

WEIS MARKETS INC
Form 10-K
March 16, 2017
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 31, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 1-5039

WEIS MARKETS, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of incorporation or organization)

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

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

17801-0471
(Zip Code)

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 [X]

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 [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No []

Indicate by check mark 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. [X]

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

Edgar Filing: WEIS MARKETS INC - Form 10-K

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

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

The aggregate market value of Common Stock held by non-affiliates of the Registrant is approximately \$462,000,000 as of June 25, 2016 the last business day of the most recently completed second fiscal quarter.

Shares of common stock outstanding as of March 16, 2017 - 26,898,443.

DOCUMENTS INCORPORATED BY REFERENCE: Selected portions of the Weis Markets, Inc. definitive proxy statement dated March 16, 2017 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>	21
<u>Item 8. Financial Statements and Supplementary Data</u>	22
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	48
<u>Item 9a. Controls and Procedures</u>	48
<u>Item 9b. Other Information</u>	48
<u>Part III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	49
<u>Item 11. Executive Compensation</u>	49
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	49
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	49
<u>Item 14. Principal Accountant Fees and Services</u>	49
<u>Part IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	50
<u>Item 15(c)(3). Schedule II - Valuation and Qualifying Accounts</u>	52
<u>Item 16. Form 10-K Summary</u>	52
<u>Signatures</u>	53
<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>	

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 2016. 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 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 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 204 retail food stores. The Company's operations are reported as a single reportable segment.

The following table provides additional detail on the percentage of consolidated net sales contributed by product category for fiscal years 2016, 2015 and 2014, respectively:

	2016	2015	2014
Center Store (1)	57.0 %	57.5 %	57.9 %
Fresh (2)	30.3	29.7	29.0
Pharmacy Services	9.5	9.4	9.0
Fuel	3.0	3.2	3.9
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.

At the end of 2016, Weis Markets, Inc. operated 4 stores in Delaware, 50 stores in Maryland, 5 stores in New Jersey, 9 stores in New York, 121 stores in Pennsylvania, 13 stores in Virginia and 2 stores in West Virginia, for a total of 204 retail food stores operating under the Weis Markets trade name.

1

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 70,000 square feet, with an average size of approximately 48,000 square feet. The following summarizes the number of stores by size categories as of year-end:

	2016 Number of stores	2016 % of Total	2015 Number of stores	2015 % of Total
Square feet				
55,000 to 70,000	58	28%	57	35%
45,000 to 54,999	70	34%	69	42%
35,000 to 44,999	53	26%	22	13%
25,000 to 34,999	18	9%	9	6%
Under 25,000	5	3%	6	4%
Total	204	100%	163	100%

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

	2016	2015	2014	2013	2012
Beginning store count	163	163	165	163	161
New stores (1)	44	---	1	4	4
Opened relocated stores	---	1	1	---	1
Closed stores	(3)	---	(3)	(2)	(2)
Closed relocated stores	---	(1)	(1)	---	(1)
Ending store count	204	163	163	165	163
Total square feet (000's), at year-end	9,777	8,215	8,202	8,211	8,054
Additions/major remodels	9	16	8	12	13

(1) On June 11, 2012, Weis Markets, Inc. acquired three former Genuardi's stores located in Conshohocken, Doylestown and Norristown, Pennsylvania from Safeway Inc. In the third and fourth quarter 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.

The Company supports its retail operations through a centrally located distribution facility, its own transportation fleet, three manufacturing facilities and its administrative offices. The Company is required to use a significant amount of working capital to provide for the necessary amount of inventory to meet demand for its products through efficient use of buying power and effective utilization of space in its distribution facilities. The manufacturing facilities consist of a meat processing plant, an ice cream plant and a milk processing plant.

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.

WEIS MARKETS, INC.

Table of Contents

Item 1. Business: (continued)

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, Price Freeze, 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. 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.

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.

WEIS MARKETS, INC.

Table of Contents

Item 1a. Risk Factors: (continued)

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 security 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 31, 2016. 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.

5

WEIS MARKETS, INC.

Table of Contents

Item 2. Properties:

As of December 31, 2016, the Company owned and operated 93 of its retail food stores and leased and operated 111 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 1.2 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 550,000 square feet. The Company utilizes 259,000 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 16, 2017, indicating all positions held during the past five years:

Name	Age	Title
Jonathan H. Weis (a)	49	Chairman of the Board, President and Chief Executive Officer
Kurt A. Schertle (b)	45	Chief Operating Officer
Scott F. Frost (c)	54	Senior Vice President, Chief Financial Officer and Treasurer
Wayne S. Bailey (d)	58	Senior Vice President of Supply Chain and Logistics
David W. Gose II (e)	50	Senior Vice President of Operations
Harold G. Graber (f)	61	Senior Vice President of Real Estate and Development, Secretary
Richard A. Gunn (g)	52	Senior Vice President of Merchandising and Marketing
James E. Marcil (h)	58	Senior Vice President of Human Resources

- (a) 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.
- (b) 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.
- (c) 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.

- (d) 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
- (e) 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.
- (f) 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.
- (g) 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.
- (h) 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.

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 December 31, 2016 as provided by the Company's transfer agent was 5,808. High and low stock prices and dividends paid per share for the last two fiscal years were:

Quarter	2016			2015		
	High	Low	Dividend Per Share	High	Low	Dividend Per Share
First	\$ 46.64	\$ 37.14	\$ 0.30	\$ 51.91	\$ 45.38	\$ 0.30
Second	53.59	42.77	0.30	50.59	41.64	0.30
Third	55.49	48.01	0.30	43.99	39.26	0.30
Fourth	68.40	51.56	0.30	46.39	38.56	0.30

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 published group index for the Retail Grocery Stores Industry ("Peer Group"), provided by Value Line, Inc., for the period of five years. 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

2011 2012 2013 2014 2015 2016

Edgar Filing: WEIS MARKETS INC - Form 10-K

Weis Markets, Inc.	100.00	100.83	138.08	129.01	122.81	190.05
S&P 500	100.00	116.00	153.57	174.60	177.05	198.22
Peer Group	100.00	115.77	156.63	208.58	218.96	233.72

8

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)	53 Weeks Ended Dec. 31, 2016	52 Weeks Ended Dec. 26, 2015	52 Weeks Ended Dec. 27, 2014	52 Weeks Ended Dec. 28, 2013	52 Weeks Ended Dec. 29, 2012
Net sales	\$ 3,136,720	\$ 2,876,748	\$ 2,776,683	\$ 2,692,588	\$ 2,701,405
Costs and expenses	3,038,395	2,785,969	2,695,308	2,578,916	2,573,712
Income from operations	98,325	90,779	81,375	113,672	127,693
Investment income and interest expense	2,457	1,552	2,287	4,684	3,882
Gain on bargain purchase	23,879	-	-	-	-
Income before provision for income taxes	124,661	92,331	83,662	118,356	131,575
Provision for income taxes	37,499	33,001	29,281	45,170	48,675
Net income	87,162	59,330	54,381	73,186	82,900
Retained earnings, beginning of year	1,007,894	980,842	958,739	917,831	867,209
Cash dividends	1,095,056	1,040,172	1,013,120	991,017	950,109
Retained earnings, end of year	\$ 1,062,778	\$ 1,007,894	\$ 980,842	\$ 958,739	\$ 917,831
Weighted-average shares outstanding, diluted	26,898,443	26,898,443	26,898,443	26,898,443	26,898,443
Cash dividends per share	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20
Basic and diluted earnings per share	\$ 3.24	\$ 2.21	\$ 2.02	\$ 2.72	\$ 3.08
Working capital	\$ 207,700	\$ 232,722	\$ 229,595	\$ 215,802	\$ 235,856
Total assets	\$ 1,431,304	\$ 1,235,959	\$ 1,191,119	\$ 1,148,242	\$ 1,090,440
Shareholders' equity	\$ 926,722	\$ 871,747	\$ 844,763	\$ 821,770	\$ 781,942
Number of grocery stores	204	163	163	165	163

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, Inc. was founded in 1912 by Harry and Sigmund Weis in Sunbury, Pennsylvania. Today, the Company ranks among the top 50 United States and Canadian Food Retailers and Wholesalers in revenues generated. As of December 31, 2016, the Company operated 204 retail food stores in Pennsylvania and six surrounding states: Delaware, Maryland, New Jersey, New York, Virginia and West Virginia.

