                    | 23.3%                    | 23.2%                    | 23.1%                    |  |                               |
| Income from operations   | 32,502                   | 22,919                   | 59,182                   | 48,079                   | 41.8                                     | 23.1                          |

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|   |           |           |           |           |        |        |
|---|-----------|-----------|-----------|-----------|--------|--------|
| Operating margin                            | 5.0%      | 3.7%      | 4.5%      | 3.9%      |        |        |
| Investment income                           | 267       | 363       | 858       | 749       | (26.4) | 14.6   |
| Investment income,<br>percent of net sales  | 0.0%      | 0.1%      | 0.1%      | 0.1%      |        |        |
| Income before provision<br>for income taxes | 32,769    | 23,282    | 60,040    | 48,828    | 40.7   | 23.0   |
| Provision for income taxes                  | 12,260    | 8,077     | 22,149    | 17,105    | 51.8   | 29.5   |
| Effective tax rate                          | 37.4%     | 34.7%     | 36.9%     | 35.0%     |        |        |
| Net income                                  | \$ 20,509 | \$ 15,205 | \$ 37,891 | \$ 31,723 | 34.9 % | 19.4 % |
| Net income, percent of net<br>sales         | 3.1%      | 2.5%      | 2.9%      | 2.6%      |        |        |
| Basic and diluted earnings<br>per share     | \$ 0.76   | \$ 0.56   | \$ 1.41   | \$ 1.18   | 35.7 % | 19.5 % |

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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)**

*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.

In the second quarter of 2010, management changed the method used to calculate comparable store sales. Refer to prior Form 10-K and Form 10-Q documents filed for the definition of the previous method used.

When calculating the percentage change in comparable store sales, the Company defines a new store to be comparable when it has been in operation for five full quarters. Relocated stores and stores with expanded square footage are included in comparable store sales since these units are located in existing markets and are open during construction. Planned store dispositions are excluded from the calculation. The Company only includes retail food stores in the calculation.

Comparable store sales increased 0.1% in the second quarter of 2010 compared to the same quarter in 2009, which was less than the total sales increase of 6.2%. The Company's year-to-date comparable store sales increased 1.6% compared to the first half of 2009, while total sales increased 7.9% over the first twenty-six weeks of 2010.

In the second quarter of 2010, the Company began its "Get Grillin" promotional program throughout its entire marketing area. In addition, the Company offered its "Weis Rewards" promotional program in select regions. During the second quarter of 2009, the Company executed several aggressive regional marketing programs that were not repeated in 2010. The decrease in regional marketing dollars spent during the second quarter of 2010 resulted in flat comparable store sales results, while increasing gross profit. Year-to-date, the Company generated a 0.4% increase in average sales per customer transaction while the number of identical customer store visits declined by 0.4%.

The "Get Grillin" promotional program is a seasonal cross-merchandising program linking meat items to specific general merchandise items such as gas grills and patio furniture, as well as complementary grocery and perishable items. This program also lowered prices of approximately 400 staple items for a twelve-week period, resulting in \$2.5 million in customer savings. In addition to the "Get Grillin" program, the Company ran a "Weis Rewards" loyalty card program, allowing customers to earn discounts ranging from 5% to 20% on a future purchase and continued to expand its "Gas Rewards" program. 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, or at any Weis Gas N' Go location. In the second quarter, the Company rolled out its "Gas Rewards" program to an additional 29 stores, and this program is now offered in 140 stores.

Pharmacy sales in the second quarter of 2010 increased 3.5% compared to the second quarter of 2009 and 3.2% year-to-date. Prescription growth continues to benefit from market consolidation, increased foot traffic and aggressive

sales building strategies implemented in 2009 and early 2010.

Second quarter produce sales increased 3.7% and were up 4.5% year-to-date compared to the same periods in 2009. These results were attributable to increased produce units sold and product inflation. Dairy sales increased 2.4% in the second quarter of 2010 and 2.3% year-to-date, compared to the same periods in 2009, when the Company experienced significant price deflation in key dairy categories, notably eggs and milk. In 2009, dairy sales decreased 3.8% compared to the second quarter of 2008 and 3.2% year-to-date. According to the USDA's Economic Research Service, the 2009 dairy deflationary pressures have eased significantly. Management anticipates produce and dairy sales to continue to increase in future quarters of 2010.

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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)**

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 costs, transportation costs and manufacturing facility costs.

According to the latest U.S. Bureau of Labor Statistics' report, the Seasonally Adjusted Food-at-Home Consumer Price Index remained unchanged in the second quarter of 2010 and increased 0.9% in the first half of the year. The Producer Price Index for Finished Consumer Foods declined 3.0% in the second quarter and increased 0.1% for the first half of 2010. Despite fluctuating retail and wholesale prices, the Company has been able to maintain a gross profit rate of 28.2% and 27.7% for the quarter and year-to-date, respectively.

The Company's profitability is particularly 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. Cost of sales was impacted by a 38.0% increase for the second quarter and a 14.7% increase year-to-date in the cost of diesel fuel used by the Company to deliver goods from its distribution center to its stores as compared to the same periods in 2009. In 2009, the Company implemented routing software to improve loading patterns and reduce delivery mileage. The routing software was activated to 100% of the outbound shipments in 2010. As a result management estimates a 3% reduction in fuel usage this year.

