PUBLIX SUPER MARKETS INC
Form 10-Q
November 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 27, 2014
Commission File Number 0-00981

PUBLIX SUPER MARKETS, INC.
(Exact name of Registrant as specified in its charter)

Florida	59-0324412
(State of incorporation)	(I.R.S. Employer Identification No.)
3300 Publix Corporate Parkway Lakeland, Florida	33811
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (863) 688-1188
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 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 during the preceding 12 months.
Yes X No
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer Non-accelerated filer X Smaller reporting company
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X
The number of shares of the Registrant's common stock outstanding as of October 17, 2014 was 776,838,000.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
PUBLIX SUPER MARKETS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts are in thousands, except par value)

	September 27, 2014 (Unaudited)	December 28, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$387,117	301,868
Short-term investments	861,179	829,559
Trade receivables	542,418	540,156
Merchandise inventories	1,498,073	1,506,977
Deferred tax assets	74,500	55,761
Prepaid expenses	58,088	25,823
Total current assets	3,421,375	3,260,144
Long-term investments	5,589,120	5,161,927
Other noncurrent assets	351,539	319,818
Property, plant and equipment	9,227,558	8,418,636
Accumulated depreciation	(3,859,861)	(3,613,884)
Net property, plant and equipment	5,367,697	4,804,752
	$14,729,731	13,546,641
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$1,405,719	1,383,134
Accrued expenses:		
Contribution to retirement plans	385,682	448,339
Self-insurance reserves	150,535	150,860
Salaries and wages	227,351	116,116
Other	387,446	223,048
Current portion of long-term debt	30,818	37,509
Federal and state income taxes	3,731	19,916
Total current liabilities	2,591,282	2,378,922
Deferred tax liabilities	313,242	356,956
Self-insurance reserves	204,883	205,181
Accrued postretirement benefit cost	103,737	102,763
Long-term debt	139,075	124,645
Other noncurrent liabilities	114,914	110,378
Total liabilities	3,467,133	3,278,845
Common stock related to Employee Stock Ownership Plan (ESOP)	2,713,923	2,322,903
Stockholders' equity:		
Common stock of $1 par value. Authorized 1,000,000 shares; issued 786,878 shares in 2014 and 776,721 shares in 2013	786,878	776,721
Additional paid-in capital	2,198,465	1,898,974
Retained earnings	8,446,606	7,454,448
Treasury stock at cost, 9,981 shares in 2014	(322,166)	—
Accumulated other comprehensive earnings	103,786	86,999
Common stock related to ESOP	(2,713,923)	(2,322,903)
Total stockholders' equity	8,499,646	7,894,239

Noncontrolling interests	49,029	50,654
Total equity	11,262,598	10,267,796
	$14,729,731	13,546,641

See accompanying notes to condensed consolidated financial statements.
1

PUBLIX SUPER MARKETS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Amounts are in thousands, except per share amounts)

	Three Months Ended	
	September 27, 2014	September 28, 2013
	(Unaudited)	
Revenues:		
Sales	$7,379,339	7,023,036
Other operating income	57,770	54,492
Total revenues	7,437,109	7,077,528
Costs and expenses:		
Cost of merchandise sold	5,392,655	5,108,341
Operating and administrative expenses	1,526,468	1,466,309
Total costs and expenses	6,919,123	6,574,650
Operating profit	517,986	502,878
Investment income, net	32,881	24,161
Other income, net	6,027	5,209
Earnings before income tax expense	556,894	532,248
Income tax expense	172,676	172,381
Net earnings	$384,218	359,867
Weighted average shares outstanding	778,672	780,640
Basic and diluted earnings per share	$0.49	0.46
Dividends paid per common share	$—	—

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(Amounts are in thousands)

	Three Months Ended	
	September 27, 2014	September 28, 2013
	(Unaudited)	
Net earnings	$384,218	359,867
Other comprehensive earnings:		
Unrealized (loss) gain on available-for-sale (AFS) securities, net of tax effect of $(8,205) and $20,187 in 2014 and 2013, respectively	(13,030)	32,057
Reclassification adjustment for net realized gain on AFS securities, net of tax effect of $(4,998) and $(1,756) in 2014 and 2013, respectively	(7,936)	(2,788)
Adjustment to postretirement benefit plan obligation, net of tax effect of $54 and $508 in 2014 and 2013, respectively	85	806
Comprehensive earnings	$363,337	389,942

See accompanying notes to condensed consolidated financial statements.