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

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.
- Continuously Upgrade Organizational Talent Pool – In support of the Company's growth and sales building strategies, the Company is committed to growing leaders at every level throughout the organization through enhanced leadership development programs, succession planning, and establishing rewarding career paths. The Company believes that continuing to build associate engagement and develop associate talent directly impacts its ability to compete and execute strategic plans. The Company views this as a strategic imperative for future growth.
- Become More Relevant to Consumers – Understanding the consumer is crucial to the Company's strategic plan. Research can be done by studying the wants and needs of core consumers and casual consumers. Measuring customer satisfaction and sharing insights across the organization will help communication between management and its consumers. The Company strives to build customer loyalty by purchasing produce from local growers and supporting organizations within the communities it serves. It will continue to invest in new stores, remodels and additions and strategic acquisitions, to help retain and attract new consumers.
- Create Meaningful Differentiation – The Company has identified product pricing, locally focused store assortments, shopping experience, overall convenience and customer service as critical components of future success. The strategy includes developing improved customer service training and setting customer service measurements and goals. As part of this strategy, management is committed to offering its customers a strong combination of quality, service and value. It will continue to offer competitive prices on name brand and private brand products to exceed

customers' expectations.

- Significantly Improve Decision Support and Measurement – The Company will continue to make investments in its information technology systems and distribution network. This will help improve associate productivity, store conditions and the overall customer experience with user-friendly, support driven systems. These systems will also continue to play a key role in the measurement of the Company's strategic decisions and provide valuable insight into customer behavior, shopping trends, and financial returns. Management will continue to streamline its supply chain by focusing on improving inventory turns, cost per case, in-stock position and overall service levels, which will help to improve in-store conditions and result in increased sales and profits.
- 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.

11

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)

For the Fiscal Years Ended December 31, 2016, December 26, 2015 and December 27, 2014	Percentage Changes					
	2016 (53 weeks)	2015 (52 weeks)	2014 (52 weeks)	2016 vs. 2015	2015 vs. 2014	
Net sales	\$ 3,136,720	\$ 2,876,748	\$ 2,776,683	9.0	%	3.6
Cost of sales, including warehousing and distribution expenses	2,264,565	2,090,016	2,023,721	8.4		3.3
Gross profit on sales	872,155	786,732	752,962	10.9		4.5
Gross profit margin	27.8	%	27.3	%	27.1	%
Operating, general and administrative expenses	773,830	695,953	671,587	11.2		3.6
O, G & A, percent of net sales	24.7	%	24.2	%	24.2	%
Income from operations	98,325	90,779	81,375	8.3		11.6
Operating margin	3.1	%	3.2	%	2.9	%
Investment income and interest expense	2,457	1,552	2,287	58.3		(32.1)
Investment income and interest expense, percent of net sales	0.1	%	0.1	%	0.1	%
Gain on bargain purchase	23,879	-	-	100.0		-
Gain on bargain purchase, percent of net sales	0.8	%	-	%	-	%
Income before provision for income taxes	124,661	92,331	83,662	35.0		10.4
Income before provision for income taxes, percent of net sales	4.0	%	3.2	%	3.0	%
Provision for income taxes	37,499	33,001	29,281	13.6		12.7
Effective tax rate	30.1	%	35.7	%	35.0	%
Net income	\$ 87,162	\$ 59,330	\$ 54,381	46.9	%	9.1
Net income, percent of net sales	2.8	%	2.1	%	2.0	%
Basic and diluted earnings per share	\$ 3.24	\$ 2.21	\$ 2.02	46.6	%	9.4

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

maintain stable earnings from year to year.

Net Sales

The Company's revenues are earned and cash is generated as merchandise is sold to customers at the point of sale. Discounts provided to customers by the Company at the point of sale are recognized as a reduction in sales as products are sold or over the life of a promotional program if redeemable in the future. Discounts provided by vendors, usually in the form of paper coupons, are not recognized as a reduction in sales provided the coupons are redeemable at any retailer that accepts coupons.

Total store sales increased 9.0% in 2016, a 53-week period, compared to 2015, a 52-week period. The Company's total store sales, adjusting for the additional week in 2016, increased 6.9% compared to 2015. Total store sales, excluding fuel sales and adjusting for the additional week in 2016, increased 7.0% in 2016 compared to 2015. Total store sales increased 3.6% in 2015 compared to 2014. Excluding fuel sales, total store sales increased 4.3% in 2015 compared to 2014.

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

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)

Comparable store sales, adjusted for the additional week in 2016, increased 2.9% compared to 2015. Comparable store sales, excluding fuel sales, also increased 2.9% in 2016 compared to 2015. Comparable store sales increased 3.7% in 2015 compared to 2014. Excluding fuel sales, comparable store sales increased 4.4% in 2015 compared to 2014.

The Company attributes the increased net sales primarily to the acquisition of 44 locations. In addition, the Company continued to invest in lower pricing and disciplined sales building programs. This includes targeted promotional activity in key regional markets and its Everyday Lower Prices (EDLP) and Lowest Price Guarantee promotional programs. The EDLP program lowered prices on more than 1,000 regularly purchased items. The Lowest Price Guarantee program offers discounts on four items every week that the Company guarantees to be the lowest compared to local competitors. The Company's Weis Preferred Club Shopper program continues to target customer members with personalized offers and digital coupons to help them save money. As part of this loyalty marketing program, the Company continues to offer its "Gas Rewards" program in most markets. The "Gas Rewards" program allows Weis Preferred Shoppers club card members to earn gas discounts resulting from their in-store purchases. Customers can redeem these gas discounts at any of the thirty-three Weis Gas-n-Go locations, as well as participating third-party gas retail locations such as Sheetz convenience stores, which are located in most of the Company's markets. Compared to 2015, the Company experienced a 2.0% decrease in the average sales per customer transaction in 2016. Compared to 2014, the Company experienced a 0.2% decrease in the average sales per customer transaction in 2015.

Comparable dairy sales, adjusted for the additional week in 2016, decreased 2.0% compared to 2015. The decrease in 2016 is attributed to deflation in the cost of eggs and milk.

Comparable meat sales, adjusted for the additional week in 2016, decreased 0.2% compared to 2015. In 2016, the Company saw deflation in costs causing a substantial reduction in retail prices to remain competitive. The Company introduced certified angus beef, a higher priced product, in order to offset the deflation. Comparable meat sales increased 4.3% in 2015 compared to 2014. In addition to increased costs of commodities which led to retail inflation in the first half of 2015, the Company continued to build the meat department's base business through aggressive

advertising, the introduction of new programs and expanded variety and display space for All Natural and organic products.

Comparable produce sales, adjusting for the additional week in 2016, increased 4.8% compared to 2015. The Company continued driving sales through aggressive advertising and merchandising campaigns, solid in-store execution teams and associate training classes. Comparable produce sales increased 5.9% in 2015 compared to 2014. The 2015 sales increase was driven by the factors identified above as well as, product inflation, an increased variety in key categories of produce and store remodeling projects.

Comparable pharmacy sales, adjusted for the additional week in 2016, increased 8.4% compared to 2015. Comparable pharmacy sales increased 7.4% in 2015 compared to 2014. The pharmacy sales increase in both years was driven by an increased number of filled prescriptions caused by an increase in individuals eligible for healthcare benefits under the Affordable Care Act (ACA) and the acceptance of more third-party insurance plans.

Comparable fuel sales, adjusted for the additional week in 2016, decreased 7.7% in 2016 compared to 2015. Comparable fuel sales decreased 25.4% in 2015 compared to 2014. Fuel sales decreased as a result of the decline in retail fuel prices from 2014 through 2016. According to the U.S. Department of Energy, the weekly average price of gasoline in the Central Atlantic States decreased 10.1%, or \$0.26 per gallon, in 2016. The 52-week average price of gasoline in the Central Atlantic States, according to the U.S. Department of Energy, decreased 27.1%, or \$0.98 per gallon, in 2015 compared to 2014.

