

WEIS MARKETS INC
Form 10-K
March 14, 2019
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 2018

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)

1000 S. Second Street
P. O. Box 471
Sunbury, Pennsylvania
(Address of principal executive offices)

24-0755415
(I.R.S. Employer Identification No.)

17801-0471
(Zip Code)

Edgar Filing: WEIS MARKETS INC - Form 10-K

Registrant's telephone number, including area code: (570) 286-4571 Registrant's web address: www.weismarkets.com

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, no par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant is approximately \$466,000,000 as of June 30, 2018 the last business day of the most recently completed second fiscal quarter.

Shares of common stock outstanding as of March 14, 2019 - 26,898,443.

DOCUMENTS INCORPORATED BY REFERENCE: Selected portions of the Weis Markets, Inc. definitive proxy statement dated March 12, 2019 are incorporated by reference in Part III of this Form 10-K.

WEIS MARKETS, INC.

TABLE OF CONTENTS

FORM 10-K	Page
<u>Part I</u>	
<u>Item 1. Business</u>	1
<u>Item 1a. Risk Factors</u>	3
<u>Item 1b. Unresolved Staff Comments</u>	5
<u>Item 2. Properties</u>	6
<u>Item 3. Legal Proceedings</u>	6
<u>Executive Officers of the Registrant</u>	7
<u>Part II</u>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	8
<u>Item 6. Selected Financial Data</u>	9
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 7a. Quantitative and Qualitative Disclosures about Market Risk</u>	18
<u>Item 8. Financial Statements and Supplementary Data</u>	19
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	43
<u>Item 9a. Controls and Procedures</u>	43
<u>Item 9b. Other Information</u>	43
<u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	44
<u>Item 11. Executive Compensation</u>	44
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	44
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	44
<u>Item 14. Principal Accountant Fees and Services</u>	44
<u>Part IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	45
<u>Item 15(c)(3). Schedule II - Valuation and Qualifying Accounts</u>	47
<u>Item 16. Form 10-K Summary</u>	47
<u>Signatures</u>	48
<u>Exhibit 21 Subsidiaries of the Registrant</u>	
<u>Exhibit 31.1 Rule 13a-14(a) Certification - CEO</u>	
<u>Exhibit 31.2 Rule 13a-14(a) Certification - CFO</u>	
<u>Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350</u>	

WEIS MARKETS, INC.

Table of Contents

PART I

Item 1. Business:

Weis Markets, Inc. is a Pennsylvania business founded by Harry and Sigmund Weis in 1912 and incorporated in 1924. The Company is engaged principally in the retail sale of food in Pennsylvania and surrounding states. There was no material change in the nature of the Company's business during fiscal 2018. The Company's stock has been traded on the New York Stock Exchange since 1965 under the symbol "WMK." The Weis family currently owns approximately 65% of the outstanding shares. Jonathan H. Weis serves as Chairman of the Board of Directors, President and Chief Executive Officer.

The Company's retail food stores sell groceries, dairy products, frozen foods, meats, seafood, fresh produce, floral, pharmacy services, deli products, prepared foods, bakery products, beer and wine, fuel and general merchandise items, such as health and beauty care and household products. The store product selection includes national, local and private brands including natural, gluten-free and organic varieties. The Company advertises its products and promotes its brand through weekly newspaper circulars; radio ads; e-mail blasts; and on-line via its web site, social media and mobile applications. Printed circulars are used extensively on a weekly basis to advertise featured items. The Company promotes by using Everyday Lower Price, Low Price Guarantee, Low, Low price and utilizes a loyalty marketing program, "Weis Club Preferred Shopper," which enables customers to receive discounts, promotions and fuel rewards. The Company currently owns and operates 200 retail food stores many of which have on-line order and pick up customer service. The Company's operations are reported as a single reportable segment. The majority of the Company's revenues are generally not seasonal in nature. However, revenues tend to be higher during the major holidays throughout the year. Additionally, significant inclement weather systems, particularly winter storms, tend to affect sales trends.

The following table provides additional detail on the percentage of consolidated net sales contributed by product category for fiscal years 2018, 2017 and 2016, respectively:

	2018		2017		2016	
Center Store (1)	56.9	%	57.2	%	57.0	%
Fresh (2)	30.4		30.5		30.3	
Pharmacy Services	8.9		8.9		9.5	
Fuel	3.6		3.2		3.0	
Other	0.2		0.2		0.2	

Consolidated net sales 100.0 % 100.0 % 100.0 %

(1) Consists primarily of groceries, dairy products, frozen foods, beer and wine, and general merchandise items, such as health and beauty care and household products.

(2) Consists primarily of meats, seafood, fresh produce, floral, deli products, prepared foods and bakery products.

In 2016, Weis Markets acquired five Mars Super Market locations in Baltimore County, MD, 38 Food Lion stores throughout Maryland, Virginia and Delaware, and a Nell's Family Market in East Berlin, PA. The completion of these individual acquisitions expanded the Company's footprint into Virginia and Delaware, and increased its store count by 25 percent. Beginning August 1, 2016, the Company converted the 44 stores to Weis Markets stores in 96 days ending in November, during which it interviewed and hired more than 2,000 associates who were previously employed at the acquired locations. In 2018, the acquired store group is providing a positive cash flow for the Company as management continues to develop the stores using its business model. During 2018, the Company closed two of the former Food Lion stores at the end of the committed lease term. Although there are no pending acquisitions, the Company continues to investigate acquisition opportunities as well as grow its existing store base organically.

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

At the end of 2018, Weis Markets, Inc. operated 4 stores in Delaware, 51 stores in Maryland, 6 stores in New Jersey, 9 stores in New York, 118 stores in Pennsylvania, 12 stores in Virginia and 2 stores in West Virginia, for a total of 202 retail food stores operating under the Weis Markets trade name. In January 2019, the company closed 2 store locations, bringing the current total store count to 200.

WEIS MARKETS, INC.

Table of Contents

Item 1. Business: (continued)

All retail food store locations operate as conventional supermarkets. The retail food stores range in size from 8,000 to 71,000 square feet, with an average size of approximately 48,500 square feet. The Company's store fleet includes a variety of sizes with a few locations in operation since the 1950's; all stores are branded Weis Markets and provide the same basic offerings scaled to the size of each store. The new Weis prototype averages approximately 65,000 square feet. The following summarizes the number of stores by size categories as of year-end:

	2018	2018	2017	2017
	Number	% of	Number	% of
Square feet	of	Total	of	Total
	stores		stores	
55,000 to 70,000	61	30%	60	29%
45,000 to 54,999	70	35%	70	34%
35,000 to 44,999	51	25%	53	26%
25,000 to 34,999	15	7%	17	8%
Under 25,000	5	3%	5	3%
Total	202	100%	205	100%

The Company believes that opening new stores and remodeling current stores are vital for future Company growth. The location and appearance of its stores are important components of attracting new and retaining current customers. On an average basis, the Company has five to eight new stores in the process of being developed and dedicates a quarter of its capital budget to new stores annually, excluding acquisitions. Generally, another fifteen to twenty percent of the capital budget is dedicated to store remodels while the remainder is attributable to smaller in-store sales-driven projects, store maintenance and store support function expenditures. See the "Liquidity and Capital Resources" section included in "Item 7. Management's Discussion and Analysis of the Financial Condition and Results of Operations" for more details regarding the Company's capital expenditures.

The following schedule shows the changes in the number of retail food stores, total square footage and store additions/remodels as of year-end:

	2018	2017	2016	2015	2014
Beginning store count	205	204	163	163	165
New stores (1)	2	2	44	---	1
Opened relocated stores	---	---	---	1	1
Closed stores	(5)	(1)	(3)	---	(3)
Closed relocated stores	---	---	---	(1)	(1)
Ending store count	202	205	204	163	163
Total square feet (000's), at year-end	9,800	9,867	9,777	8,215	8,202
Additions/major remodels	3	4	9	16	8

(1) In the second half of 2016, Weis Markets acquired five former Mars Super Market stores located in Baltimore County, Maryland; 38 former Food Lion Supermarket stores located in Maryland, Virginia and Delaware; and one former Nell's Family Market store located in East Berlin, Pennsylvania.

Utilizing its own centrally located distribution center and transportation fleet, Weis Markets self distributes approximately 65% of product with the remaining being supplied by direct store vendors. In addition, the Company has three manufacturing facilities which process milk, ice cream and fresh meat products. The corporate offices are located in Sunbury, PA.

The Company strives to be good stewards of the environment and makes this an important part of its overall mission. Its sustainability strategy operates under four key pillars: green design, natural resource conservation, food and agricultural impact and social responsibility. The goal of the sustainability strategy is to reduce the Company's overall carbon footprint by reducing greenhouse gas emissions and reducing the impact on climate change. The Company set a goal in 2008 to reduce its carbon footprint by 20% by the year 2020. In 2016, the company exceeded this goal with a carbon reduction of 22%. The Company continues to be a member of the EPA GreenChill program for advancing environmentally beneficial refrigerant management systems and has nine stores registered under this program. Additional corporate sustainability goals are: reducing energy usage by 2% each year, replacing 50% of the truck fleet with fuel efficient tractors within three years and increasing recycling 5% each year. In 2018, the Company recycled 39,000 tons of materials, representing a corporate wide recycling rate of 50%.

WEIS MARKETS, INC.

Table of Contents

Item 1. Business: (continued)

The Company operates in a highly competitive market place. The number and the variety of competitors vary by market. The Company's principal competition consists of international, national, regional and local food chains, as well as independent food stores. The Company also faces substantial competition from convenience stores, membership warehouse clubs, specialty retailers, supercenters and large-scale drug and pharmaceutical chains. The Company continues to effectively compete by offering a strong combination of value, quality and service.

The Company currently employs approximately 23,000 full-time and part-time associates.

Trade Names and Trademarks. The Company has invested significantly in the development and protection of "Weis Markets" both as a trade name and a trademark and considers it to be an important asset. The Company is the exclusive licensee of nearly 100 trademarks registered and/or pending in the United States Patent and Trademark Office from WMK Holdings, Inc., including trademarks for its product lines and promotions such as Weis, Weis 2 Go, Weis Wonder Chicken, Weis Great Meals Start Here, Weis Gas-n-Go and Weis Nutri-Facts. Each trademark registration is for an initial period of 10 years and may be renewed so long as it is in continued use in commerce.

The Company considers its trademarks to be of material importance to its business and actively defends and enforces its rights.

The Company maintains a corporate web site at www.weismarkets.com/investor-relations. The Company makes available, free of charge, on the "Financial" page of the "Corporate Information" section of its web site, its Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material or furnishes it to the U.S. Securities and Exchange Commission (SEC) by clicking on the "SEC Information" link.

The Company's Corporate Governance materials can be found on the "Governance" page of the "Corporate Information" section of its web site. These materials include the Corporate Governance Guidelines; the Charters of the Audit, Compensation and Disclosure Committees; and both the Code of Business Conduct and Ethics and the Code of Ethics for the CEO and CFO. A copy of the foregoing corporate governance materials is available upon written request to the Company's principal executive offices.

Item 1a. Risk Factors:

In addition to risks and uncertainties in the ordinary course of business common to all businesses, important factors are listed below specific to the Company and its industry, which could materially impact its future performance.

The Company's industry is highly competitive. If the Company is unable to compete effectively, the Company's financial condition and results of operations could be materially affected.

The retail food industry is intensely price competitive, and the competition the Company encounters may have a negative impact on product retail prices. The operating environment continues to be characterized by aggressive expansion, entry of non-traditional competitors, market consolidation and increasing fragmentation of retail and online formats. The financial results may be adversely impacted by a competitive environment that could cause the Company to reduce retail prices without a reduction in its product cost to maintain market share; thus reducing sales and gross profit margins.

The trade area of the Company is located within a region and is subject to the economic, social and climate variables of that region.

The majority of the Company's stores are concentrated in central and northeast Pennsylvania, central Maryland, suburban Washington, DC and Baltimore regions and New York's Southern Tier. Changes in economic and social conditions in the Company's operating regions, including fluctuations in the inflation rate along with changes in population and employment and job growth rates, affect customer shopping habits. These changes may negatively impact sales and earnings. Business disruptions due to weather and catastrophic events historically have been few. The Company's geographic regions could receive an extreme variance in the amount of annual snowfall that may materially affect sales and expense results.

The Company may be unable to retain key management personnel.

The Company's success depends to a significant degree upon the continued contributions of senior management. The loss of any key member of management may prevent the Company from implementing its business plans in a timely manner. In addition, employment conditions specifically may affect the Company's ability to hire and train qualified associates.

WEIS MARKETS, INC.

Table of Contents

Item 1a. Risk Factors: (continued)

Food safety issues could result in the loss of consumer confidence in the Company.

Customers count on the Company to provide them with safe and wholesome food products. Concerns regarding the safety of food products sold in its stores could cause shoppers to avoid purchasing certain products from the Company, or to seek alternative sources of supply for all of their food needs, even if the basis for the concern is outside of the Company's control. A loss in confidence on the part of its customers would be difficult and costly to reestablish. As such, any issue regarding the safety of any food items sold by the Company, regardless of the cause, could have a substantial and adverse effect on operations.

The failure to execute expansion plans could have a material adverse effect on the Company's business and results of its operations.

Circumstances outside the Company's control could negatively impact anticipated capital investments in store, distribution and manufacturing projects, information technology and equipment. The Company cannot determine with certainty whether its new or acquired stores will meet expected benefits including, among other things, operating efficiencies, procurement savings, innovation, sharing of best practices and increased market share that may allow for future growth. Achieving the anticipated benefits may be subject to a number of significant challenges and uncertainties, including, without limitation, the possibility of imprecise assumptions underlying expectations regarding potential synergies and the integration process, unforeseen expenses and delays diverting management's time and attention and competitive factors in the marketplace.

Disruptions or cybersecurity breaches in the Company's information technology systems could adversely affect results.