2

PUBLIX SUPER MARKETS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Amounts are in thousands, except per share amounts)

	Nine Months Ended	
	September 27, 2014 (Unaudited)	September 28, 2013
Revenues:		
Sales	$22,699,665	21,566,484
Other operating income	177,806	166,773
Total revenues	22,877,471	21,733,257
Costs and expenses:		
Cost of merchandise sold	16,472,115	15,561,110
Operating and administrative expenses	4,619,397	4,411,158
Total costs and expenses	21,091,512	19,972,268
Operating profit	1,785,959	1,760,989
Investment income, net	96,441	72,524
Other income, net	18,447	14,093
Earnings before income tax expense	1,900,847	1,847,606
Income tax expense	618,863	615,604
Net earnings	$1,281,984	1,232,002
Weighted average shares outstanding	779,595	780,807
Basic and diluted earnings per share	$1.64	1.58
Dividends paid per common share	$0.37	0.35

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(Amounts are in thousands)

	Nine Months Ended	
	September 27, 2014 (Unaudited)	September 28, 2013
Net earnings	$1,281,984	1,232,002
Other comprehensive earnings:		
Unrealized gain on AFS securities, net of tax effect of $23,437 and $19,711 in 2014 and 2013, respectively	37,218	31,302
Reclassification adjustment for net realized gain on AFS securities, net of tax effect of $(13,026) and $(5,330) in 2014 and 2013, respectively	(20,685)	(8,464)
Adjustment to postretirement benefit plan obligation, net of tax effect of $160 and $1,524 in 2014 and 2013, respectively	254	2,418
Comprehensive earnings	$1,298,771	1,257,258

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts are in thousands)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
	(Unaudited)	
Cash flows from operating activities:		
Cash received from customers	$22,732,291	21,608,131
Cash paid to employees and suppliers	(19,969,321)	(18,935,593)
Income taxes paid	(713,049)	(605,196)
Self-insured claims paid	(233,311)	(243,733)
Dividends and interest received	166,057	146,260
Other operating cash receipts	172,335	160,905
Other operating cash payments	(13,594)	(12,906)
Net cash provided by operating activities	2,141,408	2,117,868
Cash flows from investing activities:		
Payment for capital expenditures	(905,166)	(421,048)
Proceeds from sale of property, plant and equipment	13,457	5,995
Payment for investments	(1,522,394)	(1,949,270)
Proceeds from sale and maturity of investments	1,010,266	867,608
Net cash used in investing activities	(1,403,837)	(1,496,715)
Cash flows from financing activities:		
Payment for acquisition of common stock	(552,163)	(442,308)
Proceeds from sale of common stock	229,931	191,633
Dividends paid	(289,826)	(274,646)
Repayment of long-term debt	(49,673)	(15,864)
Other, net	9,409	2,352
Net cash used in financing activities	(652,322)	(538,833)
Net increase in cash and cash equivalents	85,249	82,320
Cash and cash equivalents at beginning of period	301,868	337,400
Cash and cash equivalents at end of period	$387,117	419,720

See accompanying notes to condensed consolidated financial statements. (Continued)

PUBLIX SUPER MARKETS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts are in thousands)

	Nine Months Ended	
	September 27, 2014	September 28, 2013
	(Unaudited)	
Reconciliation of net earnings to net cash provided by operating activities:		
Net earnings	$1,281,984	1,232,002
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	360,650	375,596
Increase in LIFO reserve	27,940	19,802
Retirement contributions paid or payable in common stock	247,397	244,301
Deferred income taxes and affordable housing amortization	(52,480)	(6,633)
Loss on disposal and impairment of property, plant and equipment	17,955	14,686
Gain on AFS securities	(33,711)	(13,794)
Net amortization of investments	104,592	98,627
Changes in operating assets and liabilities providing (requiring) cash:		
Trade receivables	(1,877)	1,496
Merchandise inventories	(19,036)	(49,425)
Prepaid expenses and other noncurrent assets	(7,965)	(10,480)
Accounts payable and accrued expenses	260,703	193,127
Self-insurance reserves	(623)	1,693
Federal and state income taxes	(40,747)	17,742
Other noncurrent liabilities	(3,374)	(872)
Total adjustments	859,424	885,866
Net cash provided by operating activities	$2,141,408	2,117,868

See accompanying notes to condensed consolidated financial statements.

