

J&J SNACK FOODS CORP  
Form 10-Q  
July 27, 2015

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 June 27, 2015.

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)

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New Jersey 22-1935537  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  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," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer (X)

Accelerated filer ( )

Non-accelerated filer ( )

Smaller reporting company ( )

(Do not check if a smaller reporting company)

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

Yes  No

As July 20, 2015 there were 18,698,666 shares of the Registrant's Common Stock outstanding.

1

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INDEX

|   | Page<br>Number |
|---|----------------|
| Part I. Financial Information   |                |
| Item 1. Consolidated Financial Statements   |                |
| Consolidated Balance Sheets – June 27, 2015 (unaudited) and September 27, 2014  | 3              |
| Consolidated Statements of Earnings (unaudited) - Three and Nine Months Ended June 27, 2015 and June 28, 2014             | 4              |
| Consolidated Statements of Comprehensive Income (unaudited) – Three and Nine Months Ended June 27, 2015 and June 28, 2014 | 5              |
| Consolidated Statements of Cash Flows (unaudited) – Nine Months Ended June 27, 2015 and June 28, 2014                     | 6              |
| Notes to the Consolidated Financial Statements (unaudited)  | 7              |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations                             | 20             |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk  | 24             |
| Item 4. Controls and Procedures   | 24             |
| Part II. Other Information  |                |
| Item 6. Exhibits  | 25             |

**J & J SNACK FOODS CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts)

|  | <b>June 27,<br/>2015<br/>(unaudited)</b> | <b>September<br/>27,<br/>2014</b> |
|--|--|-----------------------------------|
| <b>Assets</b>                                  |  |                                   |
| Current assets                                 |  |                                   |
| Cash and cash equivalents                      | \$ 126,548                               | \$ 91,760                         |
| Accounts receivable, net                       | 115,508                                  | 99,972                            |
| Inventories, net                               | 83,120                                   | 76,083                            |
| Prepaid expenses and other                     | 4,212                                    | 3,695                             |
| Deferred income taxes                          | 4,320                                    | 4,096                             |
| Total current assets                           | 333,708                                  | 275,606                           |
| Property, plant and equipment, at cost         |  |                                   |
| Land   | 2,496                                    | 2,496                             |
| Buildings                                      | 26,741                                   | 26,741                            |
| Plant machinery and equipment                  | 206,036                                  | 195,566                           |
| Marketing equipment                            | 265,272                                  | 256,389                           |
| Transportation equipment                       | 6,899                                    | 6,913                             |
| Office equipment                               | 20,059                                   | 18,556                            |
| Improvements                                   | 28,121                                   | 26,635                            |
| Construction in progress                       | 8,697                                    | 4,785                             |
| Total Property, plant and equipment, at cost   | 564,321                                  | 538,081                           |
| Less accumulated depreciation and amortization | 395,045                                  | 380,552                           |
| Property, plant and equipment, net             | 169,276                                  | 157,529                           |
| Other assets                                   |  |                                   |
| Goodwill                                       | 86,442                                   | 86,442                            |
| Other intangible assets, net                   | 47,150                                   | 50,989                            |
| Marketable securities held to maturity         | -  | 2,000                             |
| Marketable securities available for sale       | 103,352                                  | 128,117                           |
| Other  | 2,998                                    | 4,090                             |
| Total other assets                             | 239,942                                  | 271,638                           |
| <b>Total Assets</b>                            | <b>\$ 742,926</b>                        | <b>\$ 704,773</b>                 |
| <b>Liabilities and Stockholder's Equity</b>    |  |                                   |
| Current Liabilities                            |  |                                   |
| Current obligations under capital leases       | \$ 270                                   | \$ 146                            |
| Accounts payable                               | 67,140                                   | 59,968                            |
| Accrued insurance liability                    | 10,284                                   | 10,578                            |
| Accrued income taxes                           | 1,091                                    | -                                 |
| Accrued liabilities                            | 5,946                                    | 5,007                             |
| Accrued compensation expense                   | 14,109                                   | 14,286                            |

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|  |                   |                   |
|--|-------------------|-------------------|
| Dividends payable  | 6,729             | 5,972             |
| Total current liabilities  | 105,569           | 95,957            |
| Long-term obligations under capital leases   | 1,265             | 374               |
| Deferred income taxes  | 44,848            | 44,785            |
| Other long-term liabilities  | 971               | 1,139             |
| <b>Stockholders' Equity</b>  |                   |                   |
| Preferred stock, \$1 par value; authorized 10,000,000 shares; none issued  | -                 | -                 |
| Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding 18,692,000 and 18,663,000 respectively | 34,508            | 32,621            |
| Accumulated other comprehensive loss   | (10,295 )         | (5,988 )          |
| Retained Earnings  | 566,060           | 535,885           |
| Total stockholders' equity   | 590,273           | 562,518           |
| <b>Total Liabilities and Stockholder's Equity</b>  | <b>\$ 742,926</b> | <b>\$ 704,773</b> |

The accompanying notes are an integral part of these statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

|   | Three months ended |                  | Nine months ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 27,<br>2015   | June 28,<br>2014 | June 27,<br>2015  | June 28,<br>2014 |
| Net Sales                                 | \$278,724          | \$257,113        | \$716,484         | \$665,957        |
| Cost of goods sold <sup>(1)</sup>         | 188,328            | 172,745          | 498,037           | 460,570          |
| Gross Profit                              | 90,396             | 84,368           | 218,447           | 205,387          |
| Operating expenses                        |                    |                  |                   |                  |
| Marketing <sup>(2)</sup>                  | 23,201             | 21,274           | 62,674            | 56,825           |
| Distribution <sup>(3)</sup>               | 20,429             | 19,314           | 55,583            | 51,816           |
| Administrative <sup>(4)</sup>             | 7,910              | 7,883            | 22,897            | 21,648           |
| Other general expense                     | 45                 | 234              | 67                | 1,132            |
|   | 51,585             | 48,705           | 141,221           | 131,421          |
| Operating Income                          | 38,811             | 35,663           | 77,226            | 73,966           |
| Other income (expense)                    |                    |                  |                   |                  |
| Investment (loss) income                  | (53 )              | 1,159            | 2,579             | 3,273            |
| Interest expense & other                  | (34 )              | (26 )            | (88 )             | (89 )            |
| Earnings before income taxes              | 38,724             | 36,796           | 79,717            | 77,150           |
| Income taxes                              | 14,262             | 13,118           | 29,362            | 27,525           |
| NET EARNINGS                              | \$24,462           | \$23,678         | \$50,355          | \$49,625         |
| Earnings per diluted share                | \$1.30             | \$1.26           | \$2.68            | \$2.64           |
| Weighted average number of diluted shares | 18,823             | 18,832           | 18,815            | 18,814           |
| Earnings per basic share                  | \$1.31             | \$1.27           | \$2.70            | \$2.66           |
| Weighted average number of basic shares   | 18,691             | 18,686           | 18,683            | 18,686           |