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.

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)

Cost of Sales and Gross Profit

Cost of sales consists of direct product costs (net of discounts and allowances), distribution center and transportation costs, as well as manufacturing facility operations. Almost all of the increase in cost of sales in 2016 as compares to 2015 is due to the increased sales volume in 2016. Both direct product cost and distribution cost increase when sales volume increases.

According to the latest U.S. Bureau of Labor Statistics' report, the annual Seasonally Adjusted Food-at-Home Consumer Price Index decreased 1.3% in 2016 but increased 1.1% in 2015 and 2.4% in 2014. 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. Even with the fluctuation of retail and wholesale prices, the Company has achieved a gross profit rate of 27.8% in 2016, 27.3% in 2015 and 27.1% in 2014. The increase in gross profit rate was driven by a shift in sales mix from fuel to grocery sales which carry a higher profit margin.

The Company experienced a LIFO credit of \$2.2 million for 2016, compared to a charge of \$1.4 million for 2015 and a charge of \$911,000 for 2014. The Company expects wholesale price inflation to increase slightly in 2017.

The Company's profitability is impacted by the cost of oil. Fluctuating fuel prices affect the delivered cost of product and the cost of other petroleum-based supplies. As a percentage of sales, the cost of diesel fuel used by the Company to deliver goods from its distribution center to its stores decreased by 0.03% in 2016 compared to 2015 and decreased by 0.07% in 2015 compared to 2014. Although the Company experienced a decrease in these costs, the decline in expense was minimized due to higher fuel usage resulting from more store deliveries to meet the higher sales demand. According to the U.S. Department of Energy, the weekly average diesel fuel price for the Central Atlantic States decreased \$0.50 per gallon to \$2.44 per gallon as of December 26, 2016, compared to \$2.94 per gallon as of December 21, 2015. Based upon the U.S. Energy Information Administration's current projections, the Company is expecting diesel fuel prices to increase slightly to approximately \$2.75 during 2017.

Although the Company experienced product cost inflation and deflation in various commodities in 2016, 2015 and 2014, 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.

14

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

Business operating costs, including expenses generated from administration and purchasing functions, are recorded in "Operating, general and administrative expenses." Business operating costs include items such as wages, benefits, utilities, repairs and maintenance, advertising costs and credits, rent, insurance, depreciation, leasehold amortization and costs for outside provided services. The majority of the expenses were driven by increased sales.

The Company may not be able to recover rising expenses through increased prices charged to its customers. A majority of our associates are paid hourly rates related to federal and state minimum wage laws. The Company increased the base hourly rate for associates to \$9 per hour as of August 2, 2015, in order to attract and retain talented associates with a goal of delivering best-in-class customer service. The Company has decided not to increase prices to offset this hourly wage rate increase.

Employee-related costs such as wages, employer paid taxes, health care benefits and retirement plans, comprise approximately 60% of the total "Operating, general and administrative expenses." As a percent of sales, direct store labor increased 0.2% in 2016 compared to 2015 but decreased 0.1% in 2015 compared to 2014. The increase in the base hourly rate for associates to \$9 per hour and related wage compression had an estimated cost of \$6.6 million in 2016. Increases in employee related expenses were offset by savings realized from a store labor efficiency project.

The Company's self-insured health care benefit expenses increased by 15.4% in 2016 compared to 2015 and increased by 0.4% in 2015 compared to 2014. The increase from 2015 to 2016 is mainly attributed to an increase in participants from the acquired locations as well as overall group health costs. The Company remains concerned about the impact that The Patient Protection and Affordable Care Act (ACA) will have on its future operating expenses.

Depreciation and amortization expense was \$76.8 million, or 2.4% of net sales, for 2016 compared to \$70.1 million, or 2.4% of net sales, for 2015 and \$66.9 million, or 2.4% of net sales, for 2014. The increase in depreciation and amortization expense in 2016 compared to 2015 and in 2015 compared to 2014 was the result of additional capital

expenditures as the Company implements its capital expansion program, including the acquisition of 44 locations. See the Liquidity and Capital Resources section for further information regarding the Company's capital expansion program.

The Company recognized pre-tax gains of \$751,000 and \$2.6 million in 2015 and 2014, respectively, from the sale of two properties in each year. In 2016, the Company determined that the asset value of one property was impaired. As a result, the Company recognized a pre-tax impairment loss of \$894,000. See Note 1(1) to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information on the Company's impairment charges.

Retail store profitability is sensitive to volatility in utility costs due to the amount of electricity and gas required to operate the Company's stores and facilities. The Company is responding to this volatility in operating costs by employing conservation technologies, procurement strategies and associate energy awareness programs to manage and reduce consumption. The Company continues to be a member of the EPA GreenChill program for advancing environmentally beneficial refrigerant management systems and has ten stores registered under this program. In 2016, the Company exceeded its corporate carbon reduction goal of 20% by 2020. The Company realized a 22% reduction in the overall carbon footprint versus a base year of 2008. 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 2016, the Company recycled 43,000 tons of materials, representing a corporate wide recycling rate of 54%.

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 Expense (continued)

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

(dollars in thousands)	2016 vs. 2015		
	Increase (Decrease)	Increase (Decrease)	as a % of sales
Employee related expense	\$ 41,174	0.1	%
Acquisition-related expense	\$ 14,166	0.5	%

Employee related expenses increased in 2016 for the reasons noted above and due to a 25% increase in associates related the acquisition of 5 former Mars stores, 38 former Food Lion stores and a former Nell's Family Market store. This increase in associates contributed to increased wages, benefits and retirement expenses.

Acquisition-related expenses, excluding the expenses mentioned above, primarily consisted of store operating expenses, travel expenses and contracted labor for store resets.

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

(dollars in thousands)	2015 vs. 2014		
	Increase (Decrease)	Increase (Decrease)	as a % of sales
Employee related expenses	\$ 19,421	0.2	%
Store advertising expense	\$ (1,277)	(0.1)	%

Edgar Filing: WEIS MARKETS INC - Form 10-K

Depreciation and amortization	\$ 4,473	0.1	%
Utility expense	\$ (1,222)	(0.1)	%
Rent expense	\$ (1,220)	(0.1)	%

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

Store advertising expense decreased in 2015 due to reduced spending on direct mail and weekly ads.

Depreciation and amortization increased in 2015 as a result of the Company's store capital expenditure program and technology investments.

Utility expense decreased in 2015 for the reasons noted above related to energy conservation efforts and procurement strategies, along with reduced electricity costs and usage and a reduction in the use of natural gas.

Rent expense decreased in 2015 primarily due to adjustments to accrued closed store liability estimates and purchasing a previously leased location.

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)

Investment Income

The Company's investment portfolio consists of marketable securities, which currently includes municipal bonds and equity securities, as well as the Company's SERP investment, which is comprised of mutual funds that are maintained within the Company's non-qualified supplemental executive retirement plan and the non-qualified pharmacist deferred compensation plan. The Company classifies all of its municipal bonds and equity securities as available-for-sale. The SERP investments are classified as trading securities.

	2016	2015	2014	Dollar Changes 2016 vs. 2015	Dollar Changes 2015 vs. 2014
Analysis of Investment Income	(53)	(52)	(52)		
(dollars in thousands)	weeks)	weeks)	weeks)	2015	2014
Bond income	\$ 1,655	\$ 1,420	\$ 1,187	\$ 235	\$ 233
Equity income	419	412	706	7	(294)
SERP investment	626	(280)	394	906	(674)
Investment income	\$ 2,700	\$ 1,552	\$ 2,287	\$ 1,148	\$ (735)

Equity income decreased in 2015 as a result of the Company receiving a stock dividend in 2014 which was not repeated in 2015.

SERP investment was impacted by market adjustments in both 2016 and 2015 and experienced a gain in 2016.

