

J&J SNACK FOODS CORP
Form 10-Q
January 22, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period ended December 27, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-14616

J & J SNACK FOODS CORP.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-1935537
(I.R.S. Employer
Identification No.)

6000 Central Highway, Pennsauken, NJ 08109
(Address of principal executive offices)

Telephone (856) 665-9533

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of January 19, 2009, there were 18,342,024 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

J & J SNACK FOODS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

| | December 27, 2008 (Unaudited) | September 27, 2008 |
|--|-------------------------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 37,028 | \$ 44,265 |
| Marketable securities held to maturity | 13,195 | 2,470 |
| Auction market preferred stock | 19,900 | 14,000 |
| Accounts receivable, net | 49,693 | 61,853 |
| Inventories, net | 50,339 | 49,095 |
| Prepaid expenses and other | 2,328 | 1,962 |
| Deferred income taxes | 3,530 | 3,555 |
| | 176,013 | 177,200 |
| Property, plant and equipment, at cost | | |
| Land | 1,416 | 1,416 |
| Buildings | 8,672 | 8,672 |
| Plant machinery and equipment | 125,322 | 124,591 |
| Marketing equipment | 195,468 | 195,878 |
| Transportation equipment | 2,779 | 2,878 |
| Office equipment | 10,918 | 10,820 |
| Improvements | 17,705 | 17,694 |
| Construction in progress | 4,014 | 2,215 |
| | 366,294 | 364,164 |
| Less accumulated depreciation and amortization | 274,396 | 271,100 |
| | 91,898 | 93,064 |
| Other assets | | |
| Goodwill | 60,314 | 60,314 |
| Other intangible assets, net | 52,506 | 53,633 |
| Marketable securities held to maturity | 5,220 | - |
| Auction market preferred stock | - | 21,200 |
| Other | 2,580 | 2,997 |
| | 120,620 | 138,144 |
| | \$ 388,531 | \$ 408,408 |

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - Continued
(in thousands)

| | December 27, 2008 (unaudited) | September 27, 2008 |
|--|-------------------------------------|-----------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current obligations under capital leases | \$ 94 | 93 |
| Accounts payable | 41,496 | 48,580 |
| Accrued liabilities | 7,276 | 5,557 |
| Accrued compensation expense | 6,411 | 10,232 |
| Dividends payable | 1,786 | 1,732 |
| | 57,063 | 66,194 |
| Long-term obligations under capital leases | | |
| | 357 | 381 |
| Deferred income taxes | 23,056 | 23,056 |
| Other long-term liabilities | 1,955 | 1,999 |
| | 25,368 | 25,436 |
| Stockholders' equity | | |
| Capital stock | | |
| Preferred, \$1 par value; authorized, 10,000 shares; none issued | - | - |
| Common, no par value; authorized 50,000 shares; issued and outstanding, 18,322 and 18,748 shares, respectively | 36,641 | 48,415 |
| Accumulated other comprehensive loss | (3,440) | (2,003) |
| Retained earnings | 272,899 | 270,366 |
| | 306,100 | 316,778 |
| | \$ 388,531 | \$ 408,408 |

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(in thousands, except per share amounts)

| | Three Months Ended | |
|---|----------------------|----------------------|
| | December 27, 2008 | December 29, 2007 |
| Net Sales | \$ 141,142 | \$ 130,898 |
| Cost of goods sold(1) | 100,460 | 95,511 |
| Gross profit | 40,682 | 35,387 |
| Operating expenses | | |
| Marketing(2) | 16,440 | 15,893 |
| Distribution(3) | 11,774 | 12,116 |
| Administrative(4) | 5,613 | 5,063 |
| Other general expense (income) | 24 | (21) |
| | 33,851 | 33,051 |
| Operating income | 6,831 | 2,336 |
| Other income (expenses) | | |
| Investment income | 461 | 814 |
| Interest expense and other | (29) | (35) |
| Earnings before income taxes | 7,263 | 3,115 |
| Income taxes | 2,944 | 1,218 |
| NET EARNINGS | \$ 4,319 | \$ 1,897 |
| Earnings per diluted share | \$.23 | \$.10 |
| Weighted average number of diluted shares | 18,774 | 19,076 |
| Earnings per basic share | \$.23 | \$.10 |
| Weighted average number of basic shares | 18,616 | 18,769 |