(1) Includes share-based compensation expense of \$134 and \$354 for the three months and nine months ended June 27, 2015, respectively and \$136 and \$371 for the three months and nine months ended June 28, 2014.

(2) Includes share-based compensation expense of \$201 and \$531 for the three months and nine months ended June 27, 2015, respectively and \$190 and \$530 for the three months and nine months ended June 28, 2014.

- (3) Includes share-based compensation expense of \$12 and \$33 for the three months and nine months ended June 27, 2015, respectively and \$12 and \$33 for the three months and nine months ended June 28, 2014.
- (4) Includes share-based compensation expense of \$269 and \$707 for the three months and nine months ended June 27, 2015, respectively and \$251 and \$704 for the three months and nine months ended June 28, 2014.

See accompanying notes to the consolidated financial statements



## J&amp;J SNACK FOODS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

|   | Three months<br>ended |                  | Nine months<br>ended |                  |
|---|-----------------------|------------------|----------------------|------------------|
|   | June 27,<br>2015      | June 28,<br>2014 | June 27,<br>2015     | June 28,<br>2014 |
| Net Earnings  | \$24,462              | \$23,678         | \$50,355             | \$49,625         |
| Foreign currency translation adjustments                | (420 )                | 262              | (3,289 )             | (14 )            |
| Unrealized holding gain (loss) on marketable securities | 371                   | 965              | (1,018 )             | 2,394            |
| Total Other Comprehensive (Loss) income, net of tax     | (49 )                 | 1,227            | (4,307 )             | 2,380            |
| Comprehensive Income                                    | \$24,413              | \$24,905         | \$46,048             | \$52,005         |

All amounts are net of tax.

## J &amp; J SNACK FOODS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (in thousands)

|   | Nine months ended |                  |
|---|-------------------|------------------|
|   | June 27,<br>2015  | June 28,<br>2014 |
| Operating activities:   |                   |                  |
| Net earnings  | \$50,355          | \$49,625         |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                   |                  |
| Depreciation of fixed assets  | 24,013            | 23,599           |
| Amortization of intangibles and deferred costs                                      | 4,445             | 3,929            |
| Share-based compensation  | 1,625             | 1,638            |
| Deferred income taxes   | (131 )            | (257 )           |
| Loss on sale of marketable securities   | 1,904             | 361              |
| Other   | (255 )            | (205 )           |
| Changes in assets and liabilities net of effects from purchase of companies         |                   |                  |
| Increase in accounts receivable   | (15,821 )         | (17,390)         |
| Increase in inventories   | (5,998 )          | (6,320 )         |
| Increase in prepaid expenses  | (511 )            | (262 )           |
| Increase in accounts payable and accrued liabilities                                | 8,980             | 14,417           |
| Net cash provided by operating activities   | 68,606            | 69,135           |
| Investing activities:   |                   |                  |
| Payment for purchases of companies, net of cash acquired                            | (615 )            | (28,528)         |
| Purchases of property, plant and equipment  | (36,234 )         | (31,346)         |
| Purchases of marketable securities  | (16,126 )         | (26,932)         |
| Proceeds from redemption and sales of marketable securities                         | 39,968            | 7,245            |
| Proceeds from disposal of property and equipment                                    | 1,322             | 1,241            |
| Other   | (167 )            | (408 )           |
| Net cash used in investing activities   | (11,852 )         | (78,728)         |
| Financing activities:   |                   |                  |
| Payments to repurchase common stock   | (2,114 )          | (5,903 )         |
| Proceeds from issuance of stock   | 2,174             | 1,107            |
| Payments on capitalized lease obligations   | (176 )            | (273 )           |
| Payment of cash dividend  | (19,425 )         | (14,949)         |
| Net cash used in financing activities   | (19,541 )         | (20,018)         |
| Effect of exchange rate on cash and cash equivalents                                | (2,425 )          | 20               |
| Net increase (decrease) in cash and cash equivalents                                | 34,788            | (29,591)         |
| Cash and cash equivalents at beginning of period                                    | 91,760            | 97,345           |
| Cash and cash equivalents at end of period  | \$126,548         | \$67,754         |

See accompanying notes to the consolidated financial statements.



J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

In the opinion of management, the accompanying unaudited consolidated financial statements contain all Note adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position 1 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 and nine months ended June 27, 2015 and June 28, 2014 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 our 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 the Company's Annual Report on Form 10-K for the fiscal year ended September 27, 2014.

We recognize revenue from our products when the products are shipped to our customers. Repair and maintenance equipment service revenue is recorded when it is performed provided the customer terms are that the customer is to be charged on a time and material basis or on a straight-line basis over the term of the contract when the customer has signed a service contract. Revenue is recognized only where persuasive evidence of an Note arrangement exists, our price is fixed or estimable and collectability is reasonably assured. We record offsets to 2 revenue for allowances, end-user pricing adjustments, trade spending, coupon redemption costs and returned product. Customers generally do not have the right to return product unless it is damaged or defective. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors. The allowance for doubtful receivables was \$314,000 and \$450,000 at June 27, 2015 and September 27, 2014, respectively.

Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated 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 Note non-compete agreements arising from acquisitions are amortized by the straight-line method over periods 3 ranging from 3 to 20 years. Depreciation expense was \$8,026,000 and \$8,008,000 for the three months ended June 27, 2015 and June 28, 2014, respectively, and for the nine months ended June 27, 2015 and June 28, 2014 was \$24,013,000 and \$23,599,000, respectively.