Provision for Income Taxes

The effective income tax rate was 30.1%, 35.7% and 35.0% in 2016, 2015 and 2014, respectively. 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%. The increase in the effective tax rate excluding the bargain purchase gain as compared to the 2015's effective tax rate was driven by an increase in state tax expense. The effective income tax rate differs from the federal statutory rate of 35% primarily due to the effect of the bargain purchase gain, state income taxes and net permanent differences. The effective income tax rate rose in 2015 due to an increase in state tax expense.

Liquidity and Capital Resources

Net cash provided by operating activities was \$151.6 million in 2016, compared to \$136.7 million in 2015 and \$123.1 million in 2014. Working capital decreased 10.8% in 2016, increased 1.4% in 2015 and increased 6.4% in 2014, in each case compared to the prior year. The working capital decrease in 2016 was caused by the increased investment in the Company's capital expansion program, specifically the acquisitions summarized in Note 9 of the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K. Working capital increases in 2015 and 2014 are primarily attributed to a reduced investment in the Company's capital expansion program compared to previous years.

Net cash used in investing activities was \$186.7 million in 2016 compared to \$109.8 million in 2015 and \$85.8 million in 2014. These funds were used primarily to purchase property and equipment in the three fiscal years presented. Property and equipment purchases totaled \$142.1 million in 2016, compared to \$90.2 million in 2015 and \$79.2 million in 2014. In 2016, the Company paid \$24.6 million for the purchase of 5 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. The Company paid \$7.9 million for the property and equipment related to the purchase of a store in Hanover, Pennsylvania in the third quarter of 2015. As a percentage of sales, capital expenditures were 7.0%, 3.1% and 2.9% in 2016, 2015 and 2014, respectively.

The Company's capital expansion program includes store acquisitions, the construction of new superstores, the expansion and remodeling of existing units, the acquisition of sites for future expansion, new technology purchases and the continued upgrade of the Company's distribution facilities and transportation fleet. Management currently plans to invest approximately \$90 million in its capital expansion program in 2017.

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)

Net cash generated from financing activities was \$32.2 million in 2016. In 2016, the Company entered into a revolving credit agreement and borrowed a total of \$64.5 million of the available \$100.0 million from Wells Fargo Bank, National Association, increasing the cash flow from financing activities compared to 2015. In addition, the company issued \$32.3 million of cash dividend payments in 2016. The net cash flows used in 2015 and 2014 consisted solely of the \$32.3 million cash dividend payments.

At December 31, 2016, the Company had \$16.7 million committed to outstanding letters of credit. 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 and has committed to not draw any additional amounts from the line of credit.

Total cash dividend payments on common stock, on a per share basis, amounted to \$1.20 in 2016, 2015 and 2014. No treasury stock was purchased in 2016, 2015 or 2014. The Board of Directors' 2004 resolution authorizing the repurchase of up to one million shares of the Company's common stock has a remaining balance of 752,468 shares.

The Company has no other commitment of capital resources as of December 31, 2016, other than the lease commitments on its store facilities and transportation equipment under operating leases that expire at various dates through 2033. The Company anticipates funding its working capital requirements and its \$90 million 2017 capital expansion program through cash and future internally generated cash flows from operations, as well as the revolving credit facility agreement the Company entered into on September 1, 2016 with Wells Fargo Bank, National Association. The remaining balance as of December 31, 2016 is \$18.8 million, which is the net amount of the original \$100.0 million available through the revolving credit facility agreement, less the \$64.5 million borrowed and the \$16.7 million dollars of outstanding letters of credit. On March 13, 2017, the line of credit available through the revolving credit facility was increased to \$120.0 million.

The Company's marketable securities portfolio currently consists of municipal bonds and equity securities. Other short-term investments are classified as cash equivalents on the Consolidated Balance Sheets.

Under its current policies, the Company invests in high-grade marketable debt securities and does not use interest rate derivative instruments to manage exposure to interest rate fluctuations. Currently, the Company's investment strategy of obtaining marketable debt securities with maturity dates between one and ten years helps to minimize market risk and to maintain a balance between risk and return. The equity securities owned by the Company consist primarily of stock held in large capitalized companies trading on public security exchange markets. The Company's management continually monitors the risk associated with its marketable securities. A quantitative tabular presentation of risk exposure is located in "Item 7a. Quantitative and Qualitative Disclosures about Market Risk" of this report.

By their nature, these financial instruments 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 experienced an unrealized holding gain net of deferred taxes of \$348,000 in 2016, an unrealized holding loss net of deferred taxes of \$52,000 in 2015 and an unrealized holding gain net of deferred taxes of \$927,000 in 2014 (see Consolidated Statements of Comprehensive Income). As of December 31, 2016, the Company had \$8.7 million in gross unrealized holding gains and \$459,000 in gross unrealized holding losses related to marketable securities. See Note 2 Investments, of Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K for more information on the Company's marketable securities.

Contractual Obligations

The following table represents scheduled maturities of the Company's long-term contractual obligations as of December 31, 2016.

(dollars in thousands)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	\$ 252,145	\$ 43,512	\$ 78,313	\$ 50,260	\$ 80,060
Long-term Debt	64,476	-	64,476	-	-
Total	\$ 316,621	\$ 43,512	\$ 142,789	\$ 50,260	\$ 80,060

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(w) 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 market, 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)

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 31, 2016, the remaining closed store has a lease term of approximately two years, and the liabilities associated with the closed store lease are paid over the term of the lease. Closed store lease liabilities totaled \$105,000 and \$212,000 as of December 31, 2016 and December 26, 2015, respectively. 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.

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 \$2,000,000 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 \$2,000,000 per claim. Property and casualty insurance coverage is maintained with outside carriers at deductible or retention levels ranging from \$100,000 to \$1,000,000. 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.

WEIS MARKETS, INC.

Table of Contents

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

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											Fair Value Dec. 31, 2016
	December 31, 2016	2017	2018	2019	2020	2021	Thereafter	Total				
Rate sensitive assets:												
Fixed interest rate securities	\$ 11,320	\$ 11,310	\$ 4,060	\$ 3,705	\$ 6,040	\$ 16,670	\$ 53,105	\$ 57,811				
Average interest rate	2.26 %	2.13 %	1.70 %	2.25 %	2.12 %	2.45 %	2.23 %					

Other Relevant Market Risks

The Company's equity securities at December 31, 2016 had a cost basis of \$1,198,000 and a fair value of \$9,360,000. The dividend yield realized on these equity investments was 4.48% in 2016. Market risk, as it relates to equities owned by the Company, is discussed within the "Liquidity and Capital Resources" section of "Management's

Discussion and Analysis of Financial Condition and Results of Operations” contained within this report. Interest rate fluctuations will not have a material impact on the long term debt obligation.

WEIS MARKETS, INC.

Table of Contents

Item 8. Financial Statements and Supplementary Data:

WEIS MARKETS, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

December 31, 2016 and December 26, 2015

	2016	2015
Assets		
Current:		
Cash and cash equivalents	\$ 14,653	\$ 17,596
Marketable securities	67,171	91,629
SERP investment	11,154	9,079
Accounts receivable, net	96,170	88,083
Inventories	276,783	229,399
Prepaid expenses and other current assets	16,310	17,198
Income taxes recoverable	1,625	1,666
Total current assets	483,866	454,650
Property and equipment, net	878,195	738,985
Goodwill	52,330	35,162
Intangible and other assets, net	16,913	7,162
Total assets	\$ 1,431,304	\$ 1,235,959
Liabilities		
Current:		
Accounts payable	\$ 199,159	\$ 160,441
Accrued expenses	50,947	37,819
Accrued self-insurance	19,330	16,770
Deferred revenue, net	6,730	6,898
Total current liabilities	276,166	221,928
Postretirement benefit obligations	15,277	14,368
Accrued self-insurance	21,353	22,761
Deferred income taxes	119,445	97,020
Long-term debt	64,476	-
Other	7,865	8,135
Total liabilities	504,582	364,212
Shareholders' Equity		
Common stock, no par value, 100,800,000 shares authorized, 33,047,807 shares issued,		

Edgar Filing: WEIS MARKETS INC - Form 10-K

26,898,443 shares outstanding	9,949	9,949
Retained earnings	1,062,778	1,007,894
Accumulated other comprehensive income, net	4,852	4,761
	1,077,579	1,022,604
Treasury stock at cost, 6,149,364 shares	(150,857)	(150,857)
Total shareholders' equity	926,722	871,747
Total liabilities and shareholders' equity	\$ 1,431,304	\$ 1,235,959
See accompanying notes to Consolidated Financial Statements.		