The Company's business is highly dependent on complex information technology systems that are vital to its continuing operations. If the Company was to experience difficulties maintaining existing systems or implementing new systems, significant losses could be incurred due to disruptions in its operations. Additionally, these systems contain valuable proprietary data as well as receipt and storage of personal information about its associates and customers, in particular electronic payment data and personal health information that, if breached, would have an adverse effect on the Company. Such an occurrence could adversely affect the Company's reputation with its customers, associates, and vendors, as well as the Company's operations, results of operations, financial condition and

liquidity, and could result in litigation against the Company or the imposition of penalties.

The Company is affected by certain operating costs which could increase or fluctuate considerably.

Associate expenses contribute to the majority of the Company's operating costs. The Company's financial performance is potentially affected by increasing wage and benefit costs, a competitive labor market, regulatory wage increases and the risk of unionized labor disruptions of its non-union workforce. The Company's profit is particularly sensitive to the cost of oil. Oil prices directly affect the Company's product transportation costs, as well as its utility and petroleum-based supply costs. It also affects the costs of its suppliers, which impacts its cost of goods.

Various aspects of the Company's business are subject to federal, state and local laws and regulations.

The Company is subject to various federal, state and local laws, regulations and administrative practices that affect the Company's business. The Company must comply with numerous provisions regulating health and sanitation standards, food labeling, equal employment opportunity, minimum wages and licensing for the sale of food, drugs and alcoholic beverages. The Company's compliance with these regulations may require additional capital expenditures and could adversely affect the Company's ability to conduct the Company's business as planned. Management cannot predict either the nature of future laws, regulations, interpretations or applications, or the effect either additional government regulations or administrative orders, when and if promulgated, or disparate federal, state, and local regulatory schemes would have on the Company's future business. They could, however, require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. Any or all of such requirements could have an adverse effect on the Company's results of operations and financial condition.

WEIS MARKETS, INC.

Table of Contents

Item 1a. Risk Factors: (continued)

Unexpected factors affecting self-insurance claims and reserve estimates could adversely affect the Company.

The Company uses a combination of insurance and self-insurance to provide for potential liabilities for workers' compensation, general liability, vehicle accident, property and associate medical benefit claims. Management estimates the liabilities associated with the risks retained by the Company, in part, by considering historical claims experience, demographic and severity factors and other actuarial assumptions which, by their nature, are subject to a high degree of variability. Any projection of losses concerning workers' compensation and general liability is subject to a high degree of variability. Among the causes of this variability are unpredictable external factors affecting future inflation rates, discount rates, litigation trends, legal interpretations, benefit level changes and claim settlement patterns.

Changes in tax laws may result in higher income tax.

The Company's future effective tax rate may increase from current rates due to changes in laws and the status of pending items with various taxing authorities. Currently, the Company benefits from a combination of its corporate structure and certain state tax laws.

The Company's investment portfolio may suffer losses from changes in market interest rates and changes in market conditions which could adversely affect results of income or liquidity.

The Company's marketable securities consist of municipal bonds and equity securities. The municipal bond investments are subject to general credit, liquidity, market and interest rate risks. Substantially all of these securities are subject to interest rate and credit risk and will decline in value if interest rates increase or one of the issuers' credit ratings is reduced. As a result, the Company may experience a reduction in value or loss of liquidity from investments, which may have a negative impact on the Company's results of operations, liquidity and financial condition.

The Company is a controlled Company due to the common stock holdings of the Weis family.

The Weis family's share ownership represents approximately 65% of the combined voting power of the Company's common stock as of December 29, 2018. As a result, the Weis family has the power to elect a majority of the Company's directors and approve any action requiring the approval of the shareholders of the Company, including adopting certain amendments to the Company's charter and approving mergers or sales of substantially all of the Company's assets. Currently, one of the Company's five directors is a member of the Weis family.

Changes in vendor promotions or allowances, including the way vendors target their promotional spending, and the Company's ability to effectively manage these programs could significantly impact margins and profitability.

The Company cooperatively engages in a variety of promotional programs with its vendors. As the parties assess the results of specific promotions and plan for future promotions, the nature of these programs and the allocation of dollars among them changes over time. The Company manages these programs to maintain or improve margins while at the same time increasing sales. A reduction in overall promotional spending or a shift by vendors in promotional spending away from certain types of promotions that the Company and its customers have historically utilized could have a significant impact on profitability.

Item 1b. Unresolved Staff Comments:

There are no unresolved staff comments.

WEIS MARKETS, INC.

Table of Contents

Item 2. Properties:

As of December 29, 2018, the Company owned and operated 95 of its retail food stores and leased and operated 107 stores under operating leases that expire at various dates through 2033. The Company owns all trade fixtures and equipment in its stores and several parcels of vacant land, which are available as locations for possible future stores or other expansion.

The Company owns and operates one distribution center in Milton, Pennsylvania of approximately 1.3 million square feet, and one in Northumberland, Pennsylvania totaling approximately 76,000 square feet. The Company also owns one warehouse complex in Sunbury, Pennsylvania totaling approximately 541,000 square feet. The Company utilizes 258,000 square feet of its Sunbury location to operate its ice cream plant, meat processing plant and milk processing plant.

Item 3. Legal Proceedings:

Neither the Company nor any subsidiary is presently a party to, nor is any of their property subject to, any pending legal proceedings, other than routine litigation incidental to the business that would not have a material adverse effect on the financial results. The Company estimates any exposure to these legal proceedings and establishes accruals for the estimated liabilities, where it is reasonably possible to estimate and where an adverse outcome is probable.

WEIS MARKETS, INC.

Table of Contents

Executive Officers of the Registrant

The following sets forth the names and ages of the Company's executive officers as of March 14, 2019, indicating all positions held during the past five years:

Name	Age	Title
Wayne S. Bailey (a)	60	Senior Vice President of Supply Chain and Logistics
Scott F. Frost (b)	56	Senior Vice President, Chief Financial Officer and Treasurer
David W. Gose II (c)	52	Senior Vice President of Operations
Harold G. Graber (d)	63	Senior Vice President of Real Estate and Development, Secretary
Richard A. Gunn (e)	54	Senior Vice President of Merchandising and Marketing
James E. Marcil (f)	60	Senior Vice President of Human Resources
Kurt A. Schertle (g)	47	Chief Operating Officer
Jonathan H. Weis (h)	51	Chairman of the Board, President and Chief Executive Officer

(a) Wayne S. Bailey. Mr. Bailey joined the Company full-time in 1979 and he has held several positions since then, including but not limited to, Grocery Manager, Store Manager, District Manager, Director of Merchandising and Sales and Vice President of Operational Administration. In January 2011, Mr. Bailey became a Regional Vice President and in January 2013 he assumed the role of Vice President of Supply Chain and Logistics. In June 2016, Mr. Bailey was promoted to Senior Vice President of Supply Chain and Logistics.

(b) Scott F. Frost. Mr. Frost joined the Company full-time in 1984 and he has held various positions since then, including but not limited to, Controller, Assistant Secretary, Assistant Treasurer and Acting Chief Financial Officer. The Company appointed Mr. Frost as Vice President, Chief Financial Officer and Treasurer in October 2009. In January 2011, Mr. Frost was promoted to Senior Vice President, Chief Financial Officer and Treasurer.

(c) David W. Gose II. Mr. Gose joined the Company in May 2014 as Senior Vice President of Operations. Prior to joining the Company, Mr. Gose was Senior Director and Regional General Manager of Walmart Ohio, a retail store SuperCenter, from February 2010 until May 2014. Walmart Ohio consisted of 92 stores that geographically included all stores South of Toledo, Cleveland, Akron and Youngstown.

(d) Harold G. Graber. Mr. Graber joined the Company in October 1989 as the Director of Real Estate. Mr. Graber, who served the Company as Vice President for Real Estate since 1996, was promoted to Senior Vice President of

Real Estate and Development in February 2010. Mr. Graber was appointed as Secretary of the Company in February 2014.

- (e) Richard A. Gunn. Mr. Gunn joined the Company in May 2015 as the Senior Vice President of Merchandising and Marketing. Prior to joining the Company, Mr. Gunn was employed by K-VA-T Food Stores, Inc. from May 1999 through April 2015 and most recently served as Executive Vice President of Merchandising and Marketing. K-VA-T Food Stores, Inc. is a regional supermarket chain and distribution center operating in Virginia, Kentucky and Tennessee.
- (f) James E. Marcil. Mr. Marcil joined the Company in September 2002 as Vice President of Human Resources. In February 2010, Mr. Marcil was promoted to Senior Vice President of Human Resources.
- (g) Kurt A. Schertle. The Company hired Mr. Schertle on March 1, 2009 as its Vice President of Sales and Merchandising, which included the responsibility of overseeing the Marketing Department. In February 2010, Mr. Schertle was promoted to Senior Vice President of Sales and Merchandising. In July 2012, Mr. Schertle was promoted to Executive Vice President of Sales and Merchandising at which time, he assumed the additional responsibility of overseeing the Company's Supply Chain. In September 2013, Mr. Schertle assumed the additional responsibility of overseeing Store Operations and Mr. Schertle was promoted to Chief Operating Officer in March 2014.
- (h) Jonathan H. Weis. The Company has employed Mr. Weis since 1989. Mr. Weis served the Company as Vice President of Property Management and Development from 1996 until April 2002, at which time he was appointed as Vice President and Secretary. In January of 2004, the Board appointed Mr. Weis as Vice Chairman and Secretary. Mr. Weis became the Company's interim President and Chief Executive Officer in September 2013 and was appointed as President and Chief Executive Officer in February 2014. The Board elected Mr. Weis as Chairman of the Board in April 2015.

WEIS MARKETS, INC.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:

The Company's stock is traded on the New York Stock Exchange (ticker symbol WMK). The approximate number of shareholders, including individual participants in security position listings on March 08, 2019 was 6,291.

The following line graph compares the yearly percentage change in the cumulative total shareholder return on the Company's common stock against the cumulative total return of the S&P Composite-500 Stock Index and the cumulative total return of a Company selected group index that the Company deems most properly represents its "Peer Group", for the period of five years. The Peer group is made up of four retail grocers that the Company feels most closely relate to its size and business profile, and one national grocer the Company believes to be an industry market leader. The companies making up the Peer Group, in no particular order, are, Ingles Markets, Inc; Village Super Market, Inc.; Smart & Final Stores, Inc.; Sprouts Farmers Market, Inc. and The Kroger Company. The graph depicts \$100 invested at the close of trading on the last trading day preceding the first day of the fifth preceding year in Weis Markets, Inc. common stock, S&P 500, and the Peer Group. The cumulative total return assumes reinvestment of dividends.

Comparative Five-Year Total Returns

	2013	2014	2015	2016	2017	2018
Weis Markets, Inc.	100.00	94.96	95.17	141.18	89.59	104.11

Edgar Filing: WEIS MARKETS INC - Form 10-K

S&P 500	100.00	113.43	112.10	121.58	145.19	134.99
Peer Group	100.00	107.65	120.99	113.48	90.50	85.34

WEIS MARKETS, INC.

Table of Contents

Item 6. Selected Financial Data:

The following selected historical financial information has been derived from the Company's audited Consolidated Financial Statements. This information should be read in connection with the Company's Consolidated Financial Statements and the Notes thereto, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in Item 7.

Five Year Review of Operations

(dollars in thousands, except shares, per share amounts and store information)	52 Weeks Ended Dec. 29, 2018	52 Weeks Ended Dec. 30, 2017	53 Weeks Ended Dec. 31, 2016	52 Weeks Ended Dec. 26, 2015	52 Weeks Ended Dec. 27, 2014
Net sales	\$ 3,509,270	\$ 3,466,807	\$ 3,136,720	\$ 2,876,748	\$ 2,776,683
Costs and expenses	3,425,680	3,390,382	3,038,395	2,785,969	2,695,308
Income from operations	83,590	76,425	98,325	90,779	81,375
Investment income and interest expense	(1,454)	2,598	2,457	1,552	2,287
Gain on bargain purchase	-	-	23,879	-	-
Income before provision for income taxes	82,136	79,023	124,661	92,331	83,662
Provision for income taxes	19,398	(19,391)	37,499	33,001	29,281
Net income	62,738	98,414	87,162	59,330	54,381
Retained earnings, beginning of year	1,127,872	1,062,778	1,007,894	980,842	958,739
	1,190,610	1,161,192	1,095,056	1,040,172	1,013,120
Adoption of ASC 2016-01 accounting standards	(5,481)	-	-	-	-
Other comprehensive income tax reform adjustment	-	1,042	-	-	-
Cash dividends	32,546	32,278	32,278	32,278	32,278
Retained earnings, end of year	\$ 1,163,546	\$ 1,127,872	\$ 1,062,778	\$ 1,007,894	\$ 980,842
Weighted-average shares outstanding, diluted	26,898,443	26,898,443	26,898,443	26,898,443	26,898,443
Cash dividends per share	\$ 1.21	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20
Basic and diluted earnings per share	\$ 2.33	\$ 3.66	\$ 3.24	\$ 2.21	\$ 2.02
Working capital	\$ 201,909	\$ 208,972	\$ 207,700	\$ 232,722	\$ 229,595
Total assets	\$ 1,432,011	\$ 1,441,739	\$ 1,431,304	\$ 1,235,959	\$ 1,191,119
Shareholders' equity	\$ 1,022,899	\$ 992,844	\$ 926,722	\$ 871,747	\$ 844,763

Number of grocery stores	202	205	204	163	163
--------------------------	-----	-----	-----	-----	-----

9

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand Weis Markets, Inc., its operations and its present business environment. The MD&A is provided as a supplement to and should be read in conjunction with the Consolidated Financial Statements and the accompanying notes thereto contained in "Item 8. Financial Statements and Supplementary Data" of this report. The following analysis should also be read in conjunction with the Financial Statements included in the Quarterly Reports on Form 10-Q and the 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. This overview summarizes the MD&A, which includes the following sections:

- Company Overview - a general description of the Company's business and strategic imperatives.
- Results of Operations - an analysis of the Company's consolidated results of operations for the three years presented in the Company's Consolidated Financial Statements.
- Liquidity and Capital Resources - an analysis of cash flows, aggregate contractual obligations, and off-balance sheet arrangements.
- Critical Accounting Policies and Estimates - a discussion of accounting policies that require critical judgments and estimates.