Basic earnings per common share (EPS) excludes dilution and is computed by dividing income available to Note common shareholders by the weighted average common shares outstanding during the period. Diluted EPS takes 4 into consideration the potential dilution that could occur if securities (stock options) or other contracts to issue common stock were exercised and converted into common stock. Our calculation of EPS is as follows:

|  | Three Months Ended June 27,<br>2015      |                         |                        |
|--|--|-------------------------|------------------------|
|  | Income<br>(Numerator)                    | Shares<br>(Denominator) | Per<br>Share<br>Amount |
|  | (in thousands, except per share amounts) |                         |                        |
| <b>Basic EPS</b>   |  |                         |                        |
| Net Earnings available to common stockholders                          | \$24,462                                 | 18,691                  | \$ 1.31                |
| <b>Effect of Dilutive Securities</b>                                   |  |                         |                        |
| Options  | -  | 132                     | (0.01 )                |
| <b>Diluted EPS</b>   |  |                         |                        |
| Net Earnings available to common stockholders plus assumed conversions | \$24,462                                 | 18,823                  | \$ 1.30                |
|  |  |                         |                        |
|  |  |                         |                        |
|  | Nine Months Ended June 27, 2015          |                         |                        |
|  | Income<br>(Numerator)                    | Shares<br>(Denominator) | Per<br>Share<br>Amount |
|  | (in thousands, except per share amounts) |                         |                        |
| <b>Basic EPS</b>   |  |                         |                        |
| Net Earnings available to common stockholders                          | \$50,355                                 | 18,683                  | \$ 2.70                |
| <b>Effect of Dilutive Securities</b>                                   |  |                         |                        |
| Options  | -  | 132                     | (0.02 )                |
| <b>Diluted EPS</b>   |  |                         |                        |
| Net Earnings available to common stockholders plus assumed conversions | \$50,355                                 | 18,815                  | \$ 2.68                |

|  | Three Months Ended June 28,<br>2014         |                         |                        |
|--|---|-------------------------|------------------------|
|  | Income<br>(Numerator)                       | Shares<br>(Denominator) | Per<br>Share<br>Amount |
|  | (in thousands, except per share<br>amounts) |                         |                        |
| <b>Basic EPS</b>   |   |                         |                        |
| Net Earnings available to common stockholders                          | \$23,678                                    | 18,686                  | \$ 1.27                |
| <b>Effect of Dilutive Securities</b>                                   |   |                         |                        |
| Options  | -   | 146                     | (0.01 )                |
| <b>Diluted EPS</b>   |   |                         |                        |
| Net Earnings available to common stockholders plus assumed conversions | \$23,678                                    | 18,832                  | \$ 1.26                |

|  | Nine Months Ended June 28, 2014             |                         |                        |
|--|---|-------------------------|------------------------|
|  | Income<br>(Numerator)                       | Shares<br>(Denominator) | Per<br>Share<br>Amount |
|  | (in thousands, except per share<br>amounts) |                         |                        |
| <b>Basic EPS</b>   |   |                         |                        |
| Net Earnings available to common stockholders                          | \$49,625                                    | 18,686                  | \$ 2.66                |
| <b>Effect of Dilutive Securities</b>                                   |   |                         |                        |
| Options  | -   | 128                     | (0.02 )                |
| <b>Diluted EPS</b>   |   |                         |                        |
| Net Earnings available to common stockholders plus assumed conversions | \$49,625                                    | 18,814                  | \$ 2.64                |

Note 5 At June 27, 2015, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

| Three months<br>ended                       |                     | Nine months<br>ended |                     |
|---|---------------------|----------------------|---------------------|
| June<br>27,<br>2015                         | June<br>28,<br>2014 | June<br>27,<br>2015  | June<br>28,<br>2014 |
| (in thousands, except per share<br>amounts) |                     |                      |                     |

|   |        |        |         |         |
|---|--------|--------|---------|---------|
| Stock Options                                 | \$439  | \$404  | \$987   | \$1,104 |
| Stock purchase plan                           | 77     | 102    | 274     | 279     |
| Restricted stock issued to an employee        | 1      | 8      | 4       | 16      |
|   | \$517  | \$514  | \$1,265 | \$1,399 |
| Per diluted share                             | \$0.03 | \$0.03 | \$0.07  | \$0.07  |
| The above compensation is net of tax benefits | \$99   | \$75   | \$360   | \$239   |



The Company anticipates that share-based compensation will not exceed \$1.8 million net of tax benefits, or approximately \$.10 per share for the fiscal year ending September 26, 2015.

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 2015 first nine months: expected volatility of 17.8%; risk-free interest rate of 1.6%; dividend rate of 1.4% and expected lives of 5 years.

During the 2015 nine month period, the Company granted 148,140 stock options. The weighted-average grant date fair value of these options was \$15.23. During the 2014 nine month period, the Company granted 101,572 stock options. The weighted-average grant date fair value of these options was \$15.24.

Expected volatility is based on the historical volatility of the price of our common shares over the past 55 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.

We account for our income taxes under the liability method. Under the liability method, deferred tax assets and Note liabilities are determined based on the difference between the financial statement and tax bases of assets and 6 liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities.

Additionally, we recognize a liability for income taxes and associated penalties and interest for tax positions taken or expected to be taken in a tax return which are more likely than not to be overturned by taxing authorities (“uncertain tax positions”). We have not recognized a tax benefit in our financial statements for these uncertain tax positions.

The total amount of gross unrecognized tax benefits is \$315,000 and \$315,000 on June 27, 2015 and September 27, 2014, 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 June 27, 2015 and September 27, 2014, respectively, the Company has \$180,000 and \$180,000 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.

Note 7 In May 2014, the FASB issued guidance on revenue recognition which says that we should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which we expect to be entitled in exchange for those goods or services. This guidance is effective for our fiscal year ending September 2019. Early application is not permitted. We will assess the impact this guidance will have on our consolidated financial statements.

