

J&J SNACK FOODS CORP  
Form 10-Q  
January 25, 2016  
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 26, 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)

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

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

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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

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 of January 20, 2016, there were 18,686,216 shares of the Registrant's Common Stock outstanding.



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

|  | <b>December<br/>26,<br/>2015<br/>(unaudited)</b> | <b>September<br/>26,<br/>2015</b> |
|--|--|-----------------------------------|
| <b>Assets</b>                                  |  |                                   |
| Current assets                                 |  |                                   |
| Cash and cash equivalents                      | \$ 111,922                                       | \$ 133,689                        |
| Accounts receivable, net                       | 92,180   | 102,649                           |
| Inventories                                    | 94,503   | 82,657                            |
| Prepaid expenses and other                     | 3,409  | 6,557                             |
| Deferred income taxes                          | 3,239  | 3,266                             |
| Total current assets                           | 305,253  | 328,818                           |
| Property, plant and equipment, at cost         |  |                                   |
| Land   | 2,496  | 2,496                             |
| Buildings                                      | 26,741   | 26,741                            |
| Plant machinery and equipment                  | 217,229  | 210,728                           |
| Marketing equipment                            | 269,455  | 266,047                           |
| Transportation equipment                       | 6,878  | 6,866                             |
| Office equipment                               | 20,898   | 20,586                            |
| Improvements                                   | 33,637   | 28,725                            |
| Construction in progress                       | 5,764  | 9,486                             |
| Total Property, plant and equipment, at cost   | 583,098  | 571,675                           |
| Less accumulated depreciation and amortization | 406,452  | 399,621                           |
| Property, plant and equipment, net             | 176,646  | 172,054                           |
| Other assets                                   |  |                                   |
| Goodwill                                       | 86,442   | 86,442                            |
| Other intangible assets, net                   | 44,490   | 45,819                            |
| Marketable securities held to maturity         | 87,772   | 66,660                            |
| Marketable securities available for sale       | 37,508   | 39,638                            |
| Other  | 3,527  | 3,504                             |
| Total other assets                             | 259,739  | 242,063                           |
| <b>Total Assets</b>                            | <b>\$ 741,638</b>                                | <b>\$ 742,935</b>                 |
| <b>Liabilities and Stockholder's Equity</b>    |  |                                   |
| Current Liabilities                            |  |                                   |
| Current obligations under capital leases       | \$ 276   | \$ 273                            |
| Accounts payable                               | 56,875   | 59,206                            |
| Accrued insurance liability                    | 10,487   | 10,231                            |
| Accrued income taxes                           | 3,465  | -                                 |
| Accrued liabilities                            | 4,916  | 5,365                             |
| Accrued compensation expense                   | 10,908   | 15,318                            |

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|  |                   |                   |
|--|-------------------|-------------------|
| Dividends payable  | 7,284             | 6,723             |
| Total current liabilities  | 94,211            | 97,116            |
| Long-term obligations under capital leases   | 1,126             | 1,196             |
| Deferred income taxes  | 43,719            | 43,789            |
| Other long-term liabilities  | 888               | 915               |
| <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 18,677,000 and 18,676,000 respectively | 29,695            | 31,653            |
| Accumulated other comprehensive loss   | (12,359 )         | (10,897 )         |
| Retained Earnings  | 584,358           | 579,163           |
| Total stockholders' equity   | 601,694           | 599,919           |
| <b>Total Liabilities and Stockholder's Equity</b>  | <b>\$ 741,638</b> | <b>\$ 742,935</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 |           |
|---|--------------------|-----------|
|   | December           | December  |
|   | 26,                | 27,       |
|   | 2015               | 2014      |
| Net Sales                                 | \$222,850          | \$212,752 |
| Cost of goods sold <sup>(1)</sup>         | 159,015            | 151,651   |
| Gross Profit                              | 63,835             | 61,101    |
| Operating expenses                        |                    |           |
| Marketing <sup>(2)</sup>                  | 19,629             | 19,487    |
| Distribution <sup>(3)</sup>               | 18,256             | 17,521    |
| Administrative <sup>(4)</sup>             | 7,690              | 7,525     |
| Other general income                      | (100 )             | (42 )     |
| Total Operating Expenses                  | 45,475             | 44,491    |
| Operating Income                          | 18,360             | 16,610    |
| Other income (expense)                    |                    |           |
| Investment income                         | 1,160              | 1,354     |
| Interest expense & other                  | (32 )              | (24 )     |
| Earnings before income taxes              | 19,488             | 17,940    |
| Income taxes                              | 7,009              | 6,684     |
| NET EARNINGS                              | \$12,479           | \$11,256  |
| Earnings per diluted share                | \$0.66             | \$0.60    |
| Weighted average number of diluted shares | 18,839             | 18,801    |
| Earnings per basic share                  | \$0.67             | \$0.60    |
| Weighted average number of basic shares   | 18,687             | 18,669    |

(1) Includes share-based compensation expense of \$133 and \$112 for the three months ended December 26, 2015 and December 27, 2014, respectively.