Company Overview

General

Weis Markets is a conventional supermarket chain that operates 200 retail stores with over 23,000 associates located in Pennsylvania and six surrounding states: Delaware, Maryland, New Jersey, New York, Virginia, and West Virginia. Its products sold include groceries, dairy products, frozen foods, meats, seafood, fresh produce, floral,

pharmacy services, deli products, prepared foods, bakery products, beer and wine, fuel, and general merchandise items, such as health and beauty care and household products. The store product selection includes national, local and private brands and the Company promotes by using Everyday Lower Price, Low Price Guarantee, Low, Low Price, and Loyalty programs. The Loyalty program includes fuel rewards that may be redeemed at the Company's fuel stations or one of its third-party fuel station partners. On January 17, 2019 the Company announced a new pricing strategy for its private brand products named Low, Low Price. The move takes the Company's private brand products from a high, low pricing strategy to everyday low cost.

Utilizing its own centrally located distribution center and transportation fleet, Weis Markets self distributes approximately 65% of product with the remaining being supplied by direct store vendors. In addition, the Company has three manufacturing facilities which process milk, ice cream and fresh meat products. The corporate offices are located in Sunbury, PA where the Company was founded in 1912. The Company's operations are reported as a single reportable segment.

In 2016, Weis Markets acquired five Mars Super Market locations in Baltimore County, MD, 38 Food Lion stores throughout Maryland, Virginia and Delaware, and a Nell's Family Market in East Berlin, PA. The completion of these individual acquisitions expanded the Company's footprint into Virginia and Delaware, and increased its store count by 25 percent. The Food Lion acquisition resulted in a 2016 Gain on Bargain Purchase Net of Tax being recorded of \$23.8 million. To date the acquired store group is providing a positive cash flow for the Company at a greater return on the fair value investment than if stores had been organically established. As the acquired stores assimilate, management anticipates the adverse impact of these stores on Company margins to lessen. During 2018, the Company closed two former Food Lion stores from the acquired store group. Although there are no pending acquisitions, the Company continues to actively investigate acquisition opportunities as well as grow its existing store base organically.

The Company continues to innovate and remain relevant to industry trends and offer customer convenience by presenting

programs like "Weis 2 Go Online" and home delivery. In 2018 the Company offered Weis 2 Go Online in 89 of its locations. Weis 2 Go Online allows the customer to order on-line and then pick up their order at a drive-thru location at the store. The Company began offering home delivery during the third quarter of 2018 and currently offers this convenience to customers in 173 different locations.

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Company Overview, (continued)

Strategic Imperatives

The following strategic imperatives continue to be focused upon by the Company to attempt to ensure the success of the Company in the coming years:

- Establish a Sales Driven Culture – The Company continues to focus on sales and profits growth, improved operating practices, increased productivity and positive cash flow. The Company believes disciplined growth will increase its market share and operating profits, resulting in enhanced shareholder value. The Company's method of driving sales includes focused preparation and execution of sales programs, investing in new stores and remodels, and strategic acquisitions. Communicating clear executable standards and aligning performance measures across the organization will help to instill a sales-driven operating environment.
- Build and Support Human Capital – The Company believes that talent is a business differentiator and is committed to creating a sustainable competitive advantage through the selection, development and promotion of talented, highly motivated people. The Company believes that establishing a learning culture supports its commitment to be an employer of choice and helps drive customer engagement with its associates. Improvements in the Company's talent management and development will help drive business impact while providing internal career opportunities. The Company continues to grow leaders at every level throughout the organization by creating a culture of mentoring, coaching and leveraging on-the-job assignments for continued development. The Company believes that a strong employment brand is necessary to attract and retain top talent and affects its ability to compete and execute strategic plans. The Company will continue to assess and upgrade underlying technologies to support human capital development as a strategic imperative for future growth.
- Become More Relevant to Consumers – Understanding the consumer is crucial to the Company's strategic plan. The Company will develop and cultivate a culture where it's continually "on trend" with its consumers at the current time and where they are going next. The Company researches and studies the wants and needs of core consumers and casual consumers. It measures customer satisfaction and shares insights across the organization to improve communication between management and its consumers. The Company uses consumer data to measure the value of programs offered and support consumer attraction and retention. The Company believes that its private brand products exceed consumer expectations and will continue to focus on the value and attribute messaging to drive organic growth.

- Create Meaningful Differentiation – The Company recognizes the need to offer a compelling reason for customers to choose them over other channels. The Company has identified product pricing and promotion, customer shopping experience, and merchandising strategies as critical components of future success. The Company recognizes that the core of the strategy will focus on alignment of merchandising programs that foster customer engagement supported by a shopping experience that surpasses customers’ expectations. As part of this strategy, management is committed to offering its customers a strong combination of quality, service and value.
- Develop and Align Organizational Capabilities – The Company will elevate organizational capacity to support decision effectiveness and deliver consistent execution. To support this strategy the Company will assess organizational capacity to support the Company’s strategic direction. The Company will align business functions and processes to enhance key capabilities and to support scalability of operations. Continued investments in information technology systems to improve associate engagement, increase productivity, and provide valuable insight into customer behavior/shopping trends will remain a focus of the Company. The Company believes these systems will continue to play a key role in the measurement of the Company’s strategic decisions and financial returns.
- Focus on Sustainability Strategies – The Company strives to be good stewards of the environment and makes this an important part of its overall mission. Its sustainability strategy operates under four key pillars: green design, natural resource conservation, food and agricultural impact and social responsibility. The goal of the sustainability strategy is to reduce the Company’s overall carbon footprint by reducing greenhouse gas emissions and reducing the impact on climate change.

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Results of Operations

Analysis of Consolidated Statements of Income

(dollars in thousands except per share amounts)	Percentage Changes					
	2018	2017	2016	2018 vs 2017	2017 vs 2016	
For the Fiscal Years Ended December 29, 2018, December 30, 2017 and December 31, 2016	(52 Weeks)	(52 Weeks)	(53 Weeks)	2017	2016	
Net sales	\$ 3,509,270	\$ 3,466,807	\$ 3,136,720	1.2	10.5	%
Cost of sales, including advertising, warehousing and distribution expenses	2,574,269	2,554,284	2,273,182	0.8	12.4	
Gross profit on sales	935,001	912,523	863,538	2.5	5.7	
Gross profit margin	26.6	26.3	27.5	%	%	
Operating, general and administrative expenses	851,411	836,098	765,213	1.8	9.3	
O, G & A, percent of net sales	24.3	24.1	24.4	%	%	
Income from operations	83,590	76,425	98,325	9.4	(22.3)	
Operating margin	2.4	2.2	3.1	%	%	
Investment income and interest expense	(1,454)	2,598	2,457	(156.0)	5.7	
Investment income and interest expense, percent of net sales	(0.0)	0.1	0.1	%	%	
Gain on bargain purchase	-	-	23,879	0.0	(100.0)	
Gain on bargain purchase, percent of net sales	-	-	0.8	%	%	
Income before provision for income taxes	82,136	79,023	124,661	3.9	(36.6)	
Income before provision for income taxes, percent of net sales	2.3	2.3	4.0	%	%	
Provision for income taxes	19,398	(19,391)	37,499	(200.0)	(151.7)	
Effective income tax rate	23.6	(24.5)	30.1	%	%	
Net income	\$ 62,738	\$ 98,414	\$ 87,162	(36.3)	12.9	%

Edgar Filing: WEIS MARKETS INC - Form 10-K

Net income, percent of net sales	1.8	%	2.8	%	2.8	%				
Basic and diluted earnings per share	\$ 2.33		\$ 3.66		\$ 3.24		(36.3)	%	13.0	%

Net Sales

(dollars in thousands)

For the Fiscal Years Ended December 29, 2018,

December 30, 2017 and December 31, 2016	Percentage Changes			
	2018 vs	2017 vs	2017 vs	2016 vs
Net sales	1.2	%	10.5	%
Net sales, excluding fuel sales	0.8		10.4	
Net sales, adjusted for the additional week in 2016	1.2		12.8	
Net sales, adjusted for the additional week in 2016, excluding fuel sales	0.8		12.6	
Comparable store sales, adjusted for the additional week in 2016	0.7		1.6	
Comparable store sales, adjusting for the additional week in 2016, excluding fuel sales	0.3	%	1.2	%

(1) The 2018 and 2017 years were comprised of 52 weeks where the 2016 year was comprised of 53 weeks. Due to the Company's 2016 fiscal year being comprised of 53 weeks, the first quarter of 2017 did not include a New Year holiday sales week. Management estimates the incremental holiday sales impact was approximately \$3.0 million in 2016. The \$3.0 million holiday impact has been removed from the 2016 comparable sales numbers above.

When calculating the percentage change in comparable store sales, the Company defines a new store to be comparable when it has been in operation after 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.

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Results of Operations (continued)

Net Sales (continued)

According to the latest U.S. Bureau of Labor Statistics' report, the annual Seasonally Adjusted Food-at-Home Consumer Price Index increased 0.7% in 2018 but decreased 0.2% and 1.3% in 2017 and 2016, respectively. Even though the U.S. Bureau of Labor Statistics' index rates may be reflective of a trend, it will not necessarily be indicative of the Company's actual results. According to the U.S. Department of Energy, the 52-week average price of gasoline in the Central Atlantic States increased 9.8%, or \$0.26 per gallon, in 2018 compared to the 52-week average in 2017. The 52-week average price of gasoline in the Central Atlantic States, according to the U.S. Department of Energy, increased 13.1%, or \$0.31 per gallon, in 2017 compared to the 53-week average in 2016.

Comparable store sales increased for all years presented. The Company was able to achieve this through targeted, tactical marketing programs in key regional markets along with its chain wide sales-driving promotional programs such as its loyalty card. In conjunction with its marketing initiatives the Company continues to add additional product offerings and customer conveniences such as "Weis 2 Go Online" currently offered in 89 store locations. "Weis 2 Go Online" allows the customer to order on-line and then pick their order up at a drive-thru location at the store. The Company continues to expand this offering, as well as home delivery offered in 173 stores. In addition to the aforementioned offerings and programs, the Company experienced inflation in some of its fresh categories, most notably eggs, fruits, and vegetables. Fuel sales benefited from inflation as comparable fuel sales rose 10.2% during 2018.

Although the Company experienced retail inflation and deflation in various commodities for the years presented, management cannot accurately measure the full impact of inflation or deflation on retail pricing due to changes in the types of merchandise sold between periods, shifts in customer buying patterns and the fluctuation of competitive factors. Management remains confident in its ability to generate sales growth in a highly competitive environment, but also understands some competitors have greater financial resources and could use these resources to take measures which could adversely affect the Company's competitive position.

Cost of Sales and Gross Profit

Cost of sales consists of direct product costs (net of discounts and allowances), net advertising costs, distribution center and transportation costs, as well as manufacturing facility operations. Almost all the increase in cost of sales in 2018 as compares to 2017 is due to the increased sales volume in 2018. Both direct product cost and distribution cost increase when sales volume increases.

Gross profit rate was 26.6% in 2018, 26.3% in 2017 and 27.5% in 2016. The increase in gross profit margin in 2018 can be attributed to improved price optimization, the Company's private brand initiative, and inventory management. The majority of the increase in profit margin occurred in the summer months, where fresh department sell-through during the summer vacation season much improved results to that of 2017.

The Company experienced non-cash LIFO inventory valuation adjustment income of \$1.5 million, \$1.1 million and \$2.2 million for 2018, 2017, and 2016, respectively.

Although the Company experienced product cost inflation and deflation in various commodities in 2018, 2017 and 2016, management cannot accurately measure the full impact of inflation or deflation on retail pricing due to changes in the types of merchandise sold between periods, shifts in customer buying patterns and the fluctuation of competitive factors.

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Results of Operations (continued)

Operating, General and Administrative Expenses

The majority of the expenses were driven by increased sales volume.

Employee-related costs such as wages, employer paid taxes, health care benefits and retirement plans, comprise approximately 67% of the total "Operating, general and administrative expenses." As a percent of sales, direct store labor increased 0.2% in 2018 compared to 2017 and decreased 0.2% in 2017 compared to 2016. State and local minimum wage laws continue to be a challenge for the Company however, management continues to monitor store labor efficiencies and develop labor standards to reduce costs while maintaining the Company's customer service expectations to offset their impact.

The Company's self-insured health care benefit expenses increased by 6.6% in 2018 compared to 2017 and increased by 4.2% in 2017 compared to 2016. The Company saw a higher than average amount of high dollar claims in 2018. The Company does not expect this trend to continue.

Depreciation and amortization expense charged to "Operating, general and administrative expenses" was \$84.4 million, or 2.4% of net sales, for 2018 compared to \$77.4 million, or 2.2% of net sales, for 2017 and \$69.8 million, or 2.2% of net sales, for 2016. The increase in depreciation and amortization expense in 2018 compared to 2017 was due to the impact of opening two locations and a significant investment in stores equipment in 2018. The increase in depreciation and amortization expense in 2017 compared to 2016 was due to the impact of opening the 44 acquisition stores in the second half of 2016. See the Liquidity and Capital Resources section for further information regarding the Company's capital expansion program.

In 2018, the Company determined that the asset value of one store property was impaired. As a result, the Company recognized a pre-tax impairment loss of \$1.5 million. Similarly, in 2016, the Company determined that the asset value of one store property was impaired and recognized a pre-tax impairment loss of \$894,000. See Note 1(l) to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information on the

Company's impairment charges.

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

	2018 vs. 2017		2017 vs. 2016	
	Increase	Increase (Decrease)	Increase	Increase (Decrease)
(dollars in thousands)	(Decrease) as a % of sales		(Decrease) sales as a % of	
Annually accrued incentive programs	\$ 11,745	0.3 %	\$ (10,813)	(0.4) %
Rent Expense			7,152	0.1

As Company incentive goals were not met in 2017, expense from annually accrued incentive programs decreased from 2016, then increased as 2018 goals were met.

The dollar amount increase in rent in 2017 is primarily driven by the acquisition of five former Mars Super Market stores, 38 former Food Lion stores and a former Nell's Family Market store in the second half of 2016. The Company expects the percent of sales to decrease over time as it develops the acquisition stores' sales.