22

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 31, 2016, December 26, 2015 and December 27, 2014	2016 (53 weeks)	2015 (52 weeks)	2014 (52 weeks)
Net sales	\$ 3,136,720	\$ 2,876,748	\$ 2,776,683
Cost of sales, including warehousing and distribution expenses	2,264,565	2,090,016	2,023,721
Gross profit on sales	872,155	786,732	752,962
Operating, general and administrative expenses	773,830	695,953	671,587
Income from operations	98,325	90,779	81,375
Investment income and interest expense	2,457	1,552	2,287
Gain on bargain purchase	23,879	-	-
Income before provision for income taxes	124,661	92,331	83,662
Provision for income taxes	37,499	33,001	29,281
Net income	\$ 87,162	\$ 59,330	\$ 54,381
Weighted-average shares outstanding, basic and diluted	26,898,443	26,898,443	26,898,443
Cash dividends per share	\$ 1.20	\$ 1.20	\$ 1.20
Basic and diluted earnings per share	\$ 3.24	\$ 2.21	\$ 2.02

See accompanying notes to Consolidated Financial Statements.

Table of Contents

WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

For the Fiscal Years Ended December 31, 2016, December 26, 2015 and December 27, 2014	2016 (53 weeks)	2015 (52 weeks)	2014 (52 weeks)
Net income	\$ 87,162	\$ 59,330	\$ 54,381
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 \$239, \$37 and \$644, respectively)	348	(52)	927
Reclassification adjustment for gains included in net income (Net of deferred taxes of \$180, \$11 and \$26, respectively)	(257)	(16)	(37)
Other comprehensive income (loss), net of tax	91	(68)	890
Comprehensive income, net of tax	\$ 87,253	\$ 59,262	\$ 55,271

See accompanying notes to Consolidated Financial Statements.

Table of Contents

WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(dollars in thousands, except shares)			Accumulated				Total
			Other	Treasury Stock		Shareholders'	
For the Fiscal Years Ended	Common Stock	Retained	Comprehensive			Equity	
December 31, 2016,	Shares	Amount	Earnings	Income	Shares	Amount	
December 26, 2015 and December 27, 2014				(Loss)			
Balance at December 28, 2013	33,047,807	\$ 9,949	\$ 958,739	\$ 3,939	6,149,364	\$ (150,857)	\$ 821,770
Net income	—	—	54,381	—	—	—	54,381
Other comprehensive income, net of reclassification adjustments and tax	—	—	—	890	—	—	890
Dividends paid	—	—	(32,278)	—	—	—	(32,278)
Balance at December 27, 2014	33,047,807	9,949	980,842	4,829	6,149,364	(150,857)	844,763
Net income	—	—	59,330	—	—	—	59,330
Other comprehensive loss, net of reclassification adjustments and tax	—	—	—	(68)	—	—	(68)
Dividends paid	—	—	(32,278)	—	—	—	(32,278)
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

See accompanying notes to Consolidated Financial Statements.

Table of Contents

WEIS MARKETS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

For the Fiscal Years Ended December 31, 2016, December 26, 2015 and December 27, 2014	2016 (53 weeks)	2015 (52 weeks)	2014 (52 weeks)
Cash flows from operating activities:			
Net income	\$ 87,162	\$ 59,330	\$ 54,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	66,496	61,834	59,004
Amortization	10,366	8,280	7,865
Loss (gain) on disposition of fixed assets	1,353	(54)	(2,630)
Impairment of fixed assets	894	-	-
Gain on sale of marketable securities	(437)	(27)	(63)
Gain on sale of intangible assets	(200)	-	-
Gain on acquisition of business	(23,879)	-	-
Deferred income taxes	5,703	(212)	3,235
Changes in operating assets and liabilities:			
Inventories	(38,102)	10,242	811
Accounts receivable and prepaid expenses	(5,096)	(17,127)	(13,588)
Income taxes recoverable	41	(1,054)	(612)
Accounts payable and other liabilities	46,131	14,403	17,230
Income taxes payable	-	-	(1,628)
Other	1,161	1,118	(895)
Net cash provided by operating activities	151,593	136,733	123,110
Cash flows from investing activities:			
Purchase of property and equipment	(142,144)	(90,210)	(79,177)
Proceeds from the sale of property and equipment	442	1,929	3,614
Purchase of marketable securities	(40,858)	(31,329)	(20,118)
Proceeds from maturities of marketable securities	1,335	3,201	4,050
Proceeds from the sale of marketable securities	62,566	9,171	7,668
Acquisition of business	(63,632)	-	-
Purchase of intangible assets	(2,568)	(2,649)	(1,479)
Proceeds from sale of intangible assets	200	-	-
Change in SERP investment	(2,075)	42	(369)
Net cash used in investing activities	(186,734)	(109,845)	(85,811)
Cash flows from financing activities:			
Proceeds from long-term debt	64,476	-	-
Dividends paid	(32,278)	(32,278)	(32,278)
Net cash provided by (used in) financing activities	32,198	(32,278)	(32,278)
Net (decrease) increase in cash and cash equivalents	(2,943)	(5,390)	5,021

Edgar Filing: WEIS MARKETS INC - Form 10-K

Cash and cash equivalents at beginning of year	17,596	22,986	17,965
Cash and cash equivalents at end of year	\$ 14,653	\$ 17,596	\$ 22,986

See accompanying notes to Consolidated Financial Statements.

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 2016.

(b) Definition of Fiscal Year

The Company's fiscal year ends on the last Saturday in December. Fiscal 2016 was comprised of 53 weeks, ending on December 31, 2016. Fiscal 2015 was comprised of 52 weeks, ending on December 26, 2015. Fiscal 2014 was comprised of 52 weeks, ending on December 27, 2014. 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 31, 2016 and December 26, 2015 totaled \$714,000 and \$7.7 million, respectively.

(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, are excluded from earnings and are reported as a separate component of shareholders' equity until realized. 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.

(g) Accounts Receivable

Accounts receivable are stated net of an allowance for uncollectible accounts of \$1,455,000 and \$1,967,000 as of December 31, 2016 and December 26, 2015, 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. Customer electronic payments accepted at the point of sale are classified as accounts receivable until collected.

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 market, 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 31, 2016 and December 26, 2015 consisted of the following:

(dollars in thousands)	December 31, 2016			December 26, 2015		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Liquor Licenses	\$ 8,423	\$ -	\$ 8,423	\$ 5,965	\$ -	\$ 5,965
Lease Acquisitions	10,960	2,984	7,976	3,654	2,604	1,050
Customer Lists	295	21	274	162	15	147
Total	\$ 19,678	\$ 3,005	\$ 16,673	\$ 9,781	\$ 2,619	\$ 7,162

Intangible assets with a definite useful life are generally amortized on a straight-line basis over periods up to 30 years. Estimated amortization expense for the next five fiscal years is approximately \$928,000 in 2017, \$928,000 in 2018, \$928,000 in 2019, \$925,000 in 2020 and \$869,000 in 2021. As of December 31, 2016, 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 \$894,000 in the fourth quarter of 2016 for the impairment of long-lived assets, including equipment and leasehold improvements. The charge was a result of management determining that the net book value of a property 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 31, 2016, the remaining closed store has a lease term of approximately two years, and the liabilities associated with the closed store lease are paid over the term of the lease. Closed store lease liabilities totaled \$105,000 and \$212,000 as of December 31, 2016 and December 26, 2015, respectively. 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.