(2) Includes share-based compensation expense of \$201 and \$172 for the three months ended December 26, 2015 and December 27, 2014, respectively.

(3) Includes share-based compensation expense of \$11 and \$11 for the three months ended December 26, 2015 and December 27, 2014, respectively.

(4) Includes share-based compensation expense of \$173 and \$229 for the three months ended December 26, 2015 and December 27, 2014, respectively.

The accompanying notes are an integral part of these statements.

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

|   | Three months ended |           |
|---|--------------------|-----------|
|   | December           | December  |
|   | 26,                | 27,       |
|   | 2015               | 2014      |
| Net Earnings                                      | \$12,479           | \$ 11,256 |
| Foreign currency translation adjustments          | (640 )             | (1,955 )  |
| Unrealized holding loss on marketable securities  | (822 )             | (1,922 )  |
| Total Other Comprehensive(Loss)Income, net of tax | (1,462 )           | (3,877 )  |
| Comprehensive Income                              | \$11,017           | \$ 7,379  |

All amounts are net of tax.

The accompanying notes are an integral part of these statements.

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

|   | Three months ended |           |
|---|--------------------|-----------|
|   | December           | December  |
|   | 26,                | 27,       |
|   | 2015               | 2014      |
| Operating activities:   |                    |           |
| Net earnings  | \$12,479           | \$11,256  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                    |           |
| Depreciation of fixed assets  | 8,170              | 7,981     |
| Amortization of intangibles and deferred costs                                      | 1,455              | 1,434     |
| Share-based compensation  | 518                | 526       |
| Deferred income taxes   | (36 )              | (208 )    |
| Loss on sale of marketable securities   | 109                | 509       |
| Other   | 89                 | (58 )     |
| Changes in assets and liabilities net of effects from purchase of companies         |                    |           |
| Decrease in accounts receivable   | 10,527             | 16,023    |
| Increase in inventories   | (12,073 )          | (10,522 ) |
| Decrease(increase)in prepaid expenses   | 3,141              | (115 )    |
| Decrease in accounts payable and accrued liabilities                                | (3,461 )           | (2,895 )  |
| Net cash provided by operating activities   | 20,918             | 23,931    |
| Investing activities:   |                    |           |
| Purchases of property, plant and equipment  | (13,304 )          | (9,674 )  |
| Purchases of marketable securities  | (21,329 )          | (11,639 ) |
| Proceeds from redemption and sales of marketable securities                         | 1,198              | 11,601    |
| Proceeds from disposal of property and equipment                                    | 581                | 197       |
| Other   | (72 )              | (47 )     |
| Net cash used in investing activities   | (32,926 )          | (9,562 )  |
| Financing activities:   |                    |           |
| Payments to repurchase common stock   | (3,115 )           | (1,670 )  |
| Proceeds from issuance of stock   | 640                | 1,098     |
| Payments on capitalized lease obligations   | (67 )              | (39 )     |
| Payment of cash dividend  | (6,723 )           | (5,972 )  |
| Net cash used in financing activities   | (9,265 )           | (6,583 )  |
| Effect of exchange rate on cash and cash equivalents                                | (494 )             | (1,471 )  |
| Net (decrease) increase in cash and cash equivalents                                | (21,767 )          | 6,315     |
| Cash and cash equivalents at beginning of period                                    | 133,689            | 91,760    |
| Cash and cash equivalents at end of period  | \$111,922          | \$98,075  |

The accompanying notes are an integral part of these 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 months ended December 26, 2015 and December 27, 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 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 the Company's Annual Report on Form 10-K for the fiscal year ended September 26, 2015.