Note 8 Inventories consist of the following:

|   | June 27,<br>2015<br>(unaudited)<br>(in thousands) | September<br>27,<br>2014 |
|---|---|--------------------------|
| Finished goods                            | \$33,541  | \$ 33,189                |
| Raw Materials                             | 18,280  | 15,632                   |
| Packaging materials                       | 6,737   | 6,107                    |
| Equipment parts & other                   | 24,562  | 21,155                   |
|   | \$83,120  | \$ 76,083                |
| The above inventories are net of reserves | \$2,533   | \$ 3,982                 |

Note 9 We principally sell our products to the food service and retail supermarket industries. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business because of different distribution and capital requirements. We maintain separate and discrete financial information for the three operating segments mentioned above which is available to our Chief Operating Decision Makers.

Our three reportable segments are Food Service, Retail Supermarkets 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 by the food service group are soft pretzels, frozen juice treats and desserts, churros, dough enrobed handheld products 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 channel are soft pretzel products – including SUPERPRETZEL, frozen juice treats and desserts including LUIGI'S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, WHOLE FRUIT frozen fruit bars and sorbet, PHILLY SWIRL cups and sticks, ICEE Squeeze-Up Tubes and dough enrobed handheld products including PATIO burritos. Within the retail supermarket channel, our frozen and prepackaged products are purchased by the consumer for consumption at home.

## Frozen Beverages

We sell frozen beverages and related products to the food service industry primarily under the names ICEE, SLUSH PUPPIE and PARROT ICE in the United States, Mexico and Canada. We also provide repair and maintenance service to customers for customers' owned equipment.

The Chief Operating Decision Maker for Food Service and Retail Supermarkets and the Chief Operating Decision Maker for Frozen Beverages monthly review detailed operating income statements and sales reports 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 three reportable segments is as follows:

|                                | Three months ended |                  | Nine months ended |                  |
|--------------------------------|--------------------|------------------|-------------------|------------------|
|                                | June 27,<br>2015   | June 28,<br>2014 | June 27,<br>2015  | June 28,<br>2014 |
|                                | (unaudited)        |                  |                   |                  |
|                                | (in thousands)     |                  |                   |                  |
| Sales to External Customers:   |                    |                  |                   |                  |
| Food Service                   |                    |                  |                   |                  |
| Soft pretzels                  | \$42,920           | \$41,337         | \$124,737         | \$119,460        |
| Frozen juices and ices         | 19,331             | 18,215           | 38,604            | 38,301           |
| Churros                        | 14,979             | 15,622           | 42,568            | 43,003           |
| Handhelds                      | 5,853              | 6,221            | 16,055            | 18,337           |
| Bakery                         | 79,643             | 72,459           | 224,865           | 207,704          |
| Other                          | 4,522              | 4,019            | 9,242             | 8,177            |
|                                | \$167,248          | \$157,873        | \$456,071         | \$434,982        |
| Retail Supermarket             |                    |                  |                   |                  |
| Soft pretzels                  | \$7,431            | \$7,090          | \$27,460          | \$26,314         |
| Frozen juices and ices         | 29,421             | 23,723           | 52,298            | 38,548           |
| Handhelds                      | 4,667              | 4,661            | 14,115            | 14,763           |
| Coupon redemption              | (811 )             | (886 )           | (2,811 )          | (2,255 )         |
| Other                          | 420                | 244              | 986               | 676              |
|                                | \$41,128           | \$34,832         | \$92,048          | \$78,046         |
| Frozen Beverages               |                    |                  |                   |                  |
| Beverages                      | \$44,990           | \$41,762         | \$99,278          | \$93,664         |
| Repair and maintenance service | 17,270             | 16,610           | 48,303            | 43,354           |
| Machines sales                 | 7,696              | 5,492            | 19,771            | 14,774           |
| Other                          | 392                | 544              | 1,013             | 1,137            |
|                                | \$70,348           | \$64,408         | \$168,365         | \$152,929        |
| Consolidated Sales             | \$278,724          | \$257,113        | \$716,484         | \$665,957        |
| Depreciation and Amortization: |                    |                  |                   |                  |
| Food Service                   | \$5,330            | \$5,330          | \$15,971          | \$15,702         |
| Retail Supermarket             | 220                | 134              | 660               | 150              |
| Frozen Beverages               | 4,052              | 3,962            | 11,827            | 11,676           |
|                                | \$9,602            | \$9,426          | \$28,458          | \$27,528         |
| Operating Income:              |                    |                  |                   |                  |

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|                    |          |          |          |          |
|--------------------|----------|----------|----------|----------|
| Food Service       | \$20,479 | \$21,245 | \$51,621 | \$53,958 |
| Retail Supermarket | 6,406    | 3,489    | 9,607    | 8,055    |
| Frozen Beverages   | 11,926   | 10,929   | 15,998   | 11,953   |
|                    | \$38,811 | \$35,663 | \$77,226 | \$73,966 |

Capital Expenditures:

|                    |          |          |          |          |
|--------------------|----------|----------|----------|----------|
| Food Service       | \$9,315  | \$5,500  | \$20,127 | \$16,339 |
| Retail Supermarket | -        | -        | -        | -        |
| Frozen Beverages   | 6,276    | 5,021    | 16,107   | 15,007   |
|                    | \$15,591 | \$10,521 | \$36,234 | \$31,346 |

Assets:

|                    |           |           |           |           |
|--------------------|-----------|-----------|-----------|-----------|
| Food Service       | \$550,124 | \$511,229 | \$550,124 | \$511,229 |
| Retail Supermarket | 17,901    | 18,803    | 17,901    | 18,803    |
| Frozen Beverages   | 174,901   | 168,203   | 174,901   | 168,203   |
|                    | \$742,926 | \$698,235 | \$742,926 | \$698,235 |

Note 10 Our three reporting units, which are also reportable segments, are Food Service, Retail Supermarkets and Frozen Beverages.