The following table summarizes accrual activity for future lease obligations of stores that were closed in the normal course of business:

(dollars in thousands)	Closed Store Obligations
Balance at December 27, 2014	\$ 955
Additions	0
Payments	(578)
Adjustments	(165)
Balance at December 26, 2015	212
Additions	0
Payments	(33)
Adjustments	(74)
Balance at December 31, 2016	\$ 105

WEIS MARKETS, INC.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(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 \$2,000,000 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 \$2,000,000 per claim. Property and casualty insurance coverage is maintained with outside carriers at deductible or retention levels ranging from \$100,000 to \$1,000,000. 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 our Consolidated Financial Statements. Refer to Note 8 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.

(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 Warehousing and Distribution Expenses

"Cost of sales, including warehousing and distribution expenses" consists of direct product costs (net of discounts and allowances), distribution center and transportation costs, as well as manufacturing facility operations.

(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.

WEIS MARKETS, INC.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(r) Vendor Allowances (continued)

Vendor allowances recorded as credits in cost of sales totaled \$123.9 million in 2016, \$97.0 million in 2015 and \$89.5 million in 2014. Vendor paid cooperative advertising credits totaled \$19.1 million in 2016, \$17.1 million in 2015 and \$16.0 million in 2014. These credits were netted against advertising costs within “Operating, general and administrative expenses.” The Company had accounts receivable due from vendors of \$852,000 and \$842,000 for earned advertising credits and \$10.7 million and \$8.1 million for earned promotional discounts as of December 31, 2016 and December 26, 2015, respectively. The Company had \$4.0 million and \$823,000 in unearned income included in accrued liabilities for unearned vendor programs under long-term contracts for display and shelf space allocation as of December 31, 2016 and December 26, 2015, 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, advertising costs and credits, 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 \$26.3 million in 2016, \$23.1 million in 2015 and \$24.6 million in 2014 in “Operating, general and administrative expenses.”

(u) Rental 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.

(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), which amended the existing accounting standards for revenue recognition. ASU 2014-09 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. The standard was initially effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. 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. In March, April, May and December of 2016 the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively, Revenue from Contracts with Customers (Topic 606) which amends the guidance in ASU 2014-09. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the ASU. The Company expects that the adoption of the ASU will not have a significant impact on the Company's point of sale product sales.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40)(Topic 718): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 provides guidance related to management's responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and to provide related note disclosures. The new requirements are effective for the annual periods ending after December 15, 2016, and for interim periods and annual periods thereafter. Early adoption is permitted. Adoption of the ASU did not have an impact on the Company's 2016 Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU 2015-11 amends guidance on the measurement of inventory from lower of cost or market to net realizable value. The amendment applies to all inventory other than those measured by Last-In-First-Out (LIFO) and the Retail Inventory Method (RIM). The amendment is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. Adoption of the new ASU will not have a material impact on the Company's Consolidated Financial Statements.

WEIS MARKETS, INC.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(v) Current Relevant Accounting Standards (continued)

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. ASU 2016-01 also modifies certain disclosure requirements related to financial assets and liabilities. Under existing GAAP, changes in fair value of available-for-sale equity investments are recorded in other comprehensive income. The Company expects that the adoption of ASU 2016-01 will likely have an impact on the net income reported in the Company's Consolidated Statements of Income but it is not expected to significantly impact the Company's comprehensive income or shareholders' equity. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with the cumulative effect of the adoption made to the balance sheet as of the date of adoption. Adoption will result in a reclassification of the related accumulated unrealized appreciation, net of applicable deferred income taxes, currently included in accumulated other comprehensive income to retained earnings, resulting in no impact on the Company's shareholders' equity.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). ASU 2016-02 requires lessees to recognize assets and liabilities for the rights and obligations created by their leases with lease terms more than 12 months. Current guidance only requires capital leases to be recognized on the balance sheet. However, the ASU 2016-02 now requires that both capital and operating leases be recognized on the balance sheet. The effect on cash flows will strictly depend on whether the lease is classified as an operating lease or capital lease. The ASU 2016-02 will require disclosures to aid investors and other financial statement users to better understand the amount, timing and uncertainty of the cash flows arising from leases. These disclosures are to include qualitative and quantitative information about the amounts recorded in the financial statements. This ASU will have a limited impact on the accounting for leases by lessors. However, new guidance contains targeted improvements to align, where necessary, the lessor's accounting with the lessee's accounting standards. ASU 2016-02 will become effective for annual periods beginning after December 15, 2018 and for interim periods within those fiscal years. Although the Company has not completed its assessment, the Company expects that the adoption of ASU 2016-02 will have a significant impact on the Company's Consolidated Balance Sheets.

In March 2016, the FASB issued ASU 2016-04, Liabilities – Extinguishments of Liabilities (Suptopic 405-20) Recognition of Breakage for Certain Prepaid Stored-Value Products. ASU 2016-04 requires the debtor to derecognize a liability, such as a prepaid stored-value product, if and only if it has been extinguished by paying the creditor in cash, other financial assets, goods or services or if the debtor is relieved of its obligation legally, either judicially or by the creditor. ASU 2016-04 also 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 and interim periods within those fiscal years. Early application is permitted including adoption in an interim period. The Company is currently in the process of evaluating the impact

of adoption of the ASU. The Company expects that the adoption of the ASU will not have a significant impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU attempts to clarify the definition of a business by better defining the term output and requiring that to be considered a business the entity must (1) include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output and (2) remove the evaluation whether a market participant could replace missing elements. The amendments in ASU 2017-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively on or after the effective date. No disclosures are required at the time of transition. The Company expects that the adoption of the ASU will not have a significant impact on the Company's Consolidated Financial Statements .

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU eliminates Step 2 from the goodwill impairment test which had an entity perform procedures to determine the fair value of its assets and liabilities at the impairment testing date. The entity is now required, under ASU 2017-04, to perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge when the carrying amount exceeds the reporting unit's fair value. The loss should not exceed the total amount of goodwill allocated to the reporting unit. The ASU also eliminates requirements for reporting units with a zero or negative carrying amount to perform a qualitative assessment. Therefore, the same impairment assessment applies to all reporting units. ASU 2017-04 should be applied prospectively and requires the disclosure of the nature and reason for the change in accounting principle upon transition, in the first interim and annual period the ASU is initially adopted. The amendments in ASU 2017-04 are effective for the annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company expects that the adoption of the ASU will not have a significant impact on the Company's Consolidated Financial Statements.

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.

33

WEIS MARKETS, INC.

Table of Contents

Note 2 Marketable Securities (continued)

Marketable securities, as of December 31, 2016 and December 26, 2015, consisted of:

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

(dollars in thousands)	Amortized	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
December 26, 2015	Cost			
Available-for-sale:				
Level 1				
Equity securities	\$ 1,198	\$ 6,682	\$ -	\$ 7,880
Level 2				
Municipal bonds	82,347	1,468	(66)	83,749
	\$ 83,545	\$ 8,150	\$ (66)	\$ 91,629

Maturities of marketable securities classified as available-for-sale at December 31, 2016, were as follows:

(dollars in thousands)	Amortized Cost	Fair Value
------------------------	-------------------	---------------

Available-for-sale:		
Due within one year	\$ 6,144	\$ 6,179
Due after one year through five years	27,780	27,972
Due after five years through ten years	20,317	20,162
Due after ten years	3,498	3,498
Equity securities	1,198	9,360
	\$ 58,937	\$ 67,171

The Company also maintains a non-qualified supplemental executive retirement plan and a non-qualified pharmacist deferred compensation plan for certain of its associates which allows them to defer income to future periods. Participants in the plans earn a return on their deferrals based on mutual fund investments. The Company chooses to invest in the underlying mutual fund investments to offset the liability associated with the non-qualified deferred compensation plans. Such investments are reported on the Company's Consolidated Balance 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."

WEIS MARKETS, INC.