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Publix Super Markets, Inc. and subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial reporting. Accordingly, the accompanying statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, these statements include all adjustments that are of a normal and recurring nature necessary to present fairly the Company’s financial position and results of operations. Due to the seasonal nature of the Company’s business, the results of operations for the three and nine months ended September 27, 2014 are not necessarily indicative of the results for the entire 2014 fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 28, 2013.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Recently Issued Accounting Standards

In January 2014, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) permitting companies to make an accounting policy election to account for qualified affordable housing investments using the proportional amortization method if certain criteria are met. Under this method, the investment is amortized in proportion to the tax credits received and the net investment performance is recognized in the statements of earnings as a component of income tax expense. This ASU is effective for reporting periods beginning after December 15, 2014 with early adoption permitted. The Company elected to adopt the ASU early. The cumulative effect of the change from adopting the ASU was recorded during the quarter ended March 29, 2014 as the effect on the quarter and prior periods was not material to the Company’s financial condition or results of operations.

In May 2014, the FASB issued an ASU on the recognition of revenue from contracts with customers. The ASU requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. This ASU is effective for reporting periods beginning after December 15, 2016 and early adoption is not permitted. The adoption of this ASU will not have an effect on the Company's financial condition, results of operations or cash flows.

(3) Fair Value of Financial Instruments

The fair value of certain of the Company’s financial instruments, including cash and cash equivalents, trade receivables and accounts payable, approximates their respective carrying amounts due to their short-term maturity.

The fair value of available-for-sale (AFS) securities is based on market prices using the following measurement categories:

Level 1 – Fair value is determined by using quoted prices in active markets for identical investments. AFS securities that are included in this category are primarily a mutual fund, exchange traded funds and equity securities.

Level 2 – Fair value is determined by using other than quoted prices. By using observable inputs (for example, benchmark yields, interest rates, reported trades and broker dealer quotes), the fair value is determined through processes such as benchmark curves, benchmarking of like securities and matrix pricing of corporate and municipal bonds by using pricing of similar bonds based on coupons, ratings and maturities. In addition, the value of collateralized mortgage obligation securities is determined by using models to develop prepayment and interest rate scenarios for these securities which have prepayment features. AFS securities that are included in this category are

primarily debt securities (tax exempt and taxable bonds).
Level 3 – Fair value is determined by using other than observable inputs. Fair value is determined by using the best information available in the circumstances and requires significant management judgment or estimation. No AFS securities are currently included in this category.

Following is a summary of fair value measurements for AFS securities as of September 27, 2014 and December 28, 2013:

	Fair Value	Level 1	Level 2	Level 3
	(Amounts are in thousands)			
September 27, 2014	$6,450,299	1,356,102	5,094,197	—
December 28, 2013	$5,991,486	1,085,194	4,906,292	—

(4) Investments
All of the Company's debt and equity securities are classified as AFS and are carried at fair value. The Company evaluates whether AFS securities are other-than-temporarily impaired (OTTI) based on criteria that include the extent to which cost exceeds market value, the duration of the market value decline, the credit rating of the issuer or security, the failure of the issuer to make scheduled principal or interest payments and the financial health and prospects of the issuer or security.
Declines in the value of AFS securities determined to be OTTI are recognized in earnings and reported as OTTI losses. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the debt security or if the Company will be required to sell the debt security prior to any anticipated recovery. If the Company determines that a debt security is OTTI under these circumstances, the impairment recognized in earnings is measured as the difference between the amortized cost and the current fair value. A debt security is also determined to be OTTI if the Company does not expect to recover the amortized cost of the debt security. However, in this circumstance, if the Company does not intend to sell the debt security and will not be required to sell the debt security, the impairment recognized in earnings equals the estimated credit loss as measured by the difference between the present value of expected cash flows and the amortized cost of the debt security. Expected cash flows are discounted using the debt security's effective interest rate. An equity security is determined to be OTTI if the Company does not expect to recover the cost of the equity security. Declines in the value of AFS securities determined to be temporary are reported, net of tax, as other comprehensive losses and included as a component of stockholders' equity.
Interest and dividend income, amortization of premiums, accretion of discounts and realized gains and losses on AFS securities are included in investment income. Interest income is accrued as earned. Dividend income is recognized as income on the ex-dividend date of the equity security. The cost of AFS securities sold is based on the first-in, first-out method.
Following is a summary of AFS securities as of September 27, 2014 and December 28, 2013:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Amounts are in thousands)			
September 27, 2014				
Tax exempt bonds	$3,324,126	27,247	3,419	3,347,954
Taxable bonds	1,736,751	5,490	2,665	1,739,576
Restricted investments	170,000	949	—	170,949
Equity securities	1,037,896	160,733	6,809	1,191,820
	$6,268,773	194,419	12,893	6,450,299
December 28, 2013				
Tax exempt bonds	$3,430,028	25,588	9,917	3,445,699
Taxable bonds	1,445,901	7,641	3,863	1,449,679
Restricted investments	170,000	—	86	169,914
Equity securities	790,975	139,119	3,900	926,194

	$5,836,904	172,348	17,766	5,991,486

Realized gains on sales of AFS securities totaled $13,933,000 and $35,664,000 for the three and nine months ended September 27, 2014, respectively. Realized losses on sales of AFS securities totaled $999,000 and $1,953,000 for the three and nine months ended September 27, 2014, respectively. There were no OTTI losses on AFS securities for the three and nine months ended September 27, 2014.