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Results of Operations (continued)

Provision for Income Taxes

The effective income tax rate was 23.6%, negative 24.5% and 30.1% in 2018, 2017 and 2016, respectively. The effective income tax rate differs from the federal statutory rate of 21% primarily due nondeductible employee expenses. On December 22, 2017, the U.S. Government enacted the Tax Cuts and Jobs Act (the "Tax Reform"). The Tax Reform significantly impacted the Company's effective income tax rate by reducing the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018 and allowing immediate expensing of qualified assets placed into service after September 27, 2017. Other elements of the Tax Reform have minor impacts, however the above mentioned decreased deferred income tax by \$ 49.3 million. The effective income tax rate decreased in 2016 due to the impact of the bargain purchase gain on the 38 locations being included in the overall gain calculation and not in income tax expense. The effective tax rate excluding the bargain purchase gain was 37.2%

Liquidity and Capital Resources

The primary sources of cash are cash flows generated from operations and borrowings under the revolving credit agreement the Company entered into on September 1, 2016 with Wells Fargo Bank, NA (the "Credit Agreement"). The Credit Agreement provides for an unsecured revolving credit facility with an aggregate principal amount not to exceed \$100.0 million with an additional discretionary amount available of \$50.0 million. On October 24, 2018, the credit agreement was amended to reduce the available revolving credit amount from \$100.0 million to \$50.0 million, with an additional discretionary availability of \$50.0 million. As of December 29, 2018, the availability under the revolving credit agreement was \$87.1 million with \$12.9 million of letters of credit outstanding. The revolving credit agreement matures on September 1, 2019. 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.

The Company's investment portfolio consists of high grade municipal bonds with maturity dates between one and 10 years and large capitalized public company equity securities. The portfolio totaled \$54.3 million as of December 29, 2018. Management anticipates maintaining the investment portfolio, but has the ability to liquidate if needed. See "Item 7a. Quantitative and Qualitative Disclosures about Market Risk" for more details regarding the Company's market risk.

The Company's capital expansion program includes the construction of new superstores, the expansion and remodeling of existing units, the acquisition of sites for future expansion, new technology purchases and the continued upgrade of the Company's distribution facilities and transportation fleet. Management currently plans to invest approximately \$81.7 million in its capital expansion program in 2019.

The Board of Directors' 2004 resolution authorizing the repurchase of up to one million shares of the Company's common stock has a remaining balance of 752,468 shares.

Quarterly Cash Dividends

Total cash dividend payments on common stock, on a per share basis, amounted to \$1.21 in 2018 and \$1.20 in 2017 and 2016, respectively. The Company expects to continue paying regular cash dividends on a quarterly basis. However, the Board of Directors reconsiders the declaration of dividends quarterly. The Company pays these dividends at the discretion of the Board of Directors and the continuation of these payments and the amount of the dividends depends upon the results of operations, the financial condition of the Company and other factors which the Board of Directors deems relevant.

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Liquidity and Capital Resources (Continued)

Cash Flow Information

(dollars in thousands)

For the Fiscal Years Ended December 29, 2018, December 30, 2017 and December 31, 2016	2018 (52 Weeks)	2017 (52 weeks)	2016 (53 weeks)	2018 vs. 2017	2017 vs. 2016
Net cash provided by (used in):					
Operating activities	\$ 148,380	\$ 160,261	\$ 149,076	\$ (11,881)	\$ 11,185
Investing activities	(90,955)	(97,396)	(186,734)	6,441	89,338
Financing activities	(67,534)	(61,766)	32,198	(5,768)	(93,964)

Operating

Cash flows from operating activities decreased in 2018 as compared to 2017 and increased in 2017 as compared to 2016. The change from 2017 to 2018 primarily reflects the increase in income tax payments partially offset by accounts payable. The change from 2016 to 2017 is due to the acquisitions. The acquisitions are summarized in Note 11 of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K. In addition, in 2017 the negative impact of first quarter long-term incentive payments of \$11.8 million were offset by a reduction of \$17.1 million of cash paid for income taxes during the year.

Investing

Property and equipment purchases totaled \$95.6 million in 2018, compared to \$95.9 million in 2017 and \$142.1 million in 2016. In the second half of 2016, the Company paid \$24.6 million for the purchase of five former Mars Super Market locations in the Baltimore County, MD region; \$29.4 million for the purchase of 38 former Food Lion Supermarket locations throughout Virginia, Maryland and Delaware and \$9.6 million for the purchase of a former Nell's Family Market location in East Berlin, PA. As a percentage of sales, capital expenditures, including the 2016 acquisitions, totaled 2.7% in 2018, 2.8% in 2017, and 7.0% in 2016. In 2019, the Company plans to maintain or increase its marketable securities portfolio.

Financing

The Company paid dividends of \$32.5 million in 2018 and \$32.3 million 2017 and 2016. In 2018 and 2017, payments on the revolving credit agreement increased net cash used in financing activities by \$35.0 million and \$29.5 million respectively. In 2016 the revolving credit agreement increased net cash flow from financing activities by \$64.5 million.

Contractual Obligations

The following table represents scheduled maturities of the Company's long-term contractual obligations as of December 29, 2018.

(dollars in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	\$ 242,284	\$ 43,713	\$ 75,286	\$ 52,873	\$ 70,412
Long-term Debt	-	-	-	-	-
Total	\$ 242,284	\$ 43,713	\$ 75,286	\$ 52,873	\$ 70,412

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Off-Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the Company's financial condition, results of operations or cash flows, except for the Company's lease commitments to be recognized on the balance sheet related to operating leases for its store facilities and transportation equipment, which will be required for annual periods beginning after December 15, 2018 per the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). See Note 1(v) Summary of Significant Accounting Policies, to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information on ASU 2016-02.

Critical Accounting Policies and Estimates

The Company has chosen accounting policies that it believes are appropriate to accurately and fairly report its operating results and financial position, and the Company applies those accounting policies in a consistent manner. The Significant Accounting Policies are summarized in Note 1 to the Consolidated Financial Statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that the Company makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The Company evaluates these estimates and assumptions on an ongoing basis and may retain outside consultants, lawyers and actuaries to assist in its evaluation. The Company believes the following accounting policies are the most critical because they involve the most significant judgments and estimates used in preparation of its Consolidated Financial Statements.

Inventories

Inventories are valued at the lower of cost or net realizable value, using both the last-in, first-out (LIFO) for center store and pharmacy inventories and average cost methods for fresh inventories. Under the LIFO method, inventory is stated at cost, which is determined by applying a cost-to-retail to each similar merchandise category's ending retail value. The Company's fresh inventories are valued using average cost. The Company evaluates inventory shortages throughout the year based on actual physical counts in its facilities. Allowances for inventory shortages are recorded based on the results of these counts and to provide for estimated shortages from the last physical count to the financial statement date.

Vendor Allowances

Vendor allowances related to the Company's buying and merchandising activities are recorded as a reduction of cost of sales as they are earned, in accordance with the underlying agreement. Off-invoice and bill-back allowances are used to reduce direct product costs upon the receipt of goods. Promotional rebates and credits are accounted for as a reduction in the cost of inventory and recognized when the related inventory is sold. Volume incentive discounts are realized as a reduction of cost of sales at the time it is deemed probable and reasonably estimable that the incentive target will be reached. Long-term contract incentives, which require an exclusive vendor relationship, are allocated over the life of the contract. Promotional allowance funds for specific vendor-sponsored programs are recognized as a reduction of cost of sales as the program occurs and the funds are earned per the agreement. Cash discounts for prompt payment of invoices are realized in cost of sales as invoices are paid. Warehouse and back-haul allowances provided by suppliers for distributing their product through the Company's distribution system are recorded in cost of sales as the required performance is completed. Warehouse rack and slotting allowances are recorded in cost of sales when new items are initially set up in the Company's distribution system, which is when the related expenses are incurred and performance under the agreement is complete. Swell allowances for damaged goods are realized in cost of sales as provided by the supplier, helping to offset product shrink losses also recorded in cost of sales.

WEIS MARKETS, INC.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: (continued)

Critical Accounting Policies and Estimates (continued)

Self-Insurance

The Company is self-insured for a majority of its workers' compensation, general liability, vehicle accident and associate medical benefit claims. The self-insurance liability for most of the medical benefit claims is determined based on historical data and an estimate of claims incurred but not reported. The other self-insurance liabilities including workers' compensation are determined actuarially, based on claims filed and an estimate of claims incurred but not yet reported. The Company was liable for associate health claims up to an annual maximum of \$2.0 million per member prior to March 1, 2014 and an unlimited amount per member as of March 1, 2014. As of March 1, 2014, the Company purchased stop loss insurance which carries a \$500,000 specific deductible with a \$250,000 aggregating deductible. The Company is liable for workers' compensation claims up to \$2.0 million per claim. Property and casualty insurance coverage is maintained with outside carriers at deductible or retention levels ranging from \$100,000 to \$1.0 million. Significant assumptions used in the development of the actuarial estimates include reliance on the Company's historical claims data including average monthly claims and average lag time between incurrence and reporting of the claim.

Forward-Looking Statements

In addition to historical information, this Annual 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 7a. Quantitative and Qualitative Disclosures about Market Risk:

(dollars in thousands)	Expected Maturity Dates							Total	Fair Value
	2019	2020	2021	2022	2023	Thereafter	Dec. 29, 2018		
December 29, 2018									
Rate sensitive assets:									
Fixed interest rate securities	\$ 5,375	\$ 4,625	\$ 6,540	\$ 5,180	\$ 5,280	\$ 16,240	\$ 43,240	\$ 47,072	
Average interest rate	1.66 %	2.04 %	2.09 %	2.51 %	2.57 %	2.68 %	2.34 %		

Other Relevant Market Risks

The Company's equity securities at December 29, 2018 had a cost basis of \$1,198,000 and a fair value of \$7,226,000. The dividend yield realized on these equity investments was 6.07% in 2018. By their nature, both the fixed interest rate securities and the equity investments inherently expose the holders to market risk. The extent of the Company's interest rate and other market risk is not quantifiable or predictable with precision due to the variability of future interest rates and other changes in market conditions. However, the Company believes that its exposure in this area is not material.

The Company's revolving credit agreement is exposed to interest rate fluctuations to the extent of changes in the LIBOR rate. The Company believes this exposure is not material due to availability of liquid assets to eliminate the outstanding credit facility

Table of Contents

Item 8. Financial Statements and Supplementary Data:

WEIS MARKETS, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	December 29, 2018	December 30, 2017
Assets		
Current:		
Cash and cash equivalents	\$ 37,808	\$ 47,917
Marketable securities	54,298	63,665
SERP investment	14,686	14,476
Accounts receivable, net	57,285	56,265
Inventories	280,756	279,509
Prepaid expenses and other current assets	24,289	19,435
Income taxes recoverable	-	2,047
Total current assets	469,122	483,314
Property and equipment, net	887,608	886,243
Goodwill	52,330	52,330
Intangible and other assets, net	22,951	19,852
Total assets	\$ 1,432,011	\$ 1,441,739
Liabilities		
Current:		
Accounts payable	\$ 191,099	\$ 216,252
Accrued expenses	45,354	33,403
Accrued self-insurance	15,516	17,470
Deferred revenue, net	7,961	7,217
Income taxes payable	7,283	-
Total current liabilities	267,213	274,342
Long-term debt	-	34,988
Postretirement benefit obligations	18,110	18,409
Accrued self-insurance	17,795	20,140
Deferred income taxes	90,793	87,422
Other	15,201	13,594
Total liabilities	409,112	448,895
Shareholders' Equity		
Common stock, no par value, 100,800,000 shares authorized, 33,047,807 shares issued, 26,898,443 shares outstanding	9,949	9,949

Edgar Filing: WEIS MARKETS INC - Form 10-K

Retained earnings	1,163,545	1,127,872
Accumulated other comprehensive income (Net of deferred taxes of \$110 in 2018 and \$2,310 in 2017)	262	5,880
	1,173,756	1,143,701
Treasury stock at cost, 6,149,364 shares	(150,857)	(150,857)
Total shareholders' equity	1,022,899	992,844
Total liabilities and shareholders' equity	\$ 1,432,011	\$ 1,441,739
See accompanying notes to Consolidated Financial Statements.		

Table of Contents

WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except shares and per share amounts)

For the Fiscal Years Ended December 29, 2018, December 30, 2017 and December 31, 2016	2018 (52 weeks)	2017 (52 weeks)	2016 (53 weeks)
Net sales	\$ 3,509,270	\$ 3,466,807	\$ 3,136,720
Cost of sales, including advertising, warehousing and distribution expenses	2,574,269	2,554,284	2,273,182
Gross profit on sales	935,001	912,523	863,538
Operating, general and administrative expenses	851,411	836,098	765,213
Income from operations	83,590	76,425	98,325
Investment income (loss) and interest expense	(1,454)	2,598	2,457
Gain on bargain purchase	-	-	23,879
Income before provision for income taxes	82,136	79,023	124,661
Provision for income taxes	19,398	(19,391)	37,499
Net income	\$ 62,738	\$ 98,414	\$ 87,162
Weighted-average shares outstanding, basic and diluted	26,898,443	26,898,443	26,898,443
Cash dividends per share	\$ 1.21	\$ 1.20	\$ 1.20
Basic and diluted earnings per share	\$ 2.33	\$ 3.66	\$ 3.24

Table of Contents

WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

For the Fiscal Years Ended December 29, 2018, December 30, 2017 and December 31, 2016	2018 (52 weeks)	2017 (52 weeks)	2016 (53 weeks)
Net income	\$ 62,738	\$ 98,414	\$ 87,162
Other comprehensive income (loss) by component, net of tax:			
Available-for-sale marketable securities			
Unrealized holding gains (losses) arising during period (Net of deferred taxes of \$62, \$19 and \$239, respectively)	(177)	(43)	348
Accumulated change in effective tax rate	-	1,042	-
Reclassification adjustment for (gains) losses included in net income (Net of deferred taxes of \$14, \$11 and \$180, respectively)	40	29	(257)
Other comprehensive income (loss), net of tax	(137)	1,028	91
Comprehensive income, net of tax	\$ 62,601	\$ 99,442	\$ 87,253

Table of Contents

WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(dollars in thousands, except shares)			Accumulated				Total
	Common Stock	Retained	Other	Treasury Stock	Shareholders'		
For the Fiscal Years Ended	Shares	Amount	Earnings	Income (Loss)	Shares	Amount	Equity
December 29, 2018,							
December 30, 2017, and							
December 31, 2016							
Balance at December 26, 2015	33,047,807	\$ 9,949	\$ 1,007,894	\$ 4,761	6,149,364	\$ (150,857)	\$ 871,747
Net income	—	—	87,162	—	—	—	87,162
Other comprehensive income, net of reclassification adjustments and tax	—	—	—	91	—	—	91
Dividends paid	—	—	(32,278)	—	—	—	(32,278)
Balance at December 31, 2016	33,047,807	9,949	1,062,778	4,852	6,149,364	(150,857)	926,722
Net income	—	—	98,414	—	—	—	98,414
Cumulative effect of accounting principle adoption of ASU 2016-01	—	—	(1,042)	1,042	—	—	—
Other comprehensive loss, net of reclassification adjustments and tax	—	—	—	(14)	—	—	(14)
Dividends paid	—	—	(32,278)	—	—	—	(32,278)
Balance at December 30, 2017	33,047,807	9,949	1,127,872	5,880	6,149,364	(150,857)	992,844
Net income	—	—	62,738	—	—	—	62,738
Cumulative effect of accounting principle adoption of ASU 2016-01	—	—	5,481	(5,481)	—	—	—
Other comprehensive loss, net of reclassification adjustments and tax	—	—	—	(137)	—	—	(137)
Dividends paid	—	—	(32,546)	—	—	—	(32,546)
Balance at December 29, 2018	33,047,807	9,949	1,163,545	262	6,149,364	(150,857)	1,022,899

See accompanying notes to Consolidated Financial Statements.