- (1) Includes share-based compensation expense of \$79 and \$51 for the three months ended December 27, 2008 and December 29, 2007, respectively.
- (2) Includes share-based compensation expense of \$261 and \$183 for the three months ended December 27, 2008 and December 29, 2007, respectively.
- (3) Includes share-based compensation expense of \$8 and \$5 for the three months ended December 27, 2008 and December 29, 2007, respectively.
- (4)

Includes share-based compensation expense of \$255 and \$185 for the three months ended December 27, 2008 and December 29, 2007, respectively.

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (in thousands)

| | Three Months Ended | |
|--|----------------------|----------------------|
| | December 27, 2008 | December 29, 2007 |
| Operating activities: | | |
| Net earnings | \$ 4,319 | \$ 1,897 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization of fixed assets | 5,495 | 5,420 |
| Amortization of intangibles and deferred costs | 1,276 | 1,340 |
| Share-based compensation | 603 | 424 |
| Deferred income taxes | (8) | (75) |
| Other | (11) | 3 |
| Changes in assets and liabilities, net of effects from purchase of companies | | |
| Decrease in accounts receivable | 11,968 | 12,649 |
| Increase in inventories | (1,387) | (1,589) |
| Increase in prepaid expenses | (381) | (807) |
| Decrease in accounts payable and accrued liabilities | (8,921) | (8,503) |
| Net cash provided by operating activities | 12,953 | 10,759 |
| Investing activities: | | |
| Purchase of property, plant and equipment | (4,496) | (6,506) |
| Purchase of marketable securities | (16,135) | - |
| Proceeds from redemption and sales of marketable securities | 190 | - |
| Purchase of auction market preferred stock | - | (10,500) |
| Proceeds from redemption and sales of auction market preferred stock | 15,300 | 4,000 |
| Proceeds from disposal of property and equipment | 71 | 88 |
| Other | 2 | (47) |
| Net cash used in investing activities | (5,068) | (12,965) |
| Financing activities: | | |
| Payments to repurchase common stock | (12,510) | - |
| Proceeds from issuance of common stock | 126 | 113 |
| Payments on capitalized lease obligations | (23) | (23) |
| Payments of cash dividend | (1,732) | (1,588) |
| Net cash used in financing activities | (14,139) | (1,498) |
| Effect of exchange rate on cash and cash equivalents | (983) | 51 |
| Net decrease in cash and cash equivalents | (7,237) | (3,653) |
| Cash and cash equivalents at beginning of period | 44,265 | 15,819 |
| Cash and cash equivalents at end of period | \$ 37,028 | \$ 12,166 |

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note In the opinion of management, the accompanying unaudited consolidated financial statements contain all
1 adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and the results of operations and cash flows. Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported net earnings.

The results of operations for the three months ended December 27, 2008 and December 29, 2007 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen juice bars and ices are generally higher in the third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the fiscal year ended September 27, 2008.

Note We recognize revenue from Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage
2 products at the time the products are shipped to third parties. When we perform services under service contracts for frozen beverage dispenser machines, revenue is recognized upon the completion of the services on specified machines. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors.

Note Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated
3 useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights, customer relationships and non compete agreements arising from acquisitions are amortized by the straight-line method over periods ranging from 3 to 20 years.

Note Our calculation of earnings per share in accordance with SFAS No. 128, "Earnings Per Share," is as follows:

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| | Three Months Ended December 27, 2008 | | |
|--|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share amounts) | | |
| Basic EPS | | | |
| Net Earnings available to common stockholders | \$ 4,319 | 18,616 | \$.23 |
| Effect of Dilutive Securities | | | |
| Options | - | 158 | - |
| Diluted EPS | | | |
| Net Earnings available to common stockholders plus assumed conversions | \$ 4,319 | 18,774 | \$.23 |

261,595 anti-dilutive shares have been excluded from the computation of diluted EPS because the options' exercise price is greater than the average market price of the common stock.

| | Three Months Ended December 29, 2007 | | |
|--|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share amounts) | | |
| Basic EPS | | | |
| Net Earnings available to common stockholders | \$ 1,897 | 18,769 | \$.10 |
| Effect of Dilutive Securities | | | |
| Options | - | 307 | - |
| Diluted EPS | | | |
| Net Earnings available to common stockholders plus assumed conversions | \$ 1,897 | 19,076 | \$.10 |

148,450 anti-dilutive shares have been excluded from the computation of diluted EPS because the options' exercise price is greater than the average market price of the common stock.