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Realized gains on sales of AFS securities totaled $7,516,000 and $25,563,000 for the three and nine months ended September 28, 2013, respectively. Realized losses on sales of AFS securities totaled $2,972,000 and $11,769,000 for the three and nine months ended September 28, 2013, respectively. There were no OTTI losses on AFS securities for the three and nine months ended September 28, 2013.

The amortized cost and fair value of AFS securities by expected maturity as of September 27, 2014 and December 28, 2013 are as follows:

	September 27, 2014		December 28, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Amounts are in thousands)			
Due in one year or less	$857,963	861,179	824,780	829,559
Due after one year through five years	3,880,704	3,902,132	3,590,615	3,609,115
Due after five years through ten years	208,409	208,190	295,407	288,421
Due after ten years	113,801	116,029	165,127	168,283
	5,060,877	5,087,530	4,875,929	4,895,378
Restricted investments	170,000	170,949	170,000	169,914
Equity securities	1,037,896	1,191,820	790,975	926,194
	$6,268,773	6,450,299	5,836,904	5,991,486

Following is a summary of temporarily impaired AFS securities by the time period impaired as of September 27, 2014 and December 28, 2013:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Amounts are in thousands)					
September 27, 2014						
Tax exempt bonds	$185,663	2,084	94,516	1,335	280,179	3,419
Taxable bonds	583,539	1,856	81,173	809	664,712	2,665
Equity securities	76,940	5,184	5,604	1,625	82,544	6,809
Total temporarily impaired AFS securities	$846,142	9,124	181,293	3,769	1,027,435	12,893
December 28, 2013						
Tax exempt bonds	$502,304	6,710	106,985	3,207	609,289	9,917
Taxable bonds	535,233	3,347	19,367	516	554,600	3,863
Restricted investments	169,914	86	—	—	169,914	86
Equity securities	31,400	3,499	3,152	401	34,552	3,900
Total temporarily impaired AFS securities	$1,238,851	13,642	129,504	4,124	1,368,355	17,766

There are 197 AFS securities issues contributing to the total unrealized loss of $12,893,000 as of September 27, 2014. Unrealized losses related to debt securities are primarily due to interest rate volatility impacting the market value of certain bonds. The Company continues to receive scheduled principal and interest payments on these debt securities. Unrealized losses related to equity securities are primarily due to temporary equity market fluctuations that are expected to recover.

7

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(5) Consolidation of Joint Ventures and Long-Term Debt

From time to time, the Company enters into Joint Ventures (JV), in the legal form of limited liability companies, with certain real estate developers to partner in the development of shopping centers with the Company as the anchor tenant. The Company consolidates certain of these JVs in which it has a controlling financial interest. The Company is considered to have a controlling financial interest in a JV when it has (1) the power to direct the activities of the JV that most significantly impact the JV's economic performance and (2) the obligation to absorb losses or the right to receive benefits from the JV that could potentially be significant to such JV.

The Company evaluates a JV using specific criteria to determine whether the Company has a controlling financial interest and is the primary beneficiary of the JV. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of the other JV members, voting rights, involvement in routine capital and operating decisions and each member's influence over the JV owned shopping center's economic performance.

Generally, most major JV decision making is shared between all members. In particular, the use and sale of JV assets, business plans and budgets are generally required to be approved by all members. However, the Company, through its anchor tenant operating lease agreement, has the power to direct the activities that most significantly influence the economic performance of the JV owned shopping center. Additionally, through its member equity interest in the JV, the Company will receive a significant portion of the JV's benefits or is obligated to absorb a significant portion of the JV's losses.

As of September 27, 2014, the carrying amounts of the assets and liabilities of the consolidated JVs were $164,862,000 and $60,799,000, respectively. As of December 28, 2013, the carrying amounts of the assets and liabilities of the consolidated JVs were $156,164,000 and $50,205,000, respectively. The assets are owned by, and the liabilities are obligations of, the JVs, not the Company, except for a portion of the long-term debt of certain JVs guaranteed by the Company. The JVs are financed with capital contributions from the members, loans and/or the cash flows generated by the JV owned shopping centers once in operation. Total earnings attributable to noncontrolling interests for 2014 and 2013 were immaterial. The Company's involvement with these JVs does not have a significant effect on the Company's financial condition, results of operations or cash flows.