Although the Company experienced product cost inflation and deflation in various commodities for both quarters presented, management does not feel it can 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 6.7% in the second quarter and 7.6% in the first half of 2010 compared to the same periods last year, 5.5% and 5.6% of these increases, respectively, are attributed to the acquisition of eleven Giant Markets stores completed in the third quarter of 2009. As a percent of sales, employee-related costs increased 0.1% in the second quarter and remained unchanged year-to-date

compared to the same periods in 2009. The Company's self-insured health care benefits increased 7.9% in the second quarter and 13.3% year-to-date, compared to the same periods in 2009, 6.3% and 6.8% of these increases, respectively, are related to the Giant Markets acquisition. Although management continues various programs to reduce this expense, it expects a trend of increasing health care benefit costs of approximately 9% in 2010. As a percent of sales, direct store labor remains unchanged compared to the first half of 2009.

Interchange fees for accepting credit/debit cards increased 21.1% in the second quarter and 18.3% year-to-date, compared to the same periods in 2009, 7.2% of these increases is related to the Giant Markets acquisition for both periods presented. Due to above average snowfall in the Mid-Atlantic states, the Company's operating region, snow removal costs increased \$1.2 million in the first half of the year compared to the same period in 2009. The Company benefited from income from the sale of cardboard salvage which increased \$841,000 in the second quarter and \$1.4 million in the first half of 2010 as market prices significantly increased, compared to 2009.

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

**Results of Operations (continued)**

Retail store profitability is sensitive to rising utility costs due to the amount of electricity and gas required to operate the Company's stores and facilities. The Company is reacting to these increased operating costs by evaluating technological improvements for improved utility and fuel management. Beginning in 2010, Pennsylvania deregulated electricity pricing and it is anticipated the average electric utility consumer will see a 30% increase. The Company currently operates 119 of its 164 retail stores in Pennsylvania. The Company's electric utility expense in its Pennsylvania stores increased by 3.0% in the second quarter of 2010 and 9.7% year-to-date, compared to the same periods in 2009. Through "green initiatives", technology and buying, management continues to expect 2010 costs to increase only by 20% in its Pennsylvania stores.

The Company may not be able to recover these 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.

*Investment Income*

The Company's investment portfolio consists of short-term money market funds, Pennsylvania tax-free state and municipal bonds and equity securities. The Company classifies all of its marketable securities as available-for-sale. The Company experienced a \$96,000 decrease in interest income in the second quarter compared to the same period a year ago. Year-to-date investment income increased \$109,000 as compared to the same period in 2009, primarily due to gains recognized on the sale of marketable securities.

*Provision for Income Taxes*

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.

Income is earned by selling merchandise at price levels that produce revenues in excess of cost of merchandise sold and operating and administrative expenses. Although the Company may experience short term fluctuations in its earnings due to unforeseen short-term operating cost increases, it historically has been able to increase revenues and maintain stable earnings from year to year.



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

**Liquidity and Capital Resources**

During the first twenty-six weeks of 2010, the Company generated \$76.6 million in cash flows from operating activities compared to \$68.9 million for the same period in 2009. Since the beginning of the fiscal year, working capital increased 14.4% compared to an increase of 14.5% in the same period of 2009.

Net cash used in investing activities was \$18.7 million compared to \$16.1 million in the first half of 2010 and 2009, respectively. These funds were used primarily for property and equipment purchases in the periods presented. Property and equipment purchases during the first half of 2010 totaled \$22.7 million compared to \$18.6 million in the first half of 2009. As a percentage of sales, capital expenditures were 1.7% and 1.5% in the first half of 2010 and 2009, respectively.

The Company's capital expansion program includes the construction of new superstores, the expansion and remodeling of existing units, the acquisition of sites for future expansion, new technology purchases and the continued upgrade of the Company's processing and distribution facilities. Company management estimates that its current development plans will require an investment of approximately \$93.1 million in 2010. The investment reduction for 2010 is a result of project completion dates shifting from 2010 to 2011. Company management remains committed to the capital expansion program and fully expects to invest the previously reported amount of \$102.8 million.

Net cash used in financing activities during the first twenty-six weeks of 2010 was \$15.6 million compared to \$17.3 million in the same period a year ago. The majority of the financing activities consisted of dividend payments to shareholders. On June 26, 2010, the Company had outstanding letters of credit of \$13.7 million. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company and the Company does not anticipate drawing on any of them.

Total cash dividend payments on common stock, on a per share basis, amounted to \$.58 for the first half of 2010 and \$.58 for the first half 2009. At its regular meeting held in July, the Board of Directors unanimously approved a quarterly dividend of \$.29 per share, payable on August 2, 2010 to shareholders of record as of July 19, 2010. The Company did not purchase any treasury stock in the first half of 2010, compared to purchases of \$1.7 million in the first half of 2009. 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 752,517 shares.

The Company has no other commitment of capital resources as of June 26, 2010, 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 \$93.1 million capital expansion program through cash and investment reserves and future internally generated cash flows from operations. However, management is currently considering maintaining a credit facility to fund potential acquisitions.

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

**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 2009 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 26, 2009.

**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.

**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 26, 2010. 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 26, 2009 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 26, 2009 and is incorporated herein by reference.

**ITEM 4. CONTROLS AND PROCEDURES**

The Chief Executive Officer and the Chief Financial Officer, together with the Company's Disclosure Committee, evaluated the Company's disclosure controls and procedures as of the fiscal quarter ended June 26, 2010. 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

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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 26, 2010, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

**ITEM 6. EXHIBITS**

Exhibits

- Exhibit 31.1 Rule 13a-14(a) Certification - CEO
- Exhibit 31.2 Rule 13a-14(a) Certification - CFO
- Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**WEIS MARKETS, INC.**

(Registrant)

Date 08/05/2010

/S/ David J. Hepfinger

David J. Hepfinger

President and Chief Executive Officer  
(Principal Executive Officer)

Date 08/05/2010

/S/ Scott F. Frost

Scott F. Frost

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