Note The Company follows FASB Statement No. 123(R), "Share-Based Payment". Statement 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued.

Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, Statement 123(R) includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of share-based payment awards.

At December 27, 2008, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

| | Three months ended | |
|---|--|----------------------|
| | December 27, 2008 | December 29, 2007 |
| | (in thousands, except per share amounts) | |
| Stock Options | \$ 306 | \$ 236 |
| Stock purchase plan | 144 | 39 |
| Deferred stock issued to outside directors | 35 | 35 |
| Restricted stock issued to an employee | 25 | 25 |
| | \$ 510 | \$ 335 |
| Per diluted share | \$.03 | \$.02 |
| The above compensation is net of tax benefits | \$ 93 | \$ 89 |

The Company anticipates that share-based compensation will not exceed \$1,400,000, net of tax benefits, or approximately \$.07 per share for the fiscal year ending September 26, 2009.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2009 and 2008: expected volatility of 23% and 25%; risk-free interest rates of 2.77% and 3.60%; dividend rate of 1.3% and 1.1% and expected lives ranging between 5 and 10 years.

During the 2009 and 2008 first quarters, the Company granted 3,000 and 95,845 stock options, respectively. The weighted-average grant date fair value of these options was \$6.40 and \$7.99, respectively.

Expected volatility for both years is based on the historical volatility of the price of our common shares over the past 50 to 51 months for 5 year options and 10 years for 10 year options. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

Note 6 In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (SFAS 109).

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 also provides guidance on financial reporting and classification of differences between tax positions taken in a tax return and amounts recognized in the financial statements.

We adopted FIN 48 on September 30, 2007, the first day of the 2008 fiscal year, and, as a result, recognized a \$925,000 decrease to opening retained earnings from the cumulative effect of adoption. The total amount of gross unrecognized tax benefits is \$1,720,000 and \$1,735,000 on December 27, 2008 and September 27, 2008, respectively, all of which would impact our effective tax rate over time, if recognized. We recognize interest and penalties related to income tax matters as a part of the provision for income taxes. As of December 27, 2008 and September 27, 2008, respectively, the Company has \$601,000 and \$588,000 of accrued interest and penalties.

In addition to our federal tax return and tax returns for Mexico and Canada, we file tax returns in all states that have a corporate income tax with virtually all open for examination for three to four years.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (FAS 157). FAS 157 establishes a common definition for how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. The statement is effective for our 2010 fiscal year. We are currently evaluating the provisions of FAS 157 to determine its impact on our financial statements.

On February 15, 2007, the FASB issued SFAS Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities,” (SFAS 159). The Fair value option established by SFAS 159 permits, but does not require, all entities to choose to measure eligible items at fair value at specified election dates. An entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for our 2009 fiscal year. We adopted FAS 159 on September 28, 2008. The adoption has had no impact on the results of operations or the financial condition of the Company as we have not chosen to measure any assets or liabilities at fair value.

In December 2007, the FASB issued Statement 141 (revised 2007), “Business Combinations” (Statement 141R). When effective, Statement 141R will replace existing Statement 141 in its entirety.

Statement 141R is effective for our 2010 fiscal year. Both early adoption and retrospective application are prohibited. Statement 141R provides transition guidance for mutual entities because they do not currently apply either Statement 141 to combinations of mutual entities or Statement 142 to goodwill or intangible assets acquired in such combinations.

In December 2007, The FASB issued Statement 160, “Noncontrolling Interests in Consolidated Financial Statements: an amendment of ARB No. 51.” Statement 160 replaces the existing minority-interest provisions of Accounting Research Bulletin (ARB) 51, “Consolidated Financial Statements,” by defining a new term—noncontrolling interests—to replace what were previously called minority interests.