The Company's long-term debt results primarily from the consolidation of loans of certain JVs and loans assumed in connection with the acquisition of certain shopping centers with the Company as the anchor tenant. The Company assumed loans totaling $46,377,000 during the nine months ended September 27, 2014. No loans were assumed during the nine months ended September 28, 2013. Maturities of JV loans range from January 2015 through August 2017 and have either (1) fixed interest rates ranging from 5.3% to 6.0% or (2) variable interest rates based on a LIBOR index plus basis points ranging from 175 basis points to 250 basis points. Maturities of assumed shopping center loans range from March 2015 through January 2027 and have fixed interest rates ranging from 4.5% to 7.5%.

(6) Retirement Plan

The Company has a trusteed, noncontributory Employee Stock Ownership Plan (ESOP) for the benefit of eligible employees. Since the Company's common stock is not currently traded on an established securities market, the ESOP includes a put option for shares of the Company's common stock distributed from the ESOP. Shares are distributed from the ESOP primarily to separated vested participants and certain eligible participants who elect to diversify their account balances. Under the Company's administration of the ESOP's put option, if the owners of distributed shares desire to sell their shares, the Company is required to purchase the shares at fair value for a 15-month period after distribution of the shares from the ESOP. The fair value of distributed shares subject to the put option totaled $253,181,000 and $42,568,000 as of September 27, 2014 and December 28, 2013, respectively. The cost of the shares held by the ESOP totaled $2,460,742,000 and $2,280,335,000 as of September 27, 2014 and December 28, 2013, respectively. Due to the Company's obligation under the put option, the distributed shares subject to the put option and the shares held by the ESOP are classified as temporary equity in the mezzanine section of the condensed consolidated balance sheets and totaled $2,713,923,000 and $2,322,903,000 as of September 27, 2014 and December 28, 2013, respectively. The fair value of the shares held by the ESOP totaled $7,898,547,000 and $7,139,235,000 as of September 27, 2014 and December 28, 2013, respectively.

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(7) Accumulated Other Comprehensive Earnings

The following tables provide a reconciliation of the changes in accumulated other comprehensive earnings net of income taxes for the three months ended September 27, 2014 and September 28, 2013:

	AFS Securities	Postretirement Benefits	Accumulated Other Comprehensive Earnings
	(Amounts are in thousands)		
2014			
Balances at June 28, 2014	$132,335	(7,668)	124,667
Unrealized loss on AFS securities	(13,030)	—	(13,030)
Net realized gain on AFS securities reclassified to investment income, net	(7,936)	—	(7,936)
Amortization of actuarial losses reclassified to operating and administrative expenses	—	85	85
Net other comprehensive (losses) earnings	(20,966)	85	(20,881)
Balances at September 27, 2014	$111,369	(7,583)	103,786
2013			
Balances at June 29, 2013	$51,855	(18,385)	33,470
Unrealized gain on AFS securities	32,057	—	32,057
Net realized gain on AFS securities reclassified to investment income, net	(2,788)	—	(2,788)
Amortization of actuarial losses reclassified to operating and administrative expenses	—	806	806
Net other comprehensive earnings	29,269	806	30,075
Balances at September 28, 2013	$81,124	(17,579)	63,545

PUBLIX SUPER MARKETS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide a reconciliation of the changes in accumulated other comprehensive earnings net of income taxes for the nine months ended September 27, 2014 and September 28, 2013:

	AFS Securities	Postretirement Benefits	Accumulated Other Comprehensive Earnings
	(Amounts are in thousands)		
2014			
Balances at December 28, 2013	$94,836	(7,837)	86,999
Unrealized gain on AFS securities	37,218	—	37,218
Net realized gain on AFS securities reclassified to investment income, net	(20,685)	—	(20,685)
Amortization of actuarial losses reclassified to operating and administrative expenses	—	254	254
Net other comprehensive earnings	16,533	254	16,787
Balances at September 27, 2014	$111,369	(7,583)	103,786
2013			
Balances at December 29, 2012	$58,286	(19,997)	38,289
Unrealized gain on AFS securities	31,302	—	31,302
Net realized gain on AFS securities reclassified to investment income, net	(8,464)	—	(8,464)
Amortization of actuarial losses reclassified to operating and administrative expenses	—	2,418	2,418
Net other comprehensive earnings	22,838	2,418	25,256
Balances at September 28, 2013	$81,124	(17,579)	63,545

(8) Subsequent Event

On October 1, 2014, the Company declared a semi-annual dividend on its common stock of $0.37 per share or approximately $287,000,000, payable on December 1, 2014 to stockholders of record as of the close of business October 31, 2014.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company is primarily engaged in the retail food industry, operating supermarkets in Florida, Georgia, Alabama, South Carolina, Tennessee and North Carolina. The Company opened its first supermarket in North Carolina in February 2014. As of September 27, 2014, the Company operated 1,080 supermarkets.