Table of Contents

Note 3 Inventories

Merchandise inventories, as of December 31, 2016 and December 26, 2015, were valued as follows:

(dollars in thousands)	2016	2015
LIFO	\$ 223,294	\$ 181,321
Average cost	53,489	48,078
	\$ 276,783	\$ 229,399

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 \$79,128,000 and \$81,347,000 higher than as reported on the above methods as of December 31, 2016 and December 26, 2015, respectively. During 2015, 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 31, 2016 and December 26, 2015, consisted of:

(dollars in thousands)	Useful Life (in years)	2016	2015
Land		\$ 134,813	\$ 106,125
Buildings and improvements	10-60	655,487	586,903
Equipment	3-12	1,033,967	949,975
Leasehold improvements	5-20	205,506	190,249
Total, at cost		2,029,773	1,833,252
Less accumulated depreciation and amortization		1,151,578	1,094,267
		\$ 878,195	\$ 738,985

WEIS MARKETS, INC.

Table of Contents

Note 5 Lease Commitments

At December 31, 2016, the Company leased approximately 54% 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)	2016	2015	2014
Minimum annual rentals	\$ 38,632	\$ 34,794	\$ 35,183
Contingent rentals	431	452	409
Lease or sublease income	(7,212)	(7,069)	(6,881)
	\$ 31,851	\$ 28,177	\$ 28,711

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 31, 2016.

(dollars in thousands)	Leases	Subleases
2017	\$ 43,512	\$ (4,087)
2018	42,603	(3,716)
2019	35,710	(2,712)

Edgar Filing: WEIS MARKETS INC - Form 10-K

2020	28,229	(2,461)
2021	22,031	(2,106)
Thereafter	80,060	(9,850)
	\$ 252,145	\$ (24,932)

The Company did not have a liability accrued as of December 31, 2016 but had \$32,000 accrued as of December 26, 2015, for future minimum rental payments due on previously closed stores, reduced by the estimated sublease income to be received. The future minimum rental payments required under operating leases and estimated sublease income for these locations are included in the above schedule.

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 three 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)	2016	2015	2014
Retirement savings plan	3,593	3,161	3,010
Deferred compensation plan	788	(318)	1,328
Supplemental executive retirement plan	909	484	1,061
Deferred compensation plan for pharmacists	284	(165)	(228)
	\$ 5,574	\$ 3,162	\$ 5,171

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 31, 2016 is \$6,077,000, 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 \$1,976,000 for 2017 and approximately \$1,013,000 for the years thereafter dependent on the lives of the beneficiaries.

The Company also maintains a non-qualified supplemental executive retirement plan and a non-qualified pharmacist deferred compensation plan for certain of its associates. These plans are 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. These plans are unfunded and accounted for on an accrual basis. Participants in these plans 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 these plans. The present value of accumulated benefits amounted to \$11,176,000 and \$9,079,000 at December 31, 2016 and December 26, 2015, respectively, and is included in "Postretirement benefit obligations" in the Consolidated Balance Sheets.

The Company has no other postretirement benefit plans.

WEIS MARKETS, INC.

Table of Contents

Note 7 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 27, 2014	\$ 4,829
Other comprehensive loss before reclassifications	(52)
Amounts reclassified from accumulated other comprehensive income	(16)
Net current period other comprehensive loss	(68)
Accumulated other comprehensive income balance as of December 26, 2015	\$ 4,761
Other comprehensive income before reclassifications	348
Amounts reclassified from accumulated other comprehensive income	(257)
Net current period other comprehensive income	91
Accumulated other comprehensive income balance as of December 31, 2016	\$ 4,852

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 31, 2016, December 26, 2015 and December 27, 2014.

(dollars in thousands)	Location	Gains Reclassified from Accumulated Other Comprehensive Income to the Consolidated Statements of Income		
		2016	2015	2014
Unrealized gains on available-for-sale marketable securities				
	Investment income	\$ 437	\$ 27	\$ 63
	Provision for income taxes	(180)	(11)	(26)
Total amount reclassified, net of tax		\$ 257	\$ 16	\$ 37

WEIS MARKETS, INC.

Table of Contents

Note 8 Income Taxes

The provision (benefit) for income taxes consists of:

(dollars in thousands)	2016	2015	2014
Current:			
Federal	\$ 25,908	\$ 29,888	\$ 24,809
State	5,888	3,325	1,237
Deferred:			
Federal	6,020	(188)	2,559
State	(317)	(24)	676
	\$ 37,499	\$ 33,001	\$ 29,281

The reconciliation of income taxes computed at the federal statutory rate (35% in 2016, 2015 and 2014) to the provision for income taxes is:

(dollars in thousands)	2016	2015	2014
Income taxes at federal statutory rate	\$ 43,631	\$ 32,316	\$ 29,282
State income taxes, net of federal income tax benefit	2,413	1,112	1,436
Deferred tax on gain on bargain purchase	(8,358)	-	-
Other	(187)	(427)	(1,437)
Provision for income taxes (effective tax rate 30.1%, 35.7% and 35.0%, respectively)	\$ 37,499	\$ 33,001	\$ 29,281

Cash paid for federal income taxes was \$27.3 million, \$28.0 million and \$25.0 million in 2016, 2015 and 2014 respectively. Cash paid for state income taxes was \$3.7 million, \$2.2 million and \$1.8 million in 2016, 2015 and 2014 respectively.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2016 and December 26, 2015, are:

(dollars in thousands)	2016	2015
Deferred tax assets:		
Accounts receivable	\$ 586	\$ 813
Compensated absences	1,076	983
Employment incentives	9,826	3,143

Edgar Filing: WEIS MARKETS INC - Form 10-K

Employee benefit plans	9,243	10,485
General liability insurance	4,359	4,048
Postretirement benefit obligations	6,484	5,906
Net operating loss carryforwards	5,600	5,926
Other	2,224	2,173
Total deferred tax assets	39,398	33,477
Deferred tax liabilities:		
Inventories	(7,619)	(6,808)
Unrealized gains on marketable securities	(3,382)	(3,323)
Nondeductible accruals and other	(7,517)	(9,240)
Depreciation	(140,325)	(111,126)
Total deferred tax liabilities	(158,843)	(130,497)
Net deferred tax liability	\$ (119,445)	\$ (97,020)

39

WEIS MARKETS, INC.

Table of Contents

Note 8 Income Taxes (continued)

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

(dollars in thousands)	2016	2015
Unrecognized tax benefits at beginning of year	\$ 1,264	\$ -
Increases based on tax positions related to the current year	1,563	1,264
Additions for tax positions of prior year	297	-
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	\$ 3,124	\$ 1,264

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$1,860,000 in 2016 and \$1,264,000 in 2015.

The Company's U.S. Federal income tax filings have been examined by the Internal Revenue Service through 2008. The Company or one of its subsidiaries files tax returns in various states. The tax years subject to examination in Pennsylvania, where the majority of the Company's revenues are generated, are 2012 to 2016.

The Company has net operating loss carryforwards of \$86.2 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.

WEIS MARKETS, INC.

Table of ContentsNote 9 Acquisition of Business
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 \$38.0 million to sales in 2016. 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 9 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 \$92.5 million to sales in 2016.

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

42

WEIS MARKETS, INC.

Table of Contents

Note 9 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 \$3.0 million worth of sales in 2016. 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 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 2014. Pro forma results of sales, assuming the acquisitions had taken place at the beginning of 2014, are included in the following table. The Company does not have reliable information to provide additional pro forma disclosures.

(dollars in thousands)

For the Fiscal Years Ended December 31, 2016, December 26, 2015 and December 27, 2014	2016 (53 weeks)	2015 (52 weeks)	2014 (52 weeks)
Sales	\$ 3,563,145	\$ 3,424,414	\$ 3,317,174

Fiscal 2015 Acquisitions

The Company paid \$7.9 million for the property and equipment related to the purchase of a store in Hanover, Pennsylvania on August 31, 2015 from C&S Wholesale Grocers to expand current market share. The purchase price was allocated between land, building and equipment of \$1.9 million, \$5.9 million and \$112,000, respectively, in accordance with our accounting policies for business combinations. No Goodwill was recognized.