Statement 160 establishes noncontrolling interests as a component of the equity of a consolidated entity.

The underlying principle of the new standard is that both the controlling interest and the noncontrolling interests are part of the equity of a single economic entity: the consolidated reporting entity.

Statement 160 is effective for our 2010 fiscal year.

Early adoption is prohibited. A parent company is prohibited from changing the amounts recognized for acquisitions or dispositions of noncontrolling interests or for a loss of control of a subsidiary in previous periods. However, the parent must apply the disclosure and presentation provisions of Statement 160 retrospectively for all periods presented.

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, "Determination of the Useful Life of Intangible Assets." The FSP revises the factors that a company should consider to develop renewal or extension assumptions used in estimating the useful life of a recognized intangible asset. The new guidance will apply to all intangible assets acquired after the FSP's effective date. The FSP also requires new disclosures for all intangible assets recognized as of, and subsequent to, the FSP's effective date.

The underlying purpose of the FSP is to improve the consistency between the period of expected cash flows used to measure the fair value of a recognized intangible asset and the useful life of an intangible asset as determined under FASB Statement 142, "Goodwill and Other Intangible Assets."

FSP FAS 142-3 is effective for our 2010 fiscal year. Early adoption is prohibited.

Note 7 Inventories consist of the following:

| | December 27, 2008 (unaudited) | September 27, 2008 |
|---|-------------------------------------|-----------------------|
| | (in thousands) | |
| Finished goods | \$ 23,161 | \$ 23,512 |
| Raw materials | 8,965 | 7,658 |
| Packaging materials | 5,654 | 5,405 |
| Equipment parts & other | 12,559 | 12,520 |
| | \$ 50,339 | \$ 49,095 |
| | | |
| The above inventories are net of reserves | \$ 3,688 | \$ 3,817 |

Note We principally sell our products to the food service and retail supermarket industries. We also distribute our
8 products directly to the consumer through our chain of retail stores referred to as The Restaurant Group. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business and restaurant group because of different distribution and capital requirements. We maintain separate and discrete financial information for the four operating segments mentioned above which is available to our Chief Operating Decision Makers. We have applied no aggregate criteria to any of these operating segments in order to determine reportable segments. Our four reportable segments are Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages. All inter-segment net sales and expenses have been eliminated in computing net sales and operating income (loss). These segments are described below.

Food Service

The primary products sold to the food service group are soft pretzels, frozen juice treats and desserts, churros and baked goods. Our customers in the food service industry include snack bars and food stands in chain, department and discount stores; malls and shopping centers; fast food outlets; stadiums and sports arenas; leisure and theme parks; convenience stores; movie theatres; warehouse club stores; schools, colleges and other institutions. Within the food service industry, our products are purchased by the consumer primarily for consumption at the point-of-sale.

Retail Supermarkets

The primary products sold to the retail supermarket industry are soft pretzel products, including SUPERPRETZEL, LUIGI'S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, WHOLE FRUIT Sorbet, FRUIT-A-FREEZE frozen fruit bars, ICEE frozen novelties and TIO PEPE'S Churros. Within the retail supermarket industry, our frozen and prepackaged products are purchased by the consumer for consumption at home.

The Restaurant Group

We sell direct to the consumer through our Restaurant Group, which operates BAVARIAN PRETZEL BAKERY and PRETZEL GOURMET, our chain of specialty snack food retail outlets.

Frozen Beverages

We sell frozen beverages to the food service industry, including our restaurant group, primarily under the names ICEE, SLUSH PUPPIE and ARCTIC BLAST in the United States, Mexico and Canada.