Results of Operations

Sales

Sales for the three months ended September 27, 2014 were $7.4 billion as compared with $7.0 billion for the three months ended September 28, 2013, an increase of $356.3 million or 5.1%. The increase in sales for the three months ended September 27, 2014 as compared with the three months ended September 28, 2013 was primarily due to a 5.0% increase in comparable store sales (supermarkets open for the same weeks in both periods, including replacement supermarkets). Sales for supermarkets that are replaced on site are not included in comparable store sales since the replacement period for the supermarket is generally 9 to 12 months. Sales for the nine months ended September 27, 2014 were $22.7 billion as compared with $21.6 billion for the nine months ended September 28, 2013, an increase of $1,133.2 million or 5.3%. The increase in sales for the nine months ended September 27, 2014 as compared with the nine months ended September 28, 2013 was primarily due to a 5.0% increase in comparable store sales. Comparable store sales for the three and nine months ended September 27, 2014 increased primarily due to product cost inflation and increased customer counts resulting from a better economic climate.

Gross profit

Gross profit (sales less cost of merchandise sold) as a percentage of sales was 26.9% and 27.3% for the three months ended September 27, 2014 and September 28, 2013, respectively. Gross profit as a percentage of sales was 27.4% and 27.8% for the nine months ended September 27, 2014 and September 28, 2013, respectively. The decrease in gross profit as a percentage of sales for the three and nine months ended September 27, 2014 as compared with the three and nine months ended September 28, 2013 was primarily due to increases in promotional activities and product cost increases, some of which were not passed on to customers.

Operating and administrative expenses

Operating and administrative expenses as a percentage of sales were 20.7% and 20.9% for the three months ended September 27, 2014 and September 28, 2013, respectively. Operating and administrative expenses as a percentage of sales were 20.4% and 20.5% for the nine months ended September 27, 2014 and September 28, 2013, respectively. Operating and administrative expenses as a percentage of sales for the three and nine months ended September 27, 2014 as compared with the three and nine months ended September 28, 2013 remained relatively unchanged.

Investment income, net

Investment income, net was $32.9 million and $24.2 million for the three months ended September 27, 2014 and September 28, 2013, respectively. Investment income, net was $96.4 million and $72.5 million for the nine months ended September 27, 2014 and September 28, 2013, respectively. The increase in investment income, net for the three and nine months ended September 27, 2014 as compared with the three and nine months ended September 28, 2013 was primarily due to an increase in net realized gains on AFS securities.

Income taxes

The effective income tax rate was 31.0% and 32.4% for the three months ended September 27, 2014 and September 28, 2013, respectively. The effective income tax rate was 32.6% and 33.3% for the nine months ended September 27, 2014 and September 28, 2013, respectively. The decrease in the effective income tax rate for the three and nine months ended September 27, 2014 as compared with the three and nine months ended September 28, 2013 was primarily due to an increase in qualified inventory donations and investment related tax credits partially offset by an increase in the effective income tax rate due to the adoption of the ASU discussed in Note 2 of the Notes to Condensed Consolidated Financial Statements.

Net earnings

Net earnings were $384.2 million or $0.49 per share and $359.9 million or $0.46 per share for the three months ended September 27, 2014 and September 28, 2013, respectively. Net earnings as a percentage of sales were 5.2% and 5.1% for the three months ended September 27, 2014 and September 28, 2013, respectively. Net earnings were $1,282.0

million or $1.64 per share and $1,232.0 million or $1.58 per share for the nine months ended September 27, 2014 and September 28, 2013, respectively. Net earnings as a percentage of sales were 5.6% and 5.7% for the nine months ended September 27, 2014 and September 28, 2013, respectively. Net earnings as a percentage of sales for the three and nine months ended September 27, 2014 as compared with the three and nine months ended September 28, 2013 remained relatively unchanged.