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 \$324,000 and \$304,000 at December 26, 2015 and September 26, 2015, 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 Note or the assets' estimated useful lives, whichever is shorter. Licenses and rights, customer relationships and 3 non-compete agreements arising from acquisitions are amortized by the straight-line method over periods ranging from 3 to 20 years. Depreciation expense was \$8,170,000 and \$7,981,000 for the three months ended December 26, 2015 and December 27, 2014, 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 December<br>26, 2015     |        |              |
|--|---|--------|--------------|
|  | Income                                      | Shares | Per<br>Share |
|  | (Numerator)                                 |        | Amount       |
|  | (in thousands, except per share<br>amounts) |        |              |
| <b>Basic EPS</b>   |   |        |              |
| Net Earnings available to common stockholders                          | \$12,479                                    | 18,687 | \$ 0.67      |
| <b>Effect of Dilutive Securities</b>                                   |   |        |              |
| Options  | -   | 152    | (0.01 )      |
| <b>Diluted EPS</b>   |   |        |              |
| Net Earnings available to common stockholders plus assumed conversions | \$12,479                                    | 18,839 | \$ 0.66      |

|  | Three Months Ended December 27, 2014     |               |           |
|--|--|---------------|-----------|
|  | Income                                   | Shares        | Per Share |
|  | (Numerator)                              | (Denominator) | Amount    |
|  | (in thousands, except per share amounts) |               |           |
| <b>Basic EPS</b>   |  |               |           |
| Net Earnings available to common stockholders                          | \$11,256                                 | 18,669        | \$ 0.60   |
| <b>Effect of Dilutive Securities</b>                                   |  |               |           |
| Options  | -  | 132           | -         |
| <b>Diluted EPS</b>   |  |               |           |
| Net Earnings available to common stockholders plus assumed conversions | \$11,256                                 | 18,801        | \$ 0.60   |

Note 5 At December 26, 2015, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

|   | Three months ended December 26, 2015     |        | December 27, 2014 |  |
|---|--|--------|-------------------|--|
|   | (in thousands, except per share amounts) |        |                   |  |
| Stock Options                                 | \$250                                    | \$ 284 |                   |  |
| Stock purchase plan                           | 92                                       | 147    |                   |  |
| Restricted stock issued to an employee        | 1  | 1      |                   |  |
| Total share-based compensation                | \$343                                    | \$ 432 |                   |  |
| The above compensation is net of tax benefits | \$175                                    | \$ 92  |                   |  |

The Company anticipates that share-based compensation will not exceed \$1.8 million net of tax benefits for the fiscal year ending September 24, 2016.

The Company did not grant any stock options during the 2016 and 2015 three month period.

Expected volatility is based on the historical volatility of the price of our common shares over the past 49 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 \$339,000 and \$334,000 on December 26, 2015 and September 26, 2015, 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 26, 2015 and September 26, 2015, respectively, the Company has \$204,000 and \$199,000 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 permitted. We anticipate that the impact of this guidance on our consolidated financial statements will not be material.

In September 2015, the FASB issued guidance on accounting for business combinations which require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance eliminates the requirement to retrospectively account for these adjustments. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. This guidance did not impact amounts and disclosures related to previous business combinations; therefore, the adoption of this guidance in the current quarter did not impact our consolidated financial statements.

In July 2015, the FASB issued guidance which requires an entity to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance will simplify the subsequent measurement of inventory, as current guidance requires an entity to measure inventory at the lower of cost or market. Under current guidance, market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. The adoption of this guidance in the current quarter did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued guidance on the balance sheet classification of deferred taxes which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet and now requires entities to classify all deferred tax assets and liabilities as noncurrent. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. We anticipate that the impact of this guidance on our consolidated financial statements will not be material.

Note 8 Inventories consist of the following:

|                           | <b>December</b>       | <b>September</b> |
|---------------------------|-----------------------|------------------|
|                           | <b>26,</b>            | <b>26,</b>       |
|                           | <b>2015</b>           | <b>2015</b>      |
|                           | <b>(unaudited)</b>    |                  |
|                           | <b>(in thousands)</b> |                  |
| Finished goods            | \$42,338              | \$ 34,258        |
| Raw materials             | 18,881                | 17,000           |
| Packaging materials       | 7,300                 | 5,949            |
| Equipment parts and other | 25,984                | 25,450           |
| Total Inventories         | \$94,503              | \$ 82,657        |