The Chief Operating Decision Maker for Food Service, Retail Supermarkets and The Restaurant Group and the Chief Operating Decision Maker for Frozen Beverages monthly review and evaluate operating income and sales in order to assess performance and allocate resources to each individual segment. In addition, the Chief Operating Decision Makers review and evaluate depreciation, capital spending and assets of each segment on a quarterly basis to monitor cash flow and asset needs of each segment. Information regarding the operations in these four reportable segments is as follows:

Three Months Ended
December 27, 2008 December 29,
2007
(unaudited)
(in thousands)

| | | |
|--------------------------------|------------|------------|
| Sales to external customers: | | |
| Food Service | \$ 97,535 | \$ 89,409 |
| Retail Supermarket | 10,033 | 10,644 |
| The Restaurant Group | 433 | 587 |
| Frozen Beverages | 33,141 | 30,258 |
| | \$ 141,142 | \$ 130,898 |
| Depreciation and Amortization: | | |
| Food Service | \$ 4,064 | \$ 4,202 |
| Retail Supermarket | - | - |
| The Restaurant Group | 9 | 12 |
| Frozen Beverages | 2,698 | 2,546 |
| | \$ 6,771 | \$ 6,760 |
| Operating Income(Loss): | | |
| Food Service | \$ 7,281 | \$ 4,216 |
| Retail Supermarket | 1,101 | 223 |
| The Restaurant Group | 38 | 54 |
| Frozen Beverages | (1,589) | (2,157) |
| | \$ 6,831 | \$ 2,336 |
| Capital Expenditures: | | |
| Food Service | \$ 2,750 | \$ 3,167 |
| Retail Supermarket | - | - |
| The Restaurant Group | - | - |
| Frozen Beverages | 1,746 | 3,339 |
| | \$ 4,496 | \$ 6,506 |
| Assets: | | |
| Food Service | \$ 260,894 | \$ 245,392 |
| Retail Supermarket | 2,731 | 2,731 |
| The Restaurant Group | 652 | 848 |
| Frozen Beverages | 124,254 | 123,686 |
| | \$ 388,531 | \$ 372,657 |

Note 9 We follow SFAS No. 142 “Goodwill and Intangible Assets.” SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, we no longer amortize goodwill.

Our four reporting units, which are also reportable segments, are Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages.

The carrying amount of acquired intangible assets for the Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage segments as of December 27, 2008 are as follows:

| | Gross Carrying Amount | Accumulated Amortization (in thousands) | Net Carrying Amount |
|---|-----------------------------|---|---------------------------|
| FOOD SERVICE | | | |
| Indefinite lived intangible assets | | | |
| Trade Names | \$ 8,180 | \$ - | \$ 8,180 |
| Amortized intangible assets | | | |
| Non compete agreements | 435 | 232 | 203 |
| Customer relationships | 33,287 | 8,946 | 24,341 |
| Licenses and rights | 3,606 | 1,892 | 1,714 |
| | \$ 45,508 | \$ 11,070 | \$ 34,438 |
| RETAIL SUPERMARKETS | | | |
| Indefinite lived intangible assets | | | |
| Trade Names | \$ 2,731 | \$ - | \$ 2,731 |
| THE RESTAURANT GROUP | | | |
| Amortized intangible assets Licenses and rights | \$ - | \$ - | \$ - |
| FROZEN BEVERAGES | | | |
| Indefinite lived intangible assets | | | |
| Trade Names | \$ 9,315 | \$ - | \$ 9,315 |
| Amortized intangible assets | | | |
| Non compete agreements | 148 | 109 | 39 |
| Customer relationships | 6,478 | 1,714 | 4,764 |
| Licenses and rights | 1,601 | 382 | 1,219 |
| | \$ 17,542 | \$ 2,205 | \$ 15,337 |

Amortized intangible assets are being amortized by the straight-line method over periods ranging from 3 to 20 years and amortization expense is reflected throughout operating expenses. There were no changes in the gross carrying amount of intangible assets for the three months ended December 27, 2008. Aggregate amortization expense of intangible assets for the 3 months ended December 27, 2008 and December 29, 2007 was \$1,127,000 and \$1,192,000, respectively.

Estimated amortization expense for the next five fiscal years is approximately \$4,500,000 in 2009 and 2010, \$4,100,000 in 2011, \$3,800,000 in 2012 and \$3,700,000 in 2013. The weighted average amortization period of the intangible assets is 10.3 years.