Liquidity and Capital Resources
Cash and cash equivalents, short-term investments and long-term investments totaled $6,837.4 million as of September 27, 2014, as compared with $6,293.4 million as of December 28, 2013. This increase was primarily due to net cash provided by operating activities less payments for capital expenditures, net acquisitions of common stock and dividends.
Net cash provided by operating activities
Net cash provided by operating activities was $2,141.4 million for the nine months ended September 27, 2014, as compared with $2,117.9 million for the nine months ended September 28, 2013. The increase in net cash provided by operating activities for the nine months ended September 27, 2014 as compared with the nine months ended September 28, 2013 was primarily due to the increase in net earnings. Any net cash in excess of the amount needed for current operations is invested in short-term and long-term investments.
Net cash used in investing activities
Net cash used in investing activities was $1,403.8 million for the nine months ended September 27, 2014, as compared with $1,496.7 million for the nine months ended September 28, 2013. For the nine months ended September 27, 2014, the primary use of net cash in investing activities was funding capital expenditures and net increases in investment securities. Capital expenditures totaled $905.2 million. These expenditures were incurred in connection with the opening of 13 new supermarkets (including five replacement supermarkets) and remodeling 95 supermarkets. Twelve supermarkets were closed during the period. Replacement supermarkets that opened during the nine months ended September 27, 2014 replaced three supermarkets closed during the same period, one of which was replaced on site, and two supermarkets closed in 2013 that were replaced on site. Eight of the remaining supermarkets closed during the nine months ended September 27, 2014 will be replaced on site in subsequent periods and one supermarket will not be replaced. Expenditures were also incurred for new supermarkets and remodels in progress, the acquisition of shopping centers with the Company as the anchor tenant, the construction of new warehouses and new or enhanced information technology hardware and applications. For the nine months ended September 27, 2014, the payment for investments, net of the proceeds from the sale and maturity of such investments, was $512.1 million.
For the nine months ended September 28, 2013, the primary use of net cash in investing activities was funding capital expenditures and net increases in investment securities. Capital expenditures totaled $421.0 million. These expenditures were incurred in connection with the opening of 12 new supermarkets (including one replacement supermarket) and remodeling 82 supermarkets. Eight supermarkets were closed during the period. The replacement supermarket that opened during the nine months ended September 28, 2013 replaced one of the supermarkets closed during the same period. Six of the remaining supermarkets closed during the nine months ended September 28, 2013 were replaced on site in subsequent periods and one supermarket was not replaced. Expenditures were also incurred for new supermarkets and remodels in progress, the construction of new warehouses, the acquisition of shopping centers with the Company as the anchor tenant and new or enhanced information technology hardware and applications. During the first quarter of 2013, the Company wrote off $1,061.6 million of fully depreciated furniture, fixtures and equipment. Since the assets were fully depreciated, the write off had no effect on the Company's financial condition, results of operations or cash flows. For the nine months ended September 28, 2013, the payment for investments, net of the proceeds from the sale and maturity of such investments, was $1,081.7 million.
Capital expenditure projection
Capital expenditures for the remainder of 2014 are expected to be approximately $395 million, primarily consisting of new supermarkets, remodeling existing supermarkets, construction of new warehouses, new or enhanced information technology hardware and applications and acquisition of shopping centers with the Company as the anchor tenant. The shopping center acquisitions are financed with internally generated funds and assumed debt, if prepayment penalties for the debt are determined to be significant. This capital program is subject to continuing change and review. In the normal course of operations, the Company replaces supermarkets and closes supermarkets that are not meeting performance expectations. The impact of future supermarket closings is not expected to be material.
Net cash used in financing activities
Net cash used in financing activities was $652.3 million for the nine months ended September 27, 2014, as compared with $538.8 million for the nine months ended September 28, 2013. The primary use of net cash in financing activities

was funding net common stock repurchases and payment of dividends. Net common stock repurchases totaled $322.2 million for the nine months ended September 27, 2014, as compared with $250.7 million for the nine months ended September 28, 2013. The Company currently repurchases common stock at the stockholders' request in accordance with the terms of the Company's Employee Stock Purchase Plan (ESPP), 401(k) Plan, ESOP and Non-Employee Directors Stock Purchase Plan (Directors Plan). The amount of common stock offered to the Company for repurchase is not within the control of the Company, but is at the discretion of the stockholders. The Company expects to continue to repurchase its common stock, as offered by its stockholders from time to time, at its then current value for amounts similar to those in prior years. However, with the exception of certain shares distributed from the ESOP, such purchases are not required and the Company retains the right to discontinue them at any time.