Table of Contents

WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2018	2017	2016
(dollars in thousands)	(52 weeks)	(52 weeks)	(53 weeks)
Cash flows from operating activities:			
Net income	\$ 62,738	\$ 98,414	\$ 87,162
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	93,567	85,415	76,862
(Gain) loss on disposition of fixed assets	1,274	(700)	1,353
Impairment of fixed assets	1,532	-	894
(Gain) loss on sale of marketable securities	54	40	(437)
Unrealized loss in value of investment securities	1,606	-	-
Gain on sale of intangible assets	-	-	(200)
Gain on acquisition of business	-	-	(23,879)
Deferred income taxes	3,418	(31,993)	5,703
Changes in operating assets and liabilities:			
Inventories	(1,247)	(2,726)	(38,102)
Accounts receivable and prepaid expenses	(5,874)	4,045	(7,613)
Accounts payable and other liabilities	(18,583)	7,742	46,131
Income taxes	9,330	(422)	41
Other	565	446	1,161
Net cash provided by operating activities	148,380	160,261	149,076
Cash flows from investing activities:			
Purchase of property and equipment	(95,696)	(95,857)	(142,144)
Proceeds from the sale of property and equipment	1,734	2,246	442
Purchase of marketable securities	(5,627)	(12,612)	(40,858)
Proceeds from maturities of marketable securities	6,550	8,442	1,335
Proceeds from the sale of marketable securities	5,834	7,272	62,566
Acquisition of business	-	-	(63,632)
Purchase of intangible assets	(3,540)	(3,565)	(2,568)
Proceeds from sale of intangible assets	-	-	200
Change in SERP investment	(210)	(3,322)	(2,075)
Net cash used in investing activities	(90,955)	(97,396)	(186,734)
Cash flows from financing activities:			
Proceeds from (payments on) long-term debt	(34,988)	(29,488)	64,476
Dividends paid	(32,546)	(32,278)	(32,278)
Net cash used in financing activities	(67,534)	(61,766)	32,198
Net decrease in cash and cash equivalents	(10,109)	1,099	(5,460)
Cash and cash equivalents at beginning of year	47,917	46,818	52,278
Cash and cash equivalents at end of period	\$ 37,808	\$ 47,917	\$ 46,818

See accompanying notes to Consolidated Financial Statements. Cash paid for income taxes was \$6.5 million, \$13.0 million and \$31.0 million in 2018, 2017 and 2016, respectively. Cash paid for interest related to long-term debt was \$383,000, \$973,000 and \$141,000 in 2018, 2017 and 2016, respectively.

WEIS MARKETS, INC.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies utilized in preparing the Company's Consolidated Financial Statements:

(a) Description of Business

Weis Markets, Inc. is a Pennsylvania business corporation formed in 1924. The Company is engaged principally in the retail sale of food in Pennsylvania and surrounding states. The Company's operations are reported as a single reportable segment. There was no material change in the nature of the Company's business during fiscal 2018.

(b) Definition of Fiscal Year

The Company's fiscal year ends on the last Saturday in December. Fiscal 2018 was comprised of 52 Weeks, ending on December 29, 2018. Fiscal 2017 was comprised of 52 weeks, ending on December 30, 2017. Fiscal 2016 was comprised of 53 weeks, ending on December 31, 2016. References to years in this Annual Report relate to fiscal years.

(c) Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(d) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The Company maintains its cash balances in the form of core checking accounts and money market accounts. The Company maintains cash deposits with banks that at times exceed applicable insurance limits. The Company reduces its exposure to credit risk by maintaining such deposits with high quality financial institutions that management believes are creditworthy.

The Company considers investments with an original maturity of three months or less to be cash equivalents. Investment amounts classified as cash equivalents as of December 29, 2018 and December 30, 2017 totaled \$5.4 million and \$341,000, respectively.

Consumer electronic payments accepted at the point of sale, including all credit card, debit card and electronic benefits transfer transactions that process in less than seven days are classified as cash equivalents.

(f) Marketable Securities

Marketable securities consist of municipal bonds and equity securities. The Company invests primarily in high-grade marketable debt securities. The Company classifies all of its marketable securities as available-for-sale.

Available-for-sale securities are recorded at fair value as determined by quoted market price based on national markets. Unrealized holding gains and losses, net of the related tax effect, on municipal bonds are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Unrealized holding gains and losses on equity securities are recorded in investment income (loss) and interest expense. A decline in the fair value below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. Dividend and interest income is recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities.

With the adoption of ASU 2016-01, equity securities are measured at fair value and the unrealized holding gains and losses are recorded in investment income (loss) and interest expense. The Company incurred a \$1.6 million loss in 2018 as a result.

(g) Accounts Receivable

Accounts receivable are stated net of an allowance for uncollectible accounts of \$2.1 million and \$1.9 million as of December 29, 2018 and December 30, 2017, respectively. The reserve balance relates to amounts due from pharmacy third party providers, retail customer returned checks, manufacturing customers, vendors and tenants. The Company maintains an allowance for the amount of receivables deemed to be uncollectible and calculates this amount based upon historical collection activity adjusted for current conditions.

WEIS MARKETS, INC.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(h) Inventories

Inventories are valued at the lower of cost or net realizable value, using both the last-in, first-out (LIFO) and average cost methods. The Company's center store and pharmacy inventories are valued using LIFO. Under this method, inventory is stated at cost, which is determined by applying a cost-to-retail to each similar merchandise category's ending retail value. The Company's fresh inventories are valued using average cost. The Company evaluates inventory shortages throughout the year based on actual physical counts in its facilities. Allowances for inventory shortages are recorded based on the results of these counts and to provide for estimated shortages from the last physical count to the financial statement date.

(i) Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on the cost of buildings and improvements and equipment using the straight-line method.

Leasehold improvements are amortized using the straight-line method over the terms of the leases or the useful lives of the assets, whichever is shorter.

Maintenance and repairs are expensed and renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the assets and accumulated depreciation are removed from the respective accounts and any profit or loss on the disposition is credited or charged to "Operating, general and administrative expenses."

(j) Goodwill and Intangible Assets

Goodwill is not amortized but tested for impairment on an annual basis and between annual tests when indicators of impairment are identified. Intangible assets with an indefinite useful life are not amortized until their useful life is determined to be no longer indefinite and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The Company's intangible assets and related accumulated amortization at December 29, 2018 and December 30, 2017 consisted of the following:

(dollars in thousands)	December 29, 2018			December 30, 2017		
	Gross	Amortization Accumulated	Net	Gross	Amortization Accumulated	Net
Liquor Licenses	\$ 14,226	\$ -	\$ 14,226	\$ 11,121	\$ -	\$ 11,121
Lease Acquisitions	10,273	4,666	5,607	10,960	3,902	7,058
Customer Lists	1,597	309	1,288	1,162	175	987
Total	\$ 26,096	\$ 4,975	\$ 21,121	\$ 23,243	\$ 4,077	\$ 19,166

Intangible assets with a definite useful life are generally amortized on a straight-line basis over periods up to 30 years for lease acquisitions and up to 10 years for customer lists. Estimated amortization expense for the next five fiscal years is approximately \$1,017,000 in 2019, \$979,000 in 2020, \$921,000 in 2021, \$673,000 in 2022 and \$526,000 in 2023. As of December 29, 2018, the Company's intangible assets with indefinite lives consisted of goodwill and Pennsylvania liquor licenses.

WEIS MARKETS, INC.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(k) Impairment of Long-Lived Assets

The Company periodically evaluates the period of depreciation or amortization for long-lived assets to determine whether current circumstances warrant revised estimates of useful lives. The Company completes an impairment test annually. The Company also reviews its property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the net undiscounted cash flows expected to be generated by the asset. An impairment loss would be recorded for the excess of net book value over the fair value of the asset impaired. The fair value is estimated based on current market values or expected discounted future cash flows.

With respect to owned property and equipment associated with closed stores, the value of the property and equipment would be adjusted to reflect recoverable values if current economic conditions and estimated fair values of the property was less than the net book value.

In accordance with Accounting Standards Codification No. 360, Property, Plant and Equipment, the Company recorded a pre-tax charge of \$1.5 million in the fourth quarter of 2018 and \$894,000 in the fourth quarter of 2016 for the impairment of long-lived assets, including equipment and leasehold improvements. The charges were a result of management determining that the net book value of these properties was less than the recoverable value. This charge was included as a component of "Operating, general and administrative expenses."

The results of impairment tests are subject to management's estimates and assumptions of projected cash flows and operating results. The Company believes that, based on current conditions, materially different reported results are not likely to result from long-lived asset impairments. However, a change in assumptions or market conditions could result in a change in estimated future cash flows and the likelihood of materially different reported results.

(l) Store Closing Costs

The Company provides for closed store liabilities relating to the estimated post-closing lease liabilities and related other exit costs associated with the store closing commitments. As of December 29, 2018, there were no closed stores with post-closing lease liability or other exit costs. Closed store lease liabilities totaled \$39,000 as of December 30, 2017. The Company estimates the lease liabilities, net of estimated sublease income, using the undiscounted rent payments of closed stores. Other exit costs include estimated real estate taxes, common area maintenance, insurance and utility costs to be incurred after the store closes over the remaining lease term. Store closings are generally

completed within one year after the decision to close. Adjustments to closed store liabilities and other exit costs primarily relate to changes in sublease income and actual exit costs differing from original estimates. Adjustments are made for changes in estimates in the period in which the changes become known. Any excess store closing liability remaining upon settlement of the obligation is reversed to income in the period that such settlement is determined. Store closing liabilities are reviewed quarterly to ensure that any accrued amount that is not a sufficient estimate of future costs, or that is no longer needed for its originally intended purpose, is adjusted to income in the proper period. Inventory write-downs, if any, in connection with store closings are classified in cost of sales. Costs to transfer inventory and equipment from closed stores are expensed as incurred.

(m) Self-Insurance

The Company is self-insured for a majority of its workers' compensation, general liability, vehicle accident and associate medical benefit claims. The self-insurance liability for most of the medical benefit claims is determined based on historical data and an estimate of claims incurred but not reported. The other self-insurance liabilities including workers' compensation are determined actuarially, based on claims filed and an estimate of claims incurred but not yet reported. The Company was liable for associate health claims up to an annual maximum of \$2.0 million per member prior to March 1, 2014 and an unlimited amount per member as of and after March 1, 2014. As of March 1, 2014, the Company purchased stop loss insurance which carries a \$500,000 specific deductible with a \$250,000 aggregating deductible. The Company is liable for workers' compensation claims up to \$2.0 million per claim. Property and casualty insurance coverage is maintained with outside carriers at deductible or retention levels ranging from \$100,000 to \$1.0 million. Significant assumptions used in the development of the actuarial estimates include reliance on the Company's historical claims data including average monthly claims and average lag time between incurrence and reporting of the claim.

(n) Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company reviews the tax positions taken or expected to be taken on tax returns to determine whether and to what extent a benefit can be recognized in the Consolidated Financial Statements. Refer to Note 10 to the Consolidated Financial Statements for the amount of unrecognized tax benefits and other disclosures related to uncertain tax positions. To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income tax, such amounts are accrued and classified as a component of income tax expense.

WEIS MARKETS, INC.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(o) Earnings Per Share

Earnings per share are based on the weighted-average number of common shares outstanding.

(p) Revenue Recognition

Revenue from the sale of products to the Company's customers is recognized at the point of sale. Discounts provided to customers at the point of sale through the Weis Club Preferred Shopper loyalty program are recognized as a reduction in sales as products are sold. Periodically, the Company will run a point based sales incentive program that rewards customers with future sales discounts. The Company makes reasonable and reliable estimates of the amount of future discounts based upon historical experience and its customer data tracking software. Sales are reduced by these estimates over the life of the program. Discounts to customers at the point of sale provided by vendors, usually in the form of paper coupons, are not recognized as a reduction in sales provided the discounts are redeemable at any retailer that accepts those discounts. The Company records "Deferred revenue" for the sale of gift cards and revenue is recognized in "Net sales" at the time of customer redemption for products. Gift card breakage income is recognized in "Operating, general and administrative expenses" based upon historical redemption patterns and represents the balance of gift cards for which the Company believes the likelihood of redemption by the customer is remote. Sales tax is excluded from "Net sales." The Company charges sales tax on all taxable customer purchases and remits these taxes monthly to the appropriate taxing jurisdiction. Merchandise return activity is immaterial to revenues due to products being returned quickly and the relatively low unit cost.