Goodwill

The carrying amounts of goodwill for the Food Service, Retail Supermarket, Restaurant Group and Frozen Beverage segments are as follows:

| | Food Service | Retail Supermarket | Restaurant Group (in thousands) | Frozen Beverages | Total |
|------------------------------|--------------|--------------------|------------------------------------|------------------|-----------|
| Balance at December 27, 2008 | \$ 23,988 | \$ - | \$ 386 | \$ 35,940 | \$ 60,314 |

There were no changes in the carrying amounts of goodwill for the three months ended December 27, 2008.

Note 10 We have classified our investment securities as marketable securities held to maturity and auction market preferred stock ("AMPS").

The amortized cost, unrealized gains and losses, and fair market values of our marketable securities held to maturity at December 27, 2008 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses | Fair Market Value |
|-------------------------|----------------|--|-------------------------|-------------------|
| FDIC Backed Notes | \$ 5,030 | \$ 101 | \$ - | \$ 5,131 |
| Certificates of Deposit | 13,385 | 64 | \$ 5 | 13,444 |
| | 18,415 | \$ 165 | \$ 5 | \$ 18,575 |

All of the certificates of deposit are within the FDIC limits for insurance coverage.

The amortized cost, unrealized gains and losses, and fair market values of our auction market preferred stock at December 27, 2008 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses | Fair Market Value |
|--------------------------------|-------------------|--|-------------------------------|-------------------------|
| Auction Market Preferred Stock | | | | |
| Equity Securities | \$ 19,900 | \$ - | \$ - | \$ 19,900 |
| | \$ 19,900 | \$ - | \$ - | \$ 19,900 |

The amortized cost, unrealized gains and losses, and fair market values of our marketable securities held to maturity at September 27, 2008 are summarized as follows:

| | | | | |
|-------------------------|----------|------|------|----------|
| Certificates of Deposit | \$ 2,470 | \$ - | \$ 6 | \$ 2,464 |
| | \$ 2,470 | \$ - | \$ 6 | \$ 2,464 |

All of the certificates of deposit are within the FDIC limits for insurance coverage.

The amortized cost, unrealized gains and losses, and fair market values of our auction market preferred stock at September 27, 2008 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses | Fair Market Value |
|--------------------------------|-------------------|--|-------------------------------|-------------------------|
| Auction Market Preferred Stock | | | | |
| Equity Securities | \$ 35,200 | \$ - | \$ - | \$ 35,200 |
| | \$ 35,200 | \$ - | \$ - | \$ 35,200 |

At December 27, 2008, we held \$19.9 million of AMPS which are valued at par, our cost; and are classified as current assets on our balance sheet. On September 27, 2008, we held \$35.2 million of AMPS.

The AMPS we owned at December 27, 2008 are senior equity securities of closed-end funds and have priority over the fund's common shares as to distribution of assets and dividends, as described in each fund's prospectus.

Under normal auction market conditions, dividends on the AMPS for each dividend period (generally 7 to 49 days) are set at a rate determined through an auction process that brings together bidders who seek to buy AMPS and holders of AMPS who seek to sell. Investors and potential investors typically had purchased the AMPS in an auction by submitting orders to a broker-dealer, typically, an investment bank. However, beginning in mid February 2008, the auction process has not been supported by broker-dealers and auctions have failed and continue to fail. In the case of a failed auction, the dividends continue to be paid at the applicable "failure" rate for each security until an auction can establish a market clearing rate. For most of the funds we own, the specified "failure" rate is the current applicable LIBOR rate plus 125 basis points or 125% of the rate, whichever is greater. Other of the funds we own have different formulas which produce comparable dividend rates.

The assets of closed-end funds, which are valued on a daily basis, serve as the collateral for issuance of the AMPS. The AMPS must meet certain specified asset coverage tests, which include a requirement set forth under the Investment Company Act of 1940 that closed-end funds maintain asset coverage of at least 200% with respect to the AMPS and any other outstanding senior securities; i.e. closed-end funds must have at least \$2 of collateral for every \$1 of AMPS issued. If the funds don't meet the asset coverage tests, then the fund must redeem them. All the \$19.9 million of securities held by J & J at December 27, 2008 is AAA rated. The collateral held by the funds are generally municipal securities or common and preferred stock of public corporations.