The carrying amounts of acquired intangible assets for the Food Service, Retail Supermarkets and Frozen Beverage segments as of June 27, 2015 and September 27, 2014 are as follows:

|                                    | <b>June 27, 2015</b>   |                                 | <b>September 27, 2014</b> |                                 |
|------------------------------------|------------------------|---------------------------------|---------------------------|---------------------------------|
|                                    | <b>Gross</b>           |                                 | <b>Gross</b>              |                                 |
|                                    | <b>Carrying Amount</b> | <b>Accumulated Amortization</b> | <b>Carrying Amount</b>    | <b>Accumulated Amortization</b> |
|                                    | <b>(in thousands)</b>  |                                 |                           |                                 |
| <b>FOOD SERVICE</b>                |                        |                                 |                           |                                 |
| Indefinite lived intangible assets |                        |                                 |                           |                                 |
| Trade Names                        | \$13,072               | \$ -                            | \$13,072                  | \$ -                            |
| Amortized intangible assets        |                        |                                 |                           |                                 |
| Non compete agreements             | 592                    | 532                             | 592                       | 509                             |
| Customer relationships             | 40,797                 | 32,679                          | 40,797                    | 29,914                          |
| License and rights                 | 3,606                  | 2,779                           | 3,606                     | 2,708                           |
| <b>TOTAL FOOD SERVICE</b>          | <b>\$58,067</b>        | <b>\$ 35,990</b>                | <b>\$58,067</b>           | <b>\$ 33,131</b>                |
| <b>RETAIL SUPERMARKETS</b>         |                        |                                 |                           |                                 |
| Indefinite lived intangible assets |                        |                                 |                           |                                 |
| Trade Names                        | \$7,206                | \$ -                            | \$7,206                   | \$ -                            |
| Amortized Intangible Assets        |                        |                                 |                           |                                 |
| Non compete agreements             | 160                    | 94                              | 160                       | 34                              |
| Customer relationships             | 7,979                  | 1,020                           | 7,979                     | 420                             |
| <b>TOTAL RETAIL SUPERMARKETS</b>   | <b>\$15,345</b>        | <b>\$ 1,114</b>                 | <b>\$15,345</b>           | <b>\$ 454</b>                   |
| <b>FROZEN BEVERAGES</b>            |                        |                                 |                           |                                 |
| Indefinite lived intangible assets |                        |                                 |                           |                                 |
| Trade Names                        | \$9,315                | \$ -                            | \$9,315                   | \$ -                            |
| Amortized intangible assets        |                        |                                 |                           |                                 |
| Non compete agreements             | 198                    | 198                             | 198                       | 198                             |
| Customer relationships             | 6,678                  | 5,915                           | 6,478                     | 5,448                           |
| Licenses and rights                | 1,601                  | 837                             | 1,601                     | 784                             |
| <b>TOTAL FROZEN BEVERAGES</b>      | <b>\$17,792</b>        | <b>\$ 6,950</b>                 | <b>\$17,592</b>           | <b>\$ 6,430</b>                 |
| <b>CONSOLIDATED</b>                | <b>\$91,204</b>        | <b>\$ 44,054</b>                | <b>\$91,004</b>           | <b>\$ 40,015</b>                |





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. Intangible assets of \$200,000 were acquired in the three and nine months ended June 27, 2015 in the Frozen Beverages segment. Aggregate amortization expense of intangible assets for the three months ended June 27, 2015 and June 28, 2014 was \$1,332,000 and \$1,290,000, respectively and for the nine months ended June 27, 2015 and June 28, 2014 was \$4,039,000 and \$3,576,000, respectively.

Estimated amortization expense for the next five fiscal years is approximately \$5,400,000 in 2015 and \$5,100,000 in 2016, \$2,600,000 in 2017, \$1,800,000 in 2018 and \$1,700,000 in 2019. The weighted average amortization period of the intangible assets is 10.0 years.

## Goodwill

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

|                               | Food<br>Service<br>(in thousands) | Retail<br>Supermarket | Frozen<br>Beverages | Total    |
|-------------------------------|-----------------------------------|-----------------------|---------------------|----------|
| Balance at June 27, 2015      | \$46,832                          | \$ 3,670              | \$ 35,940           | \$86,442 |
| Balance at September 27, 2014 | \$46,832                          | \$ 3,670              | \$ 35,940           | \$86,442 |

There was no goodwill acquired in the three and nine months ended June 27, 2015.

We have classified our investment securities as marketable securities held to maturity and available for sale. The FASB defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the FASB has established three levels of inputs that may be used to measure fair value:

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

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

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

Marketable securities held to maturity and available for sale consist primarily of investments in mutual funds and preferred stock. The fair values of mutual funds are based on quoted market prices in active markets and are classified within Level 1 of the fair value hierarchy. The fair value of preferred stock is based on quoted prices for identical or similar instruments in markets that are not active. As a result, preferred stock is classified within Level 2 of the fair value hierarchy.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at June 27, 2015 are summarized as follows:

|                 | Amortized<br>Cost<br>(in thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Market<br>Value |
|-----------------|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| Mutual Funds    | \$92,605                            | \$ 241                       | \$ 2,530                      | \$90,316                |
| Preferred Stock | 13,122                              | 32                           | 118                           | 13,036                  |
|                 | \$105,727                           | \$ 273                       | \$ 2,648                      | \$103,352               |

The mutual funds seek current income with an emphasis on maintaining low volatility and overall moderate duration. The unrealized losses of \$2.5 million are spread over 28 funds with total fair market value of \$71.6 million. The Fixed-to-Floating Perpetual Preferred Stock generate fixed income to call dates in 2018, 2019 and 2025 and then income is based on a spread above LIBOR if the securities are not called. These investment securities do not have contractual maturities; however, we classify them as long term assets as it is our intent to hold them for a period of over one year, although we may sell some or all of them depending on presently unanticipated needs for liquidity or market conditions. We have reduced our investments in mutual funds over the first nine months of the year to \$90 million at June 2015 from \$128 million at September 2014 and to approximately \$67 million in the fourth quarter as of the date of this filing. Additionally, during the fourth quarter, as of the date of this filing, we have increased our investments in the Fixed-to-Floating Perpetual Preferred Stock to approximately \$20 million and have invested approximately \$24 million in corporate bonds with maturity dates in 2019 and 2020.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at September 27, 2014 are summarized as follows:

|  | <b>Amortized Cost<br/>(in thousands)</b> | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Market Value</b> |
|--|--|-------------------------------|--------------------------------|--------------------------|
| US Government Agency Debt                    | \$2,000                                  | \$ -                          | \$ 13                          | \$ 1,987                 |
| Total investment securities held to maturity | \$2,000                                  | \$ -                          | \$ 13                          | \$ 1,987                 |