(q) Cost of Sales, Including Advertising, Warehousing and Distribution Expenses

"Cost of sales, including warehousing and distribution expenses" consists of direct product costs (net of discounts and allowances), advertising (net of vendor paid cooperative advertising credits), distribution center and transportation costs, as well as manufacturing facility operations. Advertising costs, net of vendor paid cooperative advertising credits, are expensed as incurred which are primarily funded by vendor cooperative advertising credits and occur in the same period as the product is sold.

(r) Vendor Allowances

Vendor allowances related to the Company's buying and merchandising activities are recorded as a reduction of cost of sales as they are earned, in accordance with the underlying agreement. Off-invoice and bill-back allowances are used to reduce direct product costs upon the receipt of goods. Promotional rebates and credits are accounted for as a reduction in the cost of inventory and recognized when the related inventory is sold. Volume incentive discounts are

realized as a reduction of cost of sales at the time it is deemed probable and reasonably estimable that the incentive target will be reached. Long-term contract incentives, which require an exclusive vendor relationship, are allocated over the life of the contract. Promotional allowance funds for specific vendor-sponsored programs are recognized as a reduction of cost of sales as the program occurs and the funds are earned per the agreement. Cash discounts for prompt payment of invoices are realized in cost of sales as invoices are paid. Warehouse and back-haul allowances provided by suppliers for distributing their product through the Company's distribution system are recorded in cost of sales offsetting costs incurred. Warehouse rack and slotting allowances are recorded in cost of sales when new items are initially set up in the Company's distribution system, which is when the related expenses are incurred and performance under the agreement is complete. Swell allowances for damaged goods are realized in cost of sales as provided by the supplier, helping to offset product shrink losses also recorded in cost of sales.

Vendor allowances recorded as credits in cost of sales totaled \$132.0 million in 2018, \$131.1 million in 2017 and \$141.6 million in 2016. Vendor paid cooperative advertising credits totaled \$19.4 million in 2018, \$19.2 million in 2017 and \$19.1 million in 2016. These credits were netted against advertising costs within "Cost of Sales, including Advertising, Warehousing and Distribution expenses." The Company had accounts receivable due from vendors of \$1.6 million and \$1.0 million for earned advertising credits and \$12.8 million and \$13.1 million for earned promotional discounts as of December 29, 2018 and December 30, 2017, respectively. The Company had \$7.4 million and \$9.8 million in unearned income included in accrued liabilities for unearned vendor programs under long-term contracts for display and shelf space allocation as of December 29, 2018 and December 30, 2017, respectively.

(s) Operating, General and Administrative Expenses

Business operating costs including expenses generated from administration and purchasing functions, are recorded in "Operating, general and administrative expenses" in the Consolidated Statements of Income. Business operating costs include items such as wages, benefits, utilities, repairs and maintenance, rent, insurance, depreciation, leasehold amortization and costs for outside provided services.

(t) Advertising Costs

The Company expenses advertising costs as incurred. The Company recorded advertising expense, before vendor paid cooperative advertising credits, of \$30.5 million in 2018, \$31.0 million in 2017 and \$26.3 million in 2016 in "Cost of Sales, including Advertising, Warehousing and Distribution Expenses."

WEIS MARKETS, INC.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(u) Rental and Commission Income

The Company leases or subleases space to tenants in owned, vacated and open store facilities. Rental income is recorded when earned as a component of “Operating, general and administrative expenses.” All leases are operating leases, as disclosed in Note 5.

The Company provides a variety of services to its customers, including but not limited to lottery, money orders, third-party gift cards, and third-party bill pay services. Commission income earned from these services are recorded when earned as a component of “Operating, general and administrative expenses.”

(v) Current Relevant Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), as amended by several subsequent ASU’s, which establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. In August 2015, the FASB issued a one-year deferral of the effective date of this new guidance resulting in it now being effective for the Company beginning in fiscal year 2018. The Company’s assessment of the new guidance has identified customer loyalty programs and gift cards affected by the new guidance. The Company adopted the new standard using the modified retrospective method beginning December 31, 2017. The effects related to these transactions did not materially effect the Company’s Consolidated Financial Statements. The Company determined that adoption of the ASU did not have a significant impact on the Company’s point of sale product sales.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 generally requires that equity investments (excluding equity method investments) be measured at fair value with changes in fair value recognized in net income. The adoption of ASU 2016-01 had an impact on the net income reported in the Company’s Consolidated Statements of Income in the amount of a \$1.6 million loss for the year ended December 29, 2018. The ASU was adopted as of December 31, 2017. The cumulative effect of the adoption was made to the balance sheet as of December 31, 2017 and resulted in a reclassification of \$5.5 million of related accumulated unrealized gains, net of applicable deferred income taxes, that were included in accumulated other comprehensive income to retained earnings, resulting on no impact on the Company’s shareholders’ equity.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). ASU 2016-02 requires lessees to recognize assets and liabilities for the rights and obligations created by their leases with lease terms more than 12 months. ASU 2016-02 will become effective for annual periods beginning after December 15, 2018 and for interim periods within those fiscal years. During 2018, the ASU was amended to permit the election of transitional provisions, including the elimination of the requirement to restate reporting periods prior to the date of adoption. The Company also will elect to not reassess the original conclusions reached regarding lease identification, lease classification and initial direct costs. The Company is currently in the process of evaluating the impact of adoption of the ASU and expects the adoption to have a significant impact on the Company's Consolidated Balance Sheets. Based upon the current evaluation of the standard, the adoption will result in the addition of approximately \$210 million of assets and liabilities to the Company's Consolidated Balance Sheets, with no significant change to the Consolidated Statements of Comprehensive Income or Consolidated Statements of Cash Flows.

In March 2016, the FASB issued ASU 2016-04 Liabilities – Extinguishments of Liabilities (Subtopic 405-20) Recognition of Breakage for Certain Prepaid Stored-Value Products. ASU 2016-04 requires that an entity must disclose the methodology and specific judgements made in applying the breakage recognized. ASU 2016-04 will become effective for the financial statements issued for the fiscal years beginning after December 15, 2017. The Company has evaluated the effect of the adoption of the ASU and determined there was not a significant impact on the Company's Consolidated Financial Statements. The Company adopted ASU 2016-04 beginning December 31, 2017.

WEIS MARKETS, INC.

Table of Contents

Note 2 Marketable Securities

The Company's marketable securities are all classified as available-for-sale within "Current Assets" in the Company's Consolidated Balance Sheets. FASB has established three levels of inputs that may be used to measure fair value:

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

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

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

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

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

The Company accrues interest on its bond portfolio throughout the life of each bond held. Dividends from the equity securities are recognized as received. Both interest and dividends are recognized in "Investment income and interest expense" on the Company's Consolidated Statements of Income.

Marketable securities, as of December 29, 2018 and December 30, 2017, consisted of:

(dollars in thousands)	Amortized	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
December 29, 2018	Cost			
Available-for-sale:				
Level 1				
Equity securities	\$ 1,198	\$ 6,028	\$ -	\$ 7,226
Level 2				
Municipal bonds	46,699	426	(53)	47,072
	\$ 47,897	\$ 6,454	\$ (53)	\$ 54,298

(dollars in thousands)	Amortized	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
December 30, 2017	Cost			
Available-for-sale:				
Level 1				
Equity securities	\$ 1,198	\$ 7,634	\$ -	\$ 8,832
Level 2				
Municipal bonds	54,278	671	(116)	54,833
	\$ 55,476	\$ 8,305	\$ (116)	\$ 63,665

Maturities of marketable securities classified as available-for-sale at December 29, 2018, were as follows:

(dollars in thousands)	Amortized Cost	Fair Value
Available-for-sale:		
Due within one year	\$ 4,974	\$ 4,960
Due after one year through five years	23,661	23,856
Due after five years through ten years	18,064	18,256
Equity securities	1,198	7,226
	\$ 47,897	\$ 54,298

WEIS MARKETS, INC.

Table of Contents

Note 2 Marketable Securities (continued)

SERP Investments

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

30

WEIS MARKETS, INC.

Table of Contents

Note 3 Inventories

Merchandise inventories, as of December 29, 2018 and December 30, 2017, were valued as follows:

(dollars in thousands)	2018	2017
LIFO	\$ 211,911	\$ 221,777
Average cost	68,845	57,732
	\$ 280,756	\$ 279,509

Management believes the use of the LIFO method for valuing certain inventories represents the most appropriate matching of costs and revenues in the Company's circumstances. If all inventories were valued on the average cost method, which approximates current cost, total inventories would have been \$76,517,000 and \$78,005,000 higher than as reported on the above methods as of December 29, 2018 and December 30, 2017, respectively. During 2018, the Company had certain decrements in its LIFO pools, which had an insignificant impact on the cost of sales.

Note 4 Property and Equipment

Property and equipment, as of December 29, 2018 and December 30, 2017, consisted of:

(dollars in thousands)	Useful Life (in years)	2018	2017
Land		\$ 133,386	\$ 129,878
Buildings and improvements	10-60	713,128	693,898
Equipment	3-12	1,069,616	1,054,986
Leasehold improvements	5-20	224,231	212,109
Total, at cost		2,140,361	2,090,871
Less accumulated depreciation and amortization		1,252,753	1,204,628
		\$ 887,608	\$ 886,243

WEIS MARKETS, INC.

Table of Contents

Note 5 Lease Commitments

At December 29, 2018, the Company leased approximately 53% of its open store facilities under operating leases that expire at various dates through 2033. These leases generally provide for fixed annual rentals; however, several provide for minimum annual rentals plus contingent rentals as a percentage of annual sales and a number of leases require the Company to pay for all or a portion of insurance, real estate taxes, water and sewer rentals, and repairs, the cost of which is charged to the related expense category rather than being accounted for as rent expense. Most of the leases contain multiple renewal options, under which the Company may extend the lease terms from 5 to 20 years. Rents on operating leases, including agreements with step rents, are charged to expense on a straight-line basis over the minimum lease term. Additionally, the Company has operating leases for certain transportation and other equipment.

Rent expense and income on all leases consisted of:

(dollars in thousands)	2018	2017	2016
Minimum annual rentals	\$ 47,253	\$ 46,804	\$ 38,632
Contingent rentals	419	432	431
Lease or sublease income	(7,757)	(7,612)	(7,212)
	\$ 39,915	\$ 39,624	\$ 31,851

The following is a schedule by years of future minimum rental payments required under operating leases and total minimum sublease and lease rental income to be received that have initial or remaining non-cancelable lease terms in excess of one year as of December 29, 2018.

(dollars in thousands)	Leases	Subleases
2019	\$ 43,713	\$ (3,692)
2020	40,730	(3,524)
2021	34,556	(3,025)
2022	28,550	(2,453)
2023	24,323	(2,013)
Thereafter	70,412	(7,845)
	\$ 242,284	\$ (22,552)

WEIS MARKETS, INC.

Table of Contents

Note 6 Retirement Plans

The Company has a qualified retirement savings plan, the Weis Markets, Inc. Retirement Savings Plan, covering substantially all full-time associates. The plan has a contributory component as well as a noncontributory profit-sharing component for certain associates. The noncontributory component covers eligible associates which included certain salaried associates, store management and administrative support personnel. The Company also has two non-qualified supplemental retirement plans covering highly compensated employees of the Company. The Company's policy is to fund retirement plan costs as accrued, with the exception of the deferred compensation plan. Employer contributions to the qualified retirement plan are made at the sole discretion of the Company.

Retirement plan costs:

(dollars in thousands)	2018	2017	2016
Retirement savings plan	3,525	3,343	3,593
Deferred compensation plan	508	813	788
Supplemental executive retirement plan	(529)	2,625	1,193
	\$ 3,504	\$ 6,781	\$ 5,574

The Company maintains a non-qualified deferred compensation plan for the payment of specific amounts of annual retirement benefits to certain officers or their beneficiaries over an actuarially computed normal life expectancy. Currently, there are no active officers in the plan. The expected payments under the plan provisions were determined through actuarial calculations dependent on the age of the recipient, using an assumed discount rate. The plan is unfunded and accounted for on an accrual basis. The recorded liability at December 29, 2018 is \$4,409,000, which is based on expected payments to be made over the remaining lives of the beneficiaries. This amount is included in "Accrued expenses" and "Postretirement benefit obligations" in the Consolidated Balance Sheets. The expected payment amounts are approximately \$1,013,000 for 2019 and for the years thereafter dependent on the lives of the beneficiaries.

The Company also maintains a non-qualified supplemental executive retirement plan for certain of its associates. This plan is designed to provide retirement benefits and salary deferral opportunities because of limitations imposed by the Internal Revenue Code and the Regulations implemented by the Internal Revenue Service. This plan is unfunded and accounted for on an accrual basis. Participants in this plan are excluded from participation in the profit sharing portion of the Weis Markets, Inc. Retirement Savings Plan once their yearly earnings exceed the IRS highly compensated threshold. The Board of Directors annually determines the amount of the allocation to the plans at its sole discretion. The allocation among the various plan participants is made in both flat dollar amounts and in relationship to their compensation. Plan participants are 100% vested in their accounts after six years of service with

the Company. Benefits are distributed among participants upon reaching the applicable retirement age. Substantial risk of benefit forfeiture does exist for participants in this plan. The non-qualified pharmacist deferred compensation plan was consolidated into the non-qualified supplemental executive retirement plan during 2018. The present value of accumulated benefits amounted to \$14,715,000 and \$14,508,000 at December 29, 2018 and December 30, 2017, respectively, and is included in "Postretirement benefit obligations" in the Consolidated Balance Sheets.

Note 7 Revenue Recognition

The adoption of ASU 2014-9 Revenue from Contracts with Customers (ASC 606) did not have a material impact on the Company's Consolidated Financial Statements. The Chief Operating Officer, the Company's chief operating decision maker, analyzed store operational revenues by geographical area but each area offers customers similar product, has similar distribution methods, and supported by centralized management processes. The Company's operations are reported as a single reportable segment.

The following table represents net sales by type of product for years ending December 29, 2018, December 30, 2017 and December 31, 2016.