On August 21, 2008, Merrill Lynch announced a plan to purchase, at par, AMPS held by J & J and other of its clients.

Redemption of our AMPS subsequent to the failure of the auction process was \$10,000,000, our carrying value, in the year ended September 27, 2008 and \$15,300,000, also our carrying value, in the quarter ended December 27, 2008. Subsequent to December 27, 2008 and prior to the filing of this Form 10-Q, \$100,000 of our AMPS have been redeemed at our carrying value and \$19,800,000 were sold to Merrill Lynch at our carrying value. As of January 21, 2009, we no longer own any AMPS.

Proceeds from the sale and redemption of AMPS were \$15,300,000 and \$4,000,000 in the periods ended December 27, 2008, and December 29, 2007, respectively, with no gain or loss recorded. We use the specific identification method to determine the cost of securities sold.

Proceeds from the sale and redemption of marketable securities were \$190,000 in the three months ended December 27, 2008 and none in the prior year.

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

Liquidity and Capital Resources

Our current cash balances and cash expected to be provided by future operations and our investment securities are our primary sources of liquidity. We believe that these sources, along with our borrowing capacity, are sufficient to fund future growth and expansion. See Note 10 to these financial statements for a discussion of our investment securities.

The Company's Board of Directors declared a regular quarterly cash dividend of \$.0975 per share of its common stock payable on January 7, 2009 to shareholders of record as of the close of business on December 15, 2008.

In the three months ended December 27, 2008, we purchased and retired 450,597 shares of our common stock at a cost of \$12,510,000 under a million share buyback authorization approved by the Company's Board of Directors in February 2008 leaving 414,279 as the number of shares that may yet be purchased under the share buyback authorization. We purchased and retired 135,124 shares at a cost of \$3,539,000 in our fiscal year ended September 27, 2008. Of the shares purchased and retired this quarter, 400,000 shares were purchased at the purchase price of \$27.90 per share from Gerald B. Shreiber, Chairman of the Board, Chief Executive Officer and Director of the Company.

In the three months ended December 27, 2008 and December 29, 2007, fluctuations in the valuation of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused an increase of \$1,437,000 in accumulated other comprehensive loss in the 2009 first quarter and a decrease of \$51,000 in the 2008 first quarter.

On January 9, 2007 we acquired the assets of Hom/Ade Foods, Inc., a manufacturer and distributor of biscuits and dumplings sold under the MARY B's and private label store brands to the supermarket industry. Hom/Ade, headquartered in Pensacola, Florida, had prior annual sales of approximately \$30 million.

On January 31, 2007 we acquired the assets of Radar Inc., a manufacturer and seller of fig and fruit bars selling its products under the brand DADDY RAY'S. Headquartered and with its manufacturing facility in Moscow Mills, MO (outside of St. Louis), Radar, Inc. had prior annual sales of approximately \$23 million selling to the retail grocery segment and mass merchandisers, both branded and private label.

On April 2, 2007 we acquired the WHOLE FRUIT Sorbet and FRUIT-A-FREEZE Frozen Fruit Bar brands, along with related assets. Selling primarily to the supermarket industry, sales for 2007 are expected to be less than \$2 million.

On June 25, 2007, we acquired the assets of an ICEE distributor in Kansas with annual sales of less than \$1 million.

These acquisitions were and will be accounted for under the purchase method of accounting, and their operations are and will be included in the consolidated financial statements from their respective acquisition dates.

Our general-purpose bank credit line which expires in December 2011 provides for up to a \$50,000,000 revolving credit facility. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. There were no outstanding balances under this facility at December 27, 2008.

Results of Operations

Net sales increased \$10,244,000 or 8% to \$141,142,000 for the three months ended December 27, 2008 compared to the three months ended December 29, 2007.

Beginning in December 2008 and continuing through the filing date of this Form 10-Q, we have experienced a significant slowdown in our rate of overall sales increases compared to the prior year which we believe is primarily attributable to the general economic slowdown.