Dividends

On June 2, 2014, the Company paid a semi-annual dividend on its common stock of $0.37 per share or $289.8 million to stockholders of record as of the close of business April 30, 2014. On October 1, 2014, the Company declared a semi-annual dividend on its common stock of $0.37 per share or approximately $287 million, payable on December 1, 2014 to stockholders of record as of the close of business October 31, 2014.

On June 3, 2013, the Company paid a semi-annual dividend on its common stock of $0.35 per share or $274.6 million to stockholders of record as of the close of business April 30, 2013. On December 1, 2013, the Company paid a semi-annual dividend on its common stock of $0.35 per share or $272.7 million to stockholders of record as of the close of business October 31, 2013.

Cash requirements

In 2014, the cash requirements for current operations, capital expenditures, net common stock repurchases and dividend payments are expected to be financed by internally generated funds or liquid assets. Based on the Company's financial position, it is expected that short-term and long-term borrowings would be available to support the Company's liquidity requirements, if needed.

Forward-Looking Statements

From time to time, certain information provided by the Company, including written or oral statements made by its representatives, may contain forward-looking information as defined in Section 21E of the Securities Exchange Act of 1934. Forward-looking information includes statements about the future performance of the Company, which is based on management's assumptions and beliefs in light of the information currently available to them. When used, the words "plan," "estimate," "project," "intend," "believe" and other similar expressions, as they relate to the Company, are intended to identify such forward-looking statements. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from those statements including, but not limited to, the following: competitive practices and pricing in the food and drug industries generally and particularly in the Company's principal markets; results of programs to increase sales, including private-label sales; results of programs to control or reduce costs; changes in buying, pricing and promotional practices; changes in shrink management; changes in the general economy; changes in consumer spending; changes in population, employment and job growth in the Company's principal markets; and other factors affecting the Company's business within or beyond the Company's control. These factors include changes in the rate of inflation, changes in state and federal legislation or regulation, adverse determinations with respect to litigation or other claims, ability to recruit and retain employees, increases in operating costs including, but not limited to, labor costs, credit card fees and utility costs, particularly electric utility costs, ability to construct new supermarkets or complete remodels as rapidly as planned and stability of product costs. Other factors and assumptions not identified above could also cause the actual results to differ materially from those set forth in the forward-looking statements. The Company assumes no obligation to publicly update these forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company does not utilize financial instruments for trading or other speculative purposes, nor does it utilize leveraged financial instruments. There have been no material changes in the market risk factors from those disclosed in the Company's Form 10-K for the year ended December 28, 2013.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer each concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information has been accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure. There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the quarter ended September 27, 2014 that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As reported in the Company's Form 10-K for the year ended December 28, 2013, the Company is subject from time to time to various lawsuits, claims and charges arising in the normal course of business. The Company believes its recorded reserves are adequate in light of the probable and estimable liabilities. The estimated amount of reasonably possible losses for lawsuits, claims and charges, individually and in the aggregate, is considered to be immaterial. In the opinion of management, the ultimate resolution of these legal proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors from those disclosed in the Company's Form 10-K for the year ended December 28, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Shares of common stock repurchased by the Company during the three months ended September 27, 2014 were as follows (amounts are in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
June 29, 2014 through August 2, 2014	555	$32.61	N/A	N/A
August 3, 2014 through August 30, 2014	3,060	33.85	N/A	N/A
August 31, 2014 through September 27, 2014	1,547	33.85	N/A	N/A
Total	5,162	$33.72	N/A	N/A

(1) Common stock is made available for sale to the Company's current employees through the Company's ESPP and to participants of the Company's 401(k) Plan. Common stock is also made available for sale to members of the Company's Board of Directors through the Directors Plan. In addition, common stock is contributed to the ESOP. The Company currently repurchases common stock subject to certain terms and conditions. The ESPP, 401(k) Plan, ESOP and Directors Plan each contain provisions prohibiting any transfer for value without the owner first offering the common stock to the Company.

The Company's common stock is not traded on an established securities market. The amount of common stock offered to the Company for repurchase is not within the control of the Company, but is at the discretion of the stockholders. The Company does not believe that these repurchases of its common stock are within the scope of a publicly announced plan or program (although the terms of the plans discussed above have been communicated to the participants). Thus, the Company does not believe that it has made any repurchases during the three months ended September 27, 2014 required to be disclosed in the last two columns of the table.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 2014, is formatted in Extensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Earnings, (iii) Condensed Consolidated Statements of Comprehensive Earnings, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

		PUBLIX SUPER MARKETS, INC.
Date:	November 3, 2014	/s/ John A. Attaway, Jr. John A. Attaway, Jr., Secretary
Date:	November 3, 2014	/s/ David P. Phillips David P. Phillips, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)