(dollars in thousands)	52 Weeks Ended					
	December 29, 2018		December 30, 2017		December 31, 2016	
Grocery	\$ 3,063,218	87.3 %	\$ 3,041,481	87.7 %	\$ 2,736,596	87.3 %
Pharmacy	314,584	9.0	309,079	8.9	298,875	9.5
Fuel	125,993	3.6	109,467	3.2	94,907	3.0
Manufacturing	5,475	0.1	6,780	0.2	6,342	0.2
Total net sales	\$ 3,509,270	100.0 %	\$ 3,466,807	100.0 %	\$ 3,136,720	100.0 %

WEIS MARKETS, INC.

Table of Contents

Note 8 Cash and Cash Equivalents and Advertising Accounting Policies, and Prior Year Reclassifications

As of December 31, 2017, the Company changed its policy for cash and cash equivalents to include all credit card, debit card, and electronic benefits transfer transactions that process in less than seven days in the amount of \$23.6 million and \$26.6 million as of December 29, 2018 and December 30, 2017, respectively. Management deems the classification of the amounts due from third-party financial institutions to be more appropriately reported in cash and cash equivalents due to certainty and timely settlements in less than seven days. The amounts have been reclassified from accounts receivable to cash and cash equivalents as of December 30, 2017 in the amount of \$26.6 million to conform the presentation of the Consolidated Balance Sheets as of December 29, 2018.

As of December 31, 2017, the Company changed its policy for advertising costs to expense advertising costs as incurred, net of vendor paid cooperative advertising credits, in Cost of sales, in the amount of \$11.1 million, \$13.9 million and \$8.6 million for the years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. Management deems that the policy change to record net advertising costs in Cost of sales instead of Operating, general and administrative expenses better represents Cost of sales inclusive of direct product costs (net of discounts and allowances), distribution center and transportation costs, manufacturing facility operations and advertising costs that are primarily funded by vendor cooperative advertising credits and occur in the same period the product is sold. Advertising costs net of vendor cooperative advertising credits have been reclassified to Cost of sales out of Operating, General and Administrative costs for the years ended December 30, 2017 and December 31, 2016 in the amount of \$13.9 million and \$8.6 million, respectively, to conform to the presentation of the Consolidated Statement of Income for the year ended December 29, 2018.

The tables below summarize the effect of the reclassifications of previously reported Consolidated Financial Statements for the fiscal years ended December 30, 2017 and December 31, 2016.

	As of December 30, 2017		
	As Previously	As Previously	As Adjusted
Consolidated Balance Sheets (dollars in thousands)	Reported	Reclassifications	Adjusted
Cash and cash equivalent	\$ 21,305	\$ 26,612	\$ 47,917
Accounts receivable, net	82,877	(26,612)	56,265

Consolidated Statements of Income	December 30, 2017	December 31, 2016
	As Previously	As Previously

Edgar Filing: WEIS MARKETS INC - Form 10-K

(dollars in thousands)	Reported	Reclassifications	As Adjusted	Reported	Reclassifications	As Adjusted
Cost of sales, including advertising, warehousing and distribution expenses	\$ 2,540,348	\$ 13,936	\$ 2,554,284	\$ 2,264,565	\$ 8,617	\$ 2,273,182
Gross profit on sales	926,459	(13,936)	912,523	872,155	(8,617)	863,538
Operating, general and administrative expenses	850,034	(13,936)	836,098	773,830	(8,617)	765,213

52 Weeks Ended
December 30, 2017

As
Previously

Consolidated Statements of Cash Flows

(dollars in thousands)	Reported	Reclassifications	As Adjusted
Accounts receivable and prepaid expenses	\$ 9,598	\$ (5,553)	\$ 4,045
Net cash provided by operating activities	165,814	(5,553)	160,261
Net increase (decreases) in cash and cash equivalents	6,652	(5,553)	1,099
Cash and cash equivalents at beginning of year	14,653	32,165	46,818
Cash and cash equivalents at end of period	\$ 21,305	\$ 26,612	\$ 47,917

WEIS MARKETS, INC.

Table of ContentsNote 8 Cash and Cash Equivalents and Advertising Accounting Policies, and Prior Year Reclassifications
(continued)

Consolidated Statements of Cash Flows	53 Weeks Ended December 31, 2016		
	As Previously		As
(dollars in thousands)	Reported	Reclassifications	Adjusted
Accounts receivable and prepaid expenses	\$ (5,096)	\$ (2,517)	\$ (7,613)
Net cash provided by operating activities	151,593	(2,517)	149,076
Net increase (decreases) in cash and cash equivalents	(2,943)	(2,517)	(5,460)
Cash and cash equivalents at beginning of year	17,596	34,682	52,278
Cash and cash equivalents at end of period	\$ 14,653	\$ 32,165	\$ 46,818

Note 9 Accumulated Other Comprehensive Income

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

(dollars in thousands)	Unrealized Gains on Available-for-Sale Marketable Securities
Accumulated other comprehensive income balance as of December 31, 2016	\$ 4,852
Other comprehensive loss before reclassifications	(43)
Accumulated change in effective tax rate	1,042
Amounts reclassified from accumulated other comprehensive income	29
Net current period other comprehensive loss	1,028

Edgar Filing: WEIS MARKETS INC - Form 10-K

Accumulated other comprehensive income balance as of December 30, 2017	\$ 5,880
Amount reclassified to retained earnings for equity unrealized gain (adoption of ASU 2016-01)	(5,481)
Other comprehensive loss before reclassifications	(177)
Amounts reclassified from accumulated other comprehensive income	40
Net current period change in other comprehensive income	(5,618)
Accumulated other comprehensive income balance as of December 29, 2018	\$ 262

The following table sets forth the effects on net income of the amounts reclassified out of accumulated other comprehensive income for the periods ended December 29, 2018, December 30, 2017 and December 31, 2016.

(dollars in thousands) Location	Amounts Reclassified from Accumulated Other Comprehensive Income to the Consolidated Statements of Income		
	2018	2017	2016
Unrealized gains (losses) on available-for-sale marketable securities			
Investment income and interest expense	\$ (54)	\$ (40)	\$ 437
Provision for income taxes	14	11	(180)
Total amount reclassified, net of tax	\$ (40)	\$ (29)	\$ 257

WEIS MARKETS, INC.

Table of Contents

Note 10 Income Taxes

The provision (benefit) for income taxes consists of:

(dollars in thousands)	2018	2017	2016
Current:			
Federal	\$ 11,385	\$ 10,630	\$ 25,908
State	4,594	1,972	5,888
Deferred:			
Federal	6,059	(34,659)	6,020
State	(2,640)	2,666	(317)
	\$ 19,398	\$ (19,391)	\$ 37,499

The reconciliation of income taxes computed at the federal statutory rate of 21% in 2018 and 35% in 2017 and 2016 respectively.

Ending deferred tax liability has been computed at the federal statutory rate of 21% due to the Tax Reform.

(dollars in thousands)	2018	2017	2016
Income taxes at federal statutory rate	\$ 17,249	\$ 27,658	\$ 43,631
State income taxes, net of federal income tax benefit	639	1,306	2,413
Deferred tax on gain on bargain purchase	-	-	(8,358)
Nondeductible employee-related expenses	768	1,828	-
2017 tax reform	657	(49,336)	-
Other	85	(847)	(187)
Provision for income taxes (effective tax rate 23.6%, (24.5)% and 30.1%, respectively)	\$ 19,398	\$ (19,391)	\$ 37,499

The effective income tax rate was 23.6%, negative 24.5% and 30.1% in 2018, 2017, and 2016, respectively. The effective income tax rate differs from the federal statutory rate of 21% primarily due Nondeductible employee expenses. On December 22, 2017, the U.S. Government enacted the Tax Cuts and Jobs Act (the "Tax Reform"). The Tax Reform significantly impacted the Company's effective income tax rate by reducing the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018 and allowing immediate expensing of qualified assets placed into service after September 27, 2017. Other elements of the Tax Reform have minor impacts, however the above mentioned decreased deferred income tax by \$49.3 million during 2017. The effective income tax rate decreased in 2016 due to the impact of the bargain purchase gain on the 38 locations being included in the overall gain calculation and not in income tax expense. The effective tax rate excluding the bargain purchase gain was 37.2%.

Edgar Filing: WEIS MARKETS INC - Form 10-K

Cash paid for federal income taxes was \$4.5 million, \$12.0 million \$27.3 million and in 2018, 2017 and 2016 respectively. Cash paid for state income taxes was \$2.1 million, \$1.0 million and \$3.7 million in 2018, 2017 and 2016 respectively.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 29, 2018 and December 30, 2017, are:

(dollars in thousands)	2018	2017
Deferred tax assets:		
Accounts receivable	\$ 588	\$ 542
Compensated absences	355	848
Employment incentives	842	388
Employee benefit plans	4,914	5,581
General liability insurance	2,702	2,991
Postretirement benefit obligations	5,272	5,365
Net operating loss carryforwards	8,030	7,745
Other	7,967	4,373
Total deferred tax assets	30,670	27,833
Deferred tax liabilities:		
Inventories	(9,828)	(8,026)
Unrealized gains on marketable securities	(1,809)	(2,310)
Nondeductible accruals and other	(5,274)	(5,160)
Depreciation	(104,552)	(99,759)
Total deferred tax liabilities	(121,463)	(115,255)
Net deferred tax liability	\$ (90,793)	\$ (87,422)

WEIS MARKETS, INC.

Table of Contents

Note 10 Income Taxes (continued)

The following table summarizes the activity related to the Company's unrecognized tax benefits:

(dollars in thousands)	2018	2017
Unrecognized tax benefits at beginning of year	\$ 4,691	\$ 3,124
Increases based on tax positions related to the current year	1,714	1,567
Additions for tax positions of prior year	-	-
Reductions for tax positions of prior years	-	-
Settlements	-	-
Expiration of the statute of limitations for assessment of taxes	-	-
Unrecognized tax benefits at end of year	\$ 6,405	\$ 4,691

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$1,714,000 in 2018, \$1,567,000 in 2017 and \$1,860,000 in 2016.

The Company or one of its subsidiaries files tax returns in the United States and various state jurisdictions. The tax years subject to examination in the United State and in Pennsylvania, where the majority of the Company's revenues are generated, are 2015 to 2018.

The Company has net operating loss carryforwards of \$101.8 million available for state income tax purposes. The net operating losses will begin to expire starting in 2027. The Company expects to fully utilize these net operating loss carryforwards.

Note 11 Acquisition of Business

Fiscal 2018 Acquisitions

There were no acquisitions for fiscal 2018.

Fiscal 2017 Acquisitions

There were no acquisitions for fiscal 2017.

Fiscal 2016 Acquisitions

On August 1, 2016, the Company purchased five Mars Super Market stores located in Maryland. Weis Markets, Inc. acquired these locations and their operations in an effort to expand its presence in the Baltimore County region. The results of operations of the former Mars Super Market acquisition are included in the accompanying Consolidated Financial Statements from the date of acquisition. The five former Mars Super Market stores contributed \$91.7 million, \$91.5 million and \$38.0 million to sales in 2018, 2017 and 2016, respectively. The cash purchase price paid was \$24.6 million for the property, equipment, inventories, prepaid expenses and goodwill related to this purchase. The Company accounted for this transaction as a business combination in accordance with the acquisition method. The fair value of intangibles was determined based on the discounted cash flow model and property and equipment were determined based on external appraisals. Weis Markets, Inc. assumed two lease obligations in the acquisition of the former Mars Super Market stores and entered into two new lease agreements. Goodwill of \$13.3 million has been recorded, based upon the expected benefits to be derived from new management business strategy and cost synergies. The \$13.3 million of goodwill is deductible for tax purposes. The purchase price has been allocated to the acquired assets as follows.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition. The fair values of the acquired assets and assumed liabilities are reported below.

(dollars in thousands)	5 Mars Super Market Stores August 1, 2016
Inventories	\$ 1,267
Accounts receivable and prepaid expenses	248
Property and equipment	7,305
Goodwill	13,255
Intangibles - favorable leasehold interest, net	2,495
Total fair value of assets acquired	\$ 24,570

WEIS MARKETS, INC.

Table of ContentsNote 11 Acquisition of Business (continued)
Fiscal 2016 Acquisitions (continued)

In September 2016, the Company began its acquisition of 38 former Food Lion, LLC stores. Within eight weeks, ending in October 2016, Weis Markets acquired 21 Maryland, 13 Virginia and 4 Delaware former Food Lion, LLC stores. The results of operations of the 38 former Food Lion, LLC stores are included in the accompanying Consolidated Financial Statements from the date of acquisition. The Company accounted for this transaction as a business combination in accordance with the acquisition method. The fair value of intangibles was determined based on the discounted cash flow model and property and equipment were determined based on external appraisals. The acquired locations were part of a FTC forced divestiture in the approval process of the merger of Ahold and Delhaize Group, which resulted in a below fair value purchase price consideration. The cash purchase price paid was \$29.4 million for the property, equipment, inventories, prepaid expenses and liabilities. Weis Markets, Inc. assumed thirty lease obligations and ownership of eight locations. The Company recognized a gain of \$23.9 million on the purchase of the 38 former Food Lion, LLC stores. The 38 acquired Food Lion, LLC locations contributed \$346.1 million, \$369.2 million and \$92.5 million to sales in 2018, 2017 and 2016, respectively.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition. The fair values of the acquired assets and assumed liabilities are reported below.

(dollars in thousands)	38 Food Lion, LLC Stores Sept. 11 - Oct. 30, 2016 \$
Assets	
Current:	
Accounts receivable, net	146
Inventories	7,614
Prepaid expenses and other current assets	1,044
Total current assets	8,804
Property and equipment, net	60,735
Intangibles - favorable leasehold interest	4,583
Total assets	74,122
Liabilities	
Current:	
Accrued expenses	(428)
Total current liabilities	(428)

Edgar Filing: WEIS MARKETS INC - Form 10-K

Other - unfavorable leasehold interest	(3,738)
Deferred tax liability	(16,663)
Total liabilities	(20,829)

Total fair value of assets acquired and liabilities assumed \$ 53,293

Gain on bargain purchase \$ 23,879

WEIS MARKETS, INC.