FOOD SERVICE

Sales to food service customers increased \$8,126,000 or 9% in the first quarter to \$97,535,000. Soft pretzel sales to the food service market increased \$541,000 or 2% from last year to \$24,235,000 in this year's quarter on a unit sales decline of approximately 8%. Italian ice and frozen juice treat and dessert sales increased 1% to \$8,266,000 in the three months. Churro sales to food service customers increased 33% to \$7,356,000 in the quarter with sales to one customer accounting for approximately 2/3 of the increase. Sales of bakery products, excluding Hom/Ade and DADDY RAY'S, increased \$3,527,000, or 10% for the quarter driven by increased sales to private label customers. Biscuit sales increased 7% for the quarter to \$9,692,000 this year and sales of fruit and fig bars increased 25% to \$6,858,000 in this year's quarter. The changes in sales throughout the food service segment were from a combination of volume changes and price increases.

RETAIL SUPERMARKETS

Sales of products to retail supermarkets decreased \$611,000 to \$10,033,000 or 6% in the first quarter. Soft pretzel sales were down 4% to \$6,843,000 on a unit volume decline of 19% and sales of frozen juices and ices decreased 9% to \$3,582,000 on a unit volume decline of 9%. The case volume declines were partially offset by reduced trade spending and increased selling prices.

THE RESTAURANT GROUP

Sales of our Restaurant Group decreased 26% to \$433,000 in the first quarter. The sales decrease was caused by the closing of unprofitable stores in fiscal year 2008 and by lower sales in general. Sales of stores open for both years' quarter were down 10%.

FROZEN BEVERAGES

Frozen beverage and related product sales increased \$2,883,000 or 10% to \$33,141,000 in the first quarter. Beverage sales alone were up 4% to \$20,075,000 for the quarter. The beverage dollar sales increase resulted from a change in program structure for one customer which resulted in both higher sales and higher cost of sales and operating expenses. Without the change in program structure, beverage sales would have been down 3%. Gallon sales were down 5% in our base ICEE business. Service revenue increased 30% to \$10,550,000 in this year's first quarter with 70% of the increase to one customer as we continue to expand our customer base.

CONSOLIDATED

Gross profit as a percentage of sales increased to 28.82% from last year's 27.03%. Higher commodity costs in excess of \$2,500,000 compared to last year were offset by higher pricing, reduced trade spending in our retail supermarket business and increased efficiencies due to volume in some of our product lines.

Total operating expenses increased \$800,000 in the first quarter but as a percentage of sales decreased over one percent to 24% from 25% last year. Marketing expenses were 12% of sales both years. Distribution expenses decreased from 9% of sales last year to 8% of sales this year due to lower fuel and freight costs. Administrative expenses as a percent of sales were 4% of sales for both years. Operating expenses include the impact of an additional \$344,000 of accounts receivable allowances compared to September 27, 2008.

Operating income increased 192% to \$6,831,000 this year from \$2,336,000 a year ago.

Investment income decreased by \$353,000 to \$461,000 due to a general decline in the level of interest rates and the movement of our investment securities to what we consider to be safer securities. We expect this trend to continue for the foreseeable future.

The effective income tax rate has been estimated at 41% in this year's first quarter, up from 39% a year ago due to a lower tax rate (benefit) on stock based compensation and a lower amount of tax advantaged investment income.

Net earnings increased 128% to \$4,319,000 in this year's first quarter compared to net earnings of \$1,897,000 in the year ago period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth, in item 7a. "Quantitative and Qualitative Disclosures About Market Risk," in its 2008 annual report on Form 10-K filed with the SEC.

Item 4.

Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of December 27, 2008, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

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

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

b) Reports on Form 8-K - Reports on Form 8-K were filed on November 6, 2008 and December 8, 2008.

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.

J & J SNACK FOODS CORP.

Dated: January 22, 2009

/s/ Gerald B. Shreiber
Gerald B. Shreiber
Chairman of the Board,
President, Chief Executive
Officer and Director
(Principal Executive Officer)

Dated: January 22, 2009

/s/ Dennis G. Moore
Dennis G. Moore, Senior Vice
President, Chief Financial
Officer and Director
(Principal Financial Officer)
(Principal Accounting Officer)