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at September 27, 2014 are summarized as follows:

|  | <b>Amortized Cost<br/>(in thousands)</b> | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Market Value</b> |
|--|--|-------------------------------|--------------------------------|--------------------------|
| Mutual Funds                                   | \$129,473                                | \$ 760                        | \$ 2,116                       | \$128,117                |
| Total investment securities available for sale | \$129,473                                | \$ 760                        | \$ 2,116                       | \$128,117                |

The amortized cost and fair value of the Company's held to maturity securities by contractual maturity at June 27, 2015 and September 27, 2014 are summarized as follows:

|  | <b>June 27, 2015</b>     |                       | <b>September 27, 2014</b> |                       |
|--|--------------------------|-----------------------|---------------------------|-----------------------|
|  | <b>Fair Market Value</b> | <b>Amortized Cost</b> | <b>Fair Market Value</b>  | <b>Amortized Cost</b> |
| Due in one year or less                | \$-                      | \$ -                  | \$-                       | \$-                   |
| Due after one year through five years  | -                        | -                     | -                         | -                     |
| Due after five years through ten years | -                        | -                     | 2,000                     | 1,987                 |

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|                                       |     |    |   |         |          |
|---------------------------------------|-----|----|---|---------|----------|
| Total held to maturity securities     | \$- | \$ | - | \$2,000 | \$ 1,987 |
| Less current portion                  | -   | -  | - | -       | -        |
| Long term held to maturity securities | \$- | \$ | - | \$2,000 | \$ 1,987 |

17

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Proceeds from the redemption and sale of marketable securities were \$26,367,000 and \$39,968,000 in the three and nine months ended June 27, 2015, respectively, and \$1,185,000 and \$7,245,000 in the three and nine months ended June 28, 2014, respectively. Losses of \$1,395,000 and \$1,904,000 were recorded in the three and nine months ended June 27, 2015, respectively, and \$65,000 and \$361,000 were recorded in the three and nine months ended June 28, 2014, respectively. We use the specific identification method to determine the cost of securities sold.

Note 12 In October 2013, we acquired the assets of New York Pretzel, a manufacturer and distributor of soft pretzels selling primarily in the northeast to foodservice and retail locations. Of the purchase price of \$11.8 million, \$849,000 was allocated to intangible assets, \$7,716,000 was allocated to goodwill and \$3,049,000 was allocated to property, plant and equipment. The business had sales of about \$4.3 million in our 2014 fiscal year included in the food service segment.

In May 2014, we acquired the stock of Philly's Famous Water Ice, Inc. (PHILLY SWIRL). PHILLY SWIRL, located in Tampa, FL, produces frozen novelty products sold primarily to retail supermarket locations throughout the United States and to Canada with annual sales approximating \$25 million. The allocation of the purchase price of \$17.4 million is \$4.0 million to working capital, \$1.2 million to property, plant and equipment, \$11.1 million to intangible assets, \$1.8 million to goodwill, \$4.0 million to deferred tax assets, \$95,000 to other assets and \$4.8 million to deferred tax liabilities. Sales of PHILLY SWIRL from the acquisition date to September 27, 2014 were \$12.6 million and are included in the retail supermarket segment.

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.

The goodwill and intangible assets acquired in the business combinations are recorded at fair value. To measure fair value for such assets, we use techniques including discounted expected future cash flows (Level 3 inputs).

Note 13 Changes to the components of accumulated other comprehensive loss are as follows:

|  | Three Months Ended June<br>27, 2015<br>(unaudited)<br>(in thousands) |  |              | Nine Months Ended June<br>27, 2015<br>(unaudited)<br>(in thousands) |  |              |
|--|--|--|--------------|---|--|--------------|
|  | Foreign<br>Currency<br>Translation<br>Adjustments                    | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total        | Foreign<br>Currency<br>Translation<br>Adjustments                   | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total        |
| Beginning Balance  | \$ (7,501 )  | \$ (2,745 )  | \$ (10,246 ) | \$ (4,632 )   | \$ (1,356 )  | \$ (5,988 )  |
| Other comprehensive<br>income (loss) before<br>reclassifications       | (420 )   | (728 )   | (1,148 )     | (3,289 )  | (2,333 )   | (5,622 )     |
| Amounts reclassified<br>from accumulated other<br>comprehensive income | -  | 1,099  | 1,099        | -   | 1,315  | 1,315        |
| Ending Balance   | \$ (7,921 )  | \$ (2,374 )  | \$ (10,295 ) | \$ (7,921 )   | \$ (2,374 )  | \$ (10,295 ) |

All amounts are net of tax.

| Three Months<br>Ended June 28,<br>2014<br>(unaudited)<br>(in thousands) |  |       | Nine Months Ended<br>June 28, 2014<br>(unaudited)<br>(in thousands) |  |       |
|---|--|-------|---|--|-------|
| Foreign<br>Currency<br>Translation<br>Adjustments                       | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total | Foreign<br>Currency<br>Translation<br>Adjustments                   | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total |

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|  |           |           |           |           |             |           |
|--|-----------|-----------|-----------|-----------|-------------|-----------|
| Beginning Balance  | \$(3,979) | \$ (798 ) | \$(4,777) | \$(3,703) | \$ (2,227 ) | \$(5,930) |
| Other comprehensive income (loss) before reclassifications       | 262       | 902       | 1,164     | (14 )     | 2,028       | 2,014     |
| Amounts reclassified from accumulated other comprehensive income | -         | 63        | 63        | -         | 366         | 366       |
| Ending Balance   | \$(3,717) | \$ 167    | \$(3,550) | \$(3,717) | \$ 167      | \$(3,550) |

All amounts are net of tax.



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

Liquidity and Capital Resources

Our current cash and cash equivalents balances and cash expected to be provided by future operations 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 11 to these financial statements for a discussion of our investment securities.

The Company's Board of Directors declared a regular quarterly cash dividend of \$.36 per share of its common stock payable on July 2, 2015, to shareholders of record as of the close of business on June 15, 2015.