Table of Contents

Note 11 Acquisition of Business (continued)

Fiscal 2016 Acquisitions (continued)

On October 30, 2016, Weis Markets acquired a former Nell's Family Market store located in East Berlin, PA from C&S Wholesale Grocers. The results of operations of the former Nell's Family Market acquisition are included in the accompanying Consolidated Financial Statements from the date of acquisition. The purchase price was \$13.0 million, of which \$3.4 million is payable over a 4 year term for the property, equipment, inventory, prepaid expenses and liabilities. The Company accounted for this transaction as a business combination in accordance with the acquisition method. The fair value of intangibles was determined based on the discounted cash flow model and property and equipment were determined based on external appraisals. The former Nell's Family Market contributed \$19.7 million, \$17.6 million and \$3.0 million to sales in 2018, 2017 and 2016, respectively. Goodwill of \$3.9 million has been recorded, based upon the expected benefits to be derived from new management business strategy and cost synergies. The \$3.9 million of goodwill is deductible for tax purposes.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition. The fair values of the acquired assets and assumed liabilities are reported below.

(dollars in thousands)	Nell's Family Market Store October 30, 2016 \$
Assets	
Current:	
Inventories	401
Prepaid expenses and other current assets	39
Total current assets	440
Property and equipment, net	8,625
Goodwill	3,913
Intangible and other assets, net	23
Total assets	13,001
Liabilities	
Current:	
Accrued expenses	(3)
Total current liabilities	(3)

Total fair value of assets acquired and liabilities assumed \$ 12,998

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

(dollars in thousands)

For the Fiscal Years Ended December 29, 2018, December 30, 2017 and December 31, 2016	2018 (52 weeks)	2017 (52 weeks)	2016 (53 weeks)
Store sales	\$ 3,503,795	\$ 3,460,484	\$ 3,563,145

WEIS MARKETS, INC.

Table of Contents

Note 12 Summary of Quarterly Results (Unaudited)

Quarterly financial data for 2018 and 2017 are as follows:

(dollars in thousands, except per share amounts)	Thirteen Weeks Ended			
	March 31, 2018	June 30, 2018	September 29, 2018	December 29, 2018
Net sales	\$ 876,106	\$ 871,100	\$ 869,076	\$ 892,988
Gross profit on sales	234,907	240,295	232,340	227,459
Net income	16,191	19,095	14,207	13,245
Basic and diluted earnings per share	\$.60	\$.71	\$.53	\$.49

(dollars in thousands, except per share amounts)	Thirteen Weeks Ended			
	April 1, 2017	July 1, 2017	September 30, 2017	December 30, 2017
Net sales	\$ 852,229	\$ 876,569	\$ 854,261	\$ 883,748
Gross profit on sales	229,036	233,758	219,609	230,120
Net income	11,836	18,475	4,449	63,654 *
Basic and diluted earnings per share	\$.44	\$.69	\$.16	\$ 2.37

*The quarter ended December 30, 2017 includes the tax benefit of \$49.3 million as a result of revaluing the Company's net deferred tax liability using the enacted Federal tax rate of 21% under the Tax Reform.

Note 13 Fair Value Information

The carrying amounts for cash, accounts receivable and accounts payable approximate fair value because of the short maturities of these instruments. The fair values of the Company's marketable securities, as disclosed in Note 2, are based on quoted market prices and institutional pricing guidelines for those securities not classified as Level 1 securities. The Company's SERP investments are classified as trading securities and are carried at fair value using Level 1 inputs.

Note 14 Commitments and Contingencies

The Company is involved in various legal actions arising out of the normal course of business. The Company also accrues for tax contingencies when it is probable that a liability to a taxing authority has been incurred and the amount of the contingency can be reasonably estimated, based on experience. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Note 15 Long-Term Debt

On September 1, 2016 Weis Markets entered into a revolving credit agreement with Wells Fargo Bank, National Association (the "Credit Agreement"). The Credit Agreement provides for an unsecured revolving credit facility with an aggregate principal amount not to exceed \$100.0 million with an additional discretionary amount available of \$50.0 million. On October 24, 2018, the credit agreement was amended to reduce the available revolving credit amount from \$100.0 million to \$50.0 million, with an additional discretionary availability of \$50.0 million. As of December 29, 2018, the availability under the revolving credit agreement was \$87.1 million with \$12.9 million of letters of credit outstanding. The revolving credit agreement matures on September 1, 2019. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company.

Interest expense related to long-term debt was \$288,000 and \$946,000 for 2018 and 2017, respectively.

Note 16 Related Party Transactions

On January 16, 2018, the Company purchased a parcel of land from Central Properties, Inc., a company in which Jonathan H. Weis and his immediate family members had a material beneficial ownership. Subsequent to the purchase, Central Properties, Inc. was dissolved. The purchase price of \$1.1 million was approved by the Company's Executive Committee in accordance with Company policy and regulatory guidelines, and reviewed and approved by the Board of Directors in accordance with the Company's Code of Business Conduct and Ethics, the Code of Ethics for CEO and CFO, the Audit Committee Charter and the Company's Related Party Transaction policy.

Note 17 Subsequent Events

On October 16, 2018, the Company entered into a non-binding purchase agreement for property in Hamlin, PA totaling \$3.9 million. This purchase was finalized on January 2, 2019.

WEIS MARKETS, INC.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Weis Markets, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Weis Markets, Inc. and its subsidiaries (the Company) as of December 29, 2018 and December 30, 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the 52 week periods ended December 29, 2018 and December 30, 2017 and the 53 week period ended December 31, 2016, and the related notes to the consolidated financial statements and the financial statement schedule listed in the accompanying index (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for the 52 week periods ended December 29, 2018 and December 30, 2017 and the 53 week period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 14, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to

those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2016.

Philadelphia, Pennsylvania

March 14, 2019

WEIS MARKETS, INC.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Weis Markets, Inc.

Opinion on the Internal Control Over Financial Reporting

We have audited Weis Markets, Inc.'s (the Company) internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 29, 2018 and December 30, 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the 52 week periods ended December 29, 2018 and December 30, 2017 and the 53 week period ended December 31, 2016 and the related notes to the consolidated financial statements and the financial statement schedule listed in the accompanying index, and our report dated March 14, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was

maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Philadelphia, Pennsylvania

March 14, 2019

WEIS MARKETS, INC.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure:

None.

Item 9a. Controls and Procedures:

Management's Report on Disclosure 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 the close of the period covered by 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.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act). Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 framework). The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Based on the Company's evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 29, 2018.

RSM US LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their attestation report on the Company's internal control over financial reporting as of December 29, 2018. The report can be found in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fiscal year ended December 29, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9b. Other Information:

There was no information required on Form 8-K during this quarter that was not reported.

WEIS MARKETS, INC.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance:

In addition to the information reported in Part I of this Form 10-K under the caption “Executive Officers of the Registrant,” “Election of Directors,” “Board Committees and Meeting Attendance, Audit Committee,” “Corporate Governance Matters,” “Compensation Tables” and “Stock Ownership, Section 16(a) Beneficial Ownership Reporting Compliance” of the Weis Markets, Inc. definitive proxy statement dated March 12, 2019 are incorporated herein by reference.

Item 11. Executive Compensation:

“Board Committees and Meeting Attendance, Compensation Committee,” “Executive Compensation, Compensation Discussion and Analysis,” “Compensation Committee Report,” “Compensation Tables” and “Other Information Concerning the Board of Directors, Compensation Committee Interlocks and Insider Participation” of the Weis Markets, Inc. definitive proxy statement dated March 12, 2019 are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters:

“Stock Ownership” of the Weis Markets, Inc. definitive proxy statement dated March 12, 2019 is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence:

“Other Information Concerning the Board of Directors, Review and Approval of Related Party Transactions” and “Independence of Directors” of the Weis Markets, Inc. definitive proxy statement dated March 12, 2019 are incorporated herein by reference.

Item 14. Principal Accounting Fees and Services:

“Ratification Of Appointment Of Independent Registered Public Accounting Firm” of the Weis Markets, Inc. definitive proxy statement dated March 12, 2019 is incorporated herein by reference.

WEIS MARKETS, INC.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules:

(a)(1) The Company's 2018 Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm are included in Item 8 of Part II.

Financial Statements	Page
<u>Consolidated Balance Sheets</u>	19
<u>Consolidated Statements of Income</u>	20
<u>Consolidated Statements of Comprehensive Income</u>	21
<u>Consolidated Statements of Shareholders' Equity</u>	22
<u>Consolidated Statements of Cash Flows</u>	23
<u>Notes to Consolidated Financial Statements</u>	24
<u>Report of Independent Registered Public Accounting Firm</u>	41

(a)(2) Financial statement schedules required to be filed by Item 8 of this form, and by Item 15(c)(3) below:

Schedule II - Valuation and Qualifying Accounts, page 49 of this Annual Report on Form 10-K

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

WEIS MARKETS, INC.

Table of Contents

Item 15. Exhibits, Financial Statement Schedules: (continued)

(a)(3) A listing of exhibits filed or incorporated by reference is as follows:

Exhibit No.	Exhibits
3-A	<u>Articles of Incorporation</u> , filed as exhibit 4.1 in Form S-8 on September 13, 2002 and incorporated herein by reference.
3-B	<u>By-Laws</u> , filed as exhibit under Part IV, Item 14(c) in the Annual Report on Form 10-K for the fiscal year ended December 29, 2001 and incorporated herein by reference.
10-A	<u>Retirement Savings Plan</u> , filed as exhibit 10-A in form 10-K on March 16, 2018, and incorporated herein by reference.
10-B	<u>Supplemental Executive Retirement Plan</u> , filed as exhibit under Part IV, Item 15(a)(3) in the Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and incorporated herein by reference. *
10-C	<u>Deferred Compensation Plan for Pharmacists</u> , filed as exhibit under Part IV, Item 15(a)(3) in the Annual Report on Form 10-K for the fiscal year ended December 26, 2009 and incorporated herein by reference.
10-E	<u>Deferred Compensation Agreement</u> between the Company and Mr. Robert F. Weis, filed as exhibit under Part IV, Item 15(a)(3) in the Annual Report on Form 10-K for the fiscal year ended December 26, 2009 and incorporated herein by reference. *
10-F	<u>Executive Employment Agreement</u> between the Company and Jonathan H. Weis, Vice Chairman, President and Chief Executive Officer, signed on July 14, 2014, with retroactive effect to January 1, 2014 and continuing thereafter through December 31, 2016, filed as Exhibit 10.1 to Form 8-K July 18, 2014 and incorporated herein by reference. *
10-G	<u>Executive Employment Agreement</u> between the Company and Jonathan H. Weis, Vice Chairman, President and Chief Executive Officer, signed on April 4, 2017, with retroactive effect to January 1, 2017 and continuing thereafter through December 31, 2019, filed as Exhibit 10.1 to Form 8-K April 7, 2017 and incorporated herein by reference. *
10-H	<u>Chief Executive Office Incentive Award Plan</u> between the Company and Jonathan H. Weis, Chairman, President and Chief Executive Officer, effective July 1, 2011, amended and restated effective as of January 1, 2014 and January 1, 2017 and continuing thereafter through December 31, 2019, filed as Exhibit 10.2 to Form 8-K April 7, 2017 and incorporated herein by reference. *
21	<u>Subsidiaries of the Registrant</u> , filed with this Annual Report on Form 10-K
31.1	<u>Rule 13a-14(a) Certification - CEO</u> , filed with this Annual Report on Form 10-K
31.2	<u>Rule 13a-14(a) Certification - CFO</u> , filed with this Annual Report on Form 10-K
32	<u>Certification Pursuant to 18 U.S.C. Section 1350</u> , filed with this Annual Report on Form 10-K
* Management contract or compensatory plan arrangement.	

The Company will provide a copy of any exhibit upon receipt of a written request for the particular exhibit or exhibits desired. All requests should be addressed to the Company's principal executive offices.

(b) The Company files as exhibits to this Annual Report on Form 10-K, those exhibits listed in Item 15(a)(3) above.

WEIS MARKETS, INC.

Table of Contents

Item 15(c)(3). Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts:

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

WEIS MARKETS, INC.

(dollars in thousands)

Col. A	Col. B	Col. C Additions		Col. D	Col. E
Description	Balance at	Charged	Charged	Deductions	Balance
Fiscal Year ended December 29, 2018:	Beginning	to	to	Describe (1)	at
Deducted from asset accounts:	of Period	Costs and	Accounts	Describe	End of
Allowance for uncollectible accounts	Expenses	Describe	Describe	(1)Period	Period
Fiscal Year ended December 29, 2018:					
Deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,946	\$ 1,144	\$ ---	\$ 1,000	\$ 2,090
Fiscal Year ended December 30, 2017:					
Deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,455	\$ 2,176	\$ ---	\$ 1,685	\$ 1,946
Fiscal Year ended December 31, 2016:					
Deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,967	\$ 1,145	\$ ---	\$ 1,657	\$ 1,455

(1) Deductions are uncollectible accounts written off, net of recoveries.

Item 16. Form 10-K Summary:

None.

47

WEIS MARKETS, INC.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: 3/14/2019 /S/Jonathan H. Weis
Jonathan H. Weis
Chairman,
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date 3/14/2019 /S/Jonathan H. Weis
Jonathan H. Weis
Chairman,
President and Chief Executive Officer
and Director
(principal executive officer)

Date 3/14/2019 /S/Scott F. Frost
Scott F. Frost
Senior Vice President, Chief Financial Officer
and Treasurer
(principal financial officer)

Date 3/14/2019 /S/Harold G. Graber
Harold G. Graber
Senior Vice President of Real Estate and Development
and Secretary
and Director

Date 3/14/2019 /S/Dennis G. Hatchell
Dennis G. Hatchell
Director

Date 3/14/2019 /S/Edward J. Lauth III
Edward J. Lauth III
Director

Date 3/14/2019 /S/Gerrald B. Silverman
Gerrald B. Silverman
Director

Date 3/14/2019 /S/Jeanette R. Rogers
Jeanette R. Rogers
Vice President, Corporate Controller
(principal accounting officer)