Fiscal 2014 Acquisitions

There were no acquisitions for fiscal 2014.

WEIS MARKETS, INC.

Table of Contents

Note 10 Summary of Quarterly Results (Unaudited)

Quarterly financial data for 2016 and 2015 are as follows:

(dollars in thousands, except per share amounts)	Thirteen Weeks Ended			Fourteen Weeks Ended
	March 26, 2016	June 25, 2016	September 24, 2016	December 31, 2016
Net sales	\$ 738,204	\$ 730,433	\$ 742,986	\$ 925,097
Gross profit on sales	207,112	201,938	204,864	258,241
Gain on bargain purchase	-	-	-	23,879
Net income	20,129	15,265	10,628	41,140
Basic and diluted earnings per share	\$.75	\$.57	\$.40	\$ 1.52

(dollars in thousands, except per share amounts)	Thirteen Weeks Ended			
	March 28, 2015	June 27, 2015	September 26, 2015	December 26, 2015
Net sales	\$ 712,426	\$ 718,380	\$ 711,879	\$ 734,063
Gross profit on sales	195,115	198,919	194,147	198,551
Net income	13,323	16,644	12,788	16,575
Basic and diluted earnings per share	\$.50	\$.62	\$.48	\$.61

Note 11 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. The carrying amount of long-term debt approximates fair value as interest rates on this debt agreement approximates current market rates.

Note 12 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 13 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. As of December 31, 2016, \$64.5 million of the available \$100.0 million was borrowed from the credit facility. On March 13, 2017, the unsecured revolving credit facility was increased to \$120.0 million. The loan will bear interest on the outstanding principal amount at the one month LIBOR rate plus the applicable margin rate of 0.65% until its Maturity on September 1, 2019. The loan was used to fund the recent acquisitions and the Company's working Capital requirements. The only financial covenant in the credit facility requires the Company's minimum EBITDA to be at least \$75.0 million. The Credit Agreement is also being utilized by the Company for letters of credit. As of December 31, 2016, the Company had \$16.7 million, of the then available \$100.0 million from the credit facility, committed to outstanding letters of credit. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company. The Company does not anticipate drawing on any of them.

Interest expense related to long-term debt was \$242,000 for 2016.

WEIS MARKETS, INC.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

Weis Markets, Inc.

We have audited the accompanying consolidated balance sheet of Weis Markets, Inc. as of December 31, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the 53 week period ended December 31, 2016. Our audit also included the financial statement schedule of Weis Markets, Inc. listed in Item 15(c)(3). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Weis Markets, Inc. as of December 31, 2016, and the results of their operations and their cash flows for the 53 week period ended December 31, 2016 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the 53 week period ended December 31, 2016, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Weis Markets, Inc.'s internal control over financial reporting as of December 31, 2016, 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 16, 2017 expressed an unqualified opinion on the effectiveness of Weis Markets, Inc.'s internal control over financial reporting.

/s/ RSM US LLP

Philadelphia, Pennsylvania

March 16, 2017

45

WEIS MARKETS, INC.

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of

Weis Markets, Inc.

We have audited Weis Markets, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Weis Markets, Inc.'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 included 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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 (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) 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 (c) 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.

In our opinion, Weis Markets, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, 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), the consolidated balance sheet of Weis Markets, Inc. as of December 31, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the 53 week period ended December 31, 2016 of Weis Markets, Inc. and our report dated March 16, 2017, expressed an unqualified opinion.

/s/ RSM US LLP

Philadelphia, Pennsylvania

March 16, 2017

46

WEIS MARKETS, INC.

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Weis Markets, Inc.

We have audited the accompanying consolidated balance sheet of Weis Markets, Inc. as of December 26, 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the 52 week periods ended December 26, 2015 and December 27, 2014. Our audits also included the financial statement schedule for each of the 52 week periods ended December 26, 2015 and December 27, 2014 at Item 15(c)(3). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Weis Markets, Inc. at December 26, 2015, and the consolidated results of its operations and its cash flows for each of the 52 week periods ended December 26, 2015 and December 27, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule for each of the 52 week periods ended December 26, 2015 and December 27, 2014, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
March 18, 2016

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 31, 2016.

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 31, 2016. The report can be found in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

Except as noted in the preceding paragraphs, there were no changes in the Company's internal control over financial reporting during the fiscal year ended December 31, 2016, 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.

48

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 16, 2017 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 16, 2017 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 16, 2017 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 16, 2017 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 16, 2017 is incorporated herein by reference.

49

WEIS MARKETS, INC.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules:

(a)(1) The Company's 2016 Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm are included in Item 8 of Part II.

Financial Statements	Page
Consolidated Balance Sheets	22
Consolidated Statements of Income	23
Consolidated Statements of Comprehensive Income	24
Consolidated Statements of Shareholders' Equity	25
Consolidated Statements of Cash Flows	26
Notes to Consolidated Financial Statements	27
Report of Independent Registered Public Accounting Firm	45

(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 52 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	Articles of Incorporation, filed as exhibit 4.1 in Form S-8 on September 13, 2002 and incorporated herein by reference.
3-B	By-Laws, 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	Retirement Savings Plan, amended September 16, 2016 and filed with this Annual Report on Form 10-K.
10-B	Supplemental Executive Retirement Plan, 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	Deferred Compensation Plan for Pharmacists, 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-D	Executive Benefits Agreement between the Company and Robert F. Weis, Chairman of the Board, signed on March 24, 2006, commencing immediately and continuing thereafter through December 31, 2023, filed on Form 8-K March 24, 2006 and incorporated herein by reference. *
10-E	Deferred Compensation Agreement 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	Executive Employment Agreement 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	Chief Executive Office Incentive Award Plan 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 continuing thereafter through December 31, 2016, filed as Exhibit 10.2 to Form 8-K July 18, 2014 and incorporated herein by reference. *
10-H	Confidential Separation Agreement and General Release between the Company and David J. Hepfinger, Former President and Chief Executive Officer, signed on September 21, 2013, filed as Exhibit 10.1 to Form 10-Q November 7, 2013 and incorporated herein by reference. *
21	Subsidiaries of the Registrant, filed with this Annual Report on Form 10-K
31.1	Rule 13a-14(a) Certification - CEO, filed with this Annual Report on Form 10-K
31.2	Rule 13a-14(a) Certification - CFO, filed with this Annual Report on Form 10-K
32	Certification Pursuant to 18 U.S.C. Section 1350, 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 31, 2016:	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 31, 2016:					
Deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,967	\$ 1,145	\$ ---	\$ 1,657	\$ 1,455
Fiscal Year ended December 26, 2015:					
Deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,578	\$ 1,438	\$ ---	\$ 1,049	\$ 1,967
Fiscal Year ended December 27, 2014:					
Deducted from asset accounts:					
Allowance for uncollectible accounts	\$ 1,882	\$ 577	\$ ---	\$ 881	\$ 1,578

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

Item 16. Form 10-K Summary:

None.

52

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 03/16/2017 /S/Jonathan H. Weis
Jonathan H. Weis
Chairman,
President and Chief Executive Officer
and Director
(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 03/16/2017 S/Jonathan H. Weis
Jonathan H. Weis
Chairman,
President and Chief Executive Officer
and Director

(principal executive officer)

Date 03/16/2017 /S/Scott F. Frost
Scott F. Frost
Senior Vice President, Chief Financial Officer
and Treasurer
(principal financial officer)

Date 03/16/2017 /S/Harold G. Graber
Harold G. Graber
Senior Vice President of Real Estate and Development

Edgar Filing: WEIS MARKETS INC - Form 10-K

and Secretary
and Director

Date	03/16/2017	/S/Dennis G. Hatchell Dennis G. Hatchell Director
Date	03/16/2017	/S/Edward J. Lauth III Edward J. Lauth III Director
Date	03/16/2017	/S/Gerrald B. Silverman Gerrald B. Silverman Director
Date	03/16/2017	/S/Jeanette R. Rogers Jeanette R. Rogers Vice President Corporate Controller (principal accounting officer)