In our fiscal year ended September 27, 2014, we purchased and retired 81,685 shares of our common stock at a cost of \$7,504,729. In the three months ended June 27, 2015 we did not purchase any of our shares but in the nine months ended June 27, 2015, we purchased 20,544 shares at a cost of \$2,113,580. On November 8, 2012 the Company's Board of Directors authorized the purchase and retirement of an additional 500,000 shares of the Company's common stock; 241,629 shares remain to be purchased under this authorization.

In the three months ended June 27, 2015 and June 28, 2014 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 \$420,000 in accumulated other comprehensive loss in the 2015 third quarter and a decrease of \$262,000 accumulated other comprehensive loss in the 2014 third quarter. In the nine month period, 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 \$3,289,000 in accumulated other comprehensive loss in the 2015 nine month period and an increase of \$14,000 in accumulated other comprehensive loss in the 2014 nine month period.

Our general-purpose bank credit line which expires in December 2016 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 June 27, 2015.

Results of Operations

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Net sales increased \$21,611,000 or 8% to \$278,724,000 for the three months and \$50,527,000 or 8% to \$716,484,000 for the nine months ended June 27, 2015 compared to the three and nine months ended June 28, 2014. Excluding sales of PHILLY SWIRL, which was acquired in the third quarter of fiscal year 2014, through April of this year, sales increased \$19,452,000 or 8% for the three months and \$44,426,000 or 6% for the nine months.

## FOOD SERVICE

Sales to food service customers increased \$9,375,000 or 6% in the third quarter to \$167,248,000 and increased \$21,089,000 or 5% for the nine months. Soft pretzel sales to the food service market increased 4% to \$42,920,000 in the third quarter and increased 4% to \$124,737,000 in the nine months due to increased sales to school food service and convenience stores and throughout our customer base. Increased sales to one customer accounted for approximately half of the increase in pretzel sales in the quarter and in the nine months. As in the first six months, soft pretzel sales to restaurant chains this quarter were approximately the same as a year ago. Frozen juices and ices sales increased 6% to \$19,331,000 in the three months and 1% to \$38,604,000 in the nine months due entirely to increased sales of WHOLE FRUIT Frozen Organic Juice Tubes to one customer. Churro sales to food service customers decreased 4% to \$14,979,000 in the third quarter and were down 1% to \$42,568,000 for the nine months which include a decline in sales of \$1,683,000 in the quarter and \$5,775,000 in the nine months to one restaurant chain which discontinued carrying the product in August 2014. Churro sales to other customers increased 8% in the quarter and 14% in the nine months with three customers accounting for about half of the increases in the quarter and nine months, respectively.

Sales of bakery products increased \$7,184,000 or 10% in the third quarter to \$79,643,000 and \$17,161,000 or 8% for the nine months as sales increases to four customers and school food service accounted for all of the sales increases both periods.

Sales of new products in the first twelve months since their introduction were approximately \$5.1 million in this quarter and \$14.0 million in the nine months. Price increases accounted for approximately \$1.0 million of sales in the quarter and \$5.0 million in the nine months and net volume increases, including new product sales as defined above, accounted for approximately \$8.4 million of sales in the quarter and \$16.1 million in the nine months.

Operating income in our Food Service segment decreased from \$21,245,000 to \$20,479,000 in the quarter and decreased from \$53,958,000 to \$51,621,000 in the nine months. Operating income during the quarter was impacted by higher manufacturing costs in part due to start up inefficiencies as we expand manufacturing capabilities and bring on new products and in part due to higher workers compensation insurance costs and higher costs of egg raw materials. For the nine months, in addition to the items which impacted the third quarter, continuing decreases in handheld sales and sales shift toward lower margin sales to schools contributed to the lower operating income. Because of the Avian Flu epidemic, our costs of eggs and egg byproducts were higher by about \$900,000 in June 2015 than in April 2015. We expect our cost of eggs and egg byproducts to be approximately \$800,000 to \$1 million per month higher than the prior year for the balance of our fiscal year and well into our next fiscal year. We have increased our selling prices intending to recover at least half of the increased cost although gross margin and operating income in the quarter just ended was impacted by about \$800,000 as the selling price increases did not begin to take effect until the latter part of June.



## RETAIL SUPERMARKETS

Sales of products to retail supermarkets increased \$6,296,000 or 18% to \$41,128,000 in the third quarter and increased \$14,002,000 or 18% to \$92,048,000 in the nine months. Excluding sales of PHILLY SWIRL through April of this year, sales were up 12% for the third quarter and 6% for the nine months. Soft pretzel sales for the third quarter were up 5% to \$7,431,000 and were up 4% to \$27,460,000 for the nine months due primarily to the newly introduced SUPERPRETZEL BAVARIAN Soft Pretzel Bread. Sales of frozen juices and ices increased \$5,698,000 or 24% to \$29,421,000 in the third quarter and were up 36% to \$52,298,000 for the nine months. Without PHILLY SWIRL sales through April of this year, sales increased 15% for the third quarter and 12% for the nine months. Coupon redemption costs, a reduction of sales, decreased 8% or about \$75,000 for the quarter and increased 25% to \$2,811,000 for the nine months. Handheld sales to retail supermarket customers were unchanged in the quarter and decreased 4% to \$14,115,000 for the nine months with sales decreases to two customers accounting for all of the decrease.

Sales of new products in the third quarter were approximately \$300,000 and were \$1.3 million for the nine months. Price increases accounted for approximately \$1.3 million of sales in the quarter and \$1.8 million in the nine months and net volume increases including new product sales as defined above and PHILLY SWIRL sales and net of the change in coupon costs, accounted for approximately \$5.0 million of the sales increase in this quarter and \$12.2 million in the nine months. Operating income in our Retail Supermarkets segment increased from \$3,489,000 to \$6,406,000 in the quarter and from \$8,055,000 to \$9,607,000 in the nine months primarily because of strong sales increases of frozen juices and ices, with and without the benefit of PHILLY SWIRL, and because we owned PHILLY SWIRL for the full third quarter this year and only April last year. The third quarter is PHILLY SWIRL's strongest quarter for sales and earnings. The first six months of the year were impacted by higher coupon expense and advertising expenses to support our SUPERPRETZEL Soft Pretzel products as well as by the seasonal loss of PHILLY SWIRL.

## FROZEN BEVERAGES.

Frozen beverage and related product sales increased 9% to \$70,348,000 in the third quarter and increased 10% to \$168,365,000 in the nine month period. Beverage related sales alone were up 8% to \$44,990,000 in the third quarter and were up 6% to \$99,278,000 in the nine month period. Gallon sales were up 7% for the three months and were up 6% for the nine month period. Higher sales to movie theaters accounted for about half of the gallons' increase in both periods. Service revenue increased 4% to \$17,270,000 in the third quarter and increased 11% to \$48,303,000 for the nine month period with sales increases and decreases spread throughout our customer base.

Sales of beverage machines, which tend to fluctuate from year to year while following no specific trend, were \$2,204,000 or 40% higher in the third quarter and were \$4,997,000 or 34% higher in the nine month period. The approximate number of company owned frozen beverage dispensers was 52,100 and 49,100 at June 27, 2015 and September 27, 2014, respectively. Operating income in our Frozen Beverage segment was \$11,926,000 in this quarter

and \$15,998,000 for the nine months compared to \$10,929,000 and \$11,953,000 in last years' periods, respectively, due primarily to higher sales in all areas of the business.

CONSOLIDATED

Gross profit as a percentage of sales was 32.43% in the three month period this year and 32.81% last year. For the nine month period, gross profit as a percentage of sales decreased to 30.49% from 30.84% a year ago. For the quarter and nine months, gross profit margins benefited from the improved performance of our frozen beverages business and from higher gross profit margins in our retail supermarkets business. Gross profit margins in our food service segment were impacted by increased lower margin school food service sales, continuing decline in sales of our handhelds business, higher manufacturing costs and in the third quarter by higher workers compensation insurance expense and higher egg raw material costs.

Total operating expenses increased \$2,880,000 in the third quarter and as a percentage of sales decreased from 18.94% percent to 18.51%. For the nine months, operating expenses increased \$9,800,000, and as a percentage of sales decreased from 19.73% to 19.71%. Marketing expenses were 8.3% of sales in both years' quarter and increased to 8.7% from 8.5% for the nine months. For the nine months, the percentage increase in marketing expenses was from increased advertising efforts to support our retail SUPERPRETZEL products. Distribution expenses were 7.3% of sales in this year's quarter and were 7.5% of sales in last year's quarter, and were 7.8% in both years' nine month period. Administrative expenses were 2.8% of sales this quarter and 3.2% for the nine month period as compared to 3.1% of sales last year in the third quarter and 3.3% for the nine months.

Operating income increased \$3,148,000 or 9% to \$38,811,000 in the third quarter and increased \$3,260,000 to \$77,226,000 in the nine months as a result of the aforementioned items.

Our investments generated a loss of \$53,000 this quarter compared to income of \$1,159,000 in last year's quarter as sales of mutual fund investments generated a realized loss of \$1.4 million in this year's quarter. For the nine months, we had investment income of \$2,579,000 this year compared to \$3,273,000 last year. At June 27, 2015, we had investments of \$90 million in mutual funds with unrealized losses of \$2.5 million. The funds seek current income with an emphasis on maintaining low volatility and overall moderate duration. We estimate the annual yield from the funds to be about 3.5%. We have sold additional mutual funds in our fourth quarter, and as of the date of this filing, fourth quarter sales have resulted in realized losses of approximately \$800,000. As of the date of this filing, we own approximately \$67 million of mutual funds with unrealized losses of about \$1.5 million. Although we have had to recognize losses as we decrease our investments in mutual funds, our overall return on the mutual funds has been positive since we first made the investments in October 2012.

We invested \$13 million during the first nine months this year in Fixed-to-Floating Perpetual Preferred Stock which generates fixed income to call dates in 2018, 2019 and 2025 and then income is based on a spread above LIBOR if the securities are not called. We have invested an additional \$7 million in this type of Preferred Stock in the fourth quarter, as of the date of this filing. We estimate the annual yield from these investments to approximate 5.0%, of which 70% is not subject to income tax. The mutual funds and the Fixed-to-Floating Perpetual Preferred Stock investment securities do not have contractual maturities; however, we classify them as long term assets as it is our intent to hold them for a period of over one year, although we may sell some or all of them depending on presently unanticipated needs for liquidity or market conditions.

Additionally, during the fourth quarter, as of the date of this filing, we have invested approximately \$24 million in corporate bonds with maturity dates in 2019 and 2020.

The effective income tax rate has been estimated at 37% and 36% for the quarter this year and last year, respectively and 37% and 36% for the nine months this year and last year, respectively. We are estimating an effective income tax rate of approximately 36.5% for the year. Last year's nine months benefited from a tax reduction because of changes in estimates related to a prior year.

Net earnings increased \$784,000 or 3% in the current three month period to \$24,462,000 and was \$50,355,000 for the nine months this year compared to \$49,625,000 for the nine month period last year.

There are many factors which can impact our net earnings from year to year and in the long run, among which are the supply and cost of raw materials and labor, insurance costs, factors impacting sales as noted above, the continuing consolidation of our customers, our ability to manage our manufacturing, marketing and distribution activities, our ability to make and integrate acquisitions and changes in tax laws and interest rates.

### 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 2014 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 June 27, 2015, 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 has been no change in the Company's internal control over financial reporting during the quarter ended June 27, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 6. Exhibits

#### Exhibit No.

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

31.2

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

99.6

101.1 The following financial information from J&J Snack  
Foods Corp.'s Quarterly Report on Form 10-Q for the  
quarter ended June 27, 2015, formatted in XBRL  
(extensible Business Reporting Language):  
(i) Consolidated Balance Sheets,  
(ii) Consolidated Statements of Earnings,  
(iii) Consolidated Statements of Comprehensive Income,  
(iv) Consolidated Statements of Cash Flows and  
(v) the Notes to the 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.

J & J SNACK FOODS CORP.

Dated: July 27, 2015 /s/ Gerald B. Shreiber  
Gerald B. Shreiber  
Chairman of the Board,  
President, Chief Executive  
Officer and Director  
(Principal Executive Officer)

Dated: July 27, 2015 /s/ Dennis G. Moore  
Dennis G. Moore, Senior Vice  
President, Chief Financial  
Officer and Director  
(Principal Financial Officer)  
(Principal Accounting Officer)