The above inventories are net of reserves \$2,443 \$ 2,627

We principally sell our products to the food service and retail supermarket industries. Sales and results of our Note frozen beverages business are monitored separately from the balance of our food service business because of 9 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 |           |
|-------------------------------------|--------------------|-----------|
|                                     | December           | December  |
|                                     | 26,                | 27,       |
|                                     | 2015               | 2014      |
|                                     | (unaudited)        |           |
|                                     | (in thousands)     |           |
| Sales to External Customers:        |                    |           |
| Food Service                        |                    |           |
| Soft pretzels                       | \$38,699           | \$40,718  |
| Frozen juices and ices              | 8,315              | 8,201     |
| Churros                             | 13,936             | 12,967    |
| Handhelds                           | 6,146              | 5,158     |
| Bakery                              | 76,601             | 74,431    |
| Other                               | 3,055              | 2,086     |
| Total Food Service                  | \$146,752          | \$143,561 |
| Retail Supermarket                  |                    |           |
| Soft pretzels                       | \$8,740            | \$9,200   |
| Frozen juices and ices              | 9,064              | 9,155     |
| Handhelds                           | 3,875              | 4,879     |
| Coupon redemption                   | (574 )             | (1,073 )  |
| Other                               | 155                | 226       |
| Total Retail Supermarket            | \$21,260           | \$22,387  |
| Frozen Beverages                    |                    |           |
| Beverages                           | \$28,070           | \$25,510  |
| Repair and maintenance service      | 17,763             | 15,310    |
| Machines sales                      | 8,732              | 5,747     |
| Other                               | 273                | 237       |
| Total Frozen Beverages              | \$54,838           | \$46,804  |
| Consolidated Sales                  | \$222,850          | \$212,752 |
| Depreciation and Amortization:      |                    |           |
| Food Service                        | \$5,385            | \$5,190   |
| Retail Supermarket                  | 286                | 316       |
| Frozen Beverages                    | 3,954              | 3,909     |
| Total Depreciation and Amortization | \$9,625            | \$9,415   |

|                        |           |           |
|------------------------|-----------|-----------|
| Operating Income :     |           |           |
| Food Service           | \$ 15,902 | \$ 15,493 |
| Retail Supermarket     | 1,090     | 666       |
| Frozen Beverages       | 1,368     | 451       |
| Total Operating Income | \$ 18,360 | \$ 16,610 |

|                            |           |          |
|----------------------------|-----------|----------|
| Capital Expenditures:      |           |          |
| Food Service               | \$ 8,084  | \$ 6,133 |
| Retail Supermarket         | 156       | 23       |
| Frozen Beverages           | 5,064     | 3,518    |
| Total Capital Expenditures | \$ 13,304 | \$ 9,674 |

|                    |            |            |
|--------------------|------------|------------|
| Assets:            |            |            |
| Food Service       | \$ 546,264 | \$ 521,702 |
| Retail Supermarket | 23,099     | 22,610     |
| Frozen Beverages   | 172,275    | 158,552    |
| Total Assets       | \$ 741,638 | \$ 702,864 |

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 December 26, 2015 and September 26, 2015 are as follows:

|                                    | <b>December 26, 2015</b> |                                 | <b>September 26, 2015</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                      | 545                             | 592                       | 538                             |
| Customer relationships             | 40,797                   | 34,487                          | 40,797                    | 33,584                          |
| License and rights                 | 3,606                    | 2,826                           | 3,606                     | 2,802                           |
| <b>TOTAL FOOD SERVICE</b>          | <b>\$58,067</b>          | <b>\$ 37,858</b>                | <b>\$58,067</b>           | <b>\$ 36,924</b>                |
| <b>RETAIL SUPERMARKETS</b>         |                          |                                 |                           |                                 |
| Indefinite lived intangible assets |                          |                                 |                           |                                 |
| Trade Names                        | \$7,206                  | \$ -                            | \$7,206                   | \$ -                            |
| Amortized Intangible Assets        |                          |                                 |                           |                                 |
| Non compete agreements             | 160                      | 132                             | 160                       | 114                             |
| Customer relationships             | 7,979                    | 1,420                           | 7,979                     | 1,220                           |
| <b>TOTAL RETAIL SUPERMARKETS</b>   | <b>\$15,345</b>          | <b>\$ 1,552</b>                 | <b>\$15,345</b>           | <b>\$ 1,334</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                    | 6,234                           | 6,678                     | 6,075                           |
| Licenses and rights                | 1,601                    | 872                             | 1,601                     | 854                             |
| <b>TOTAL FROZEN BEVERAGES</b>      | <b>\$17,792</b>          | <b>\$ 7,304</b>                 | <b>\$17,792</b>           | <b>\$ 7,127</b>                 |
| <b>CONSOLIDATED</b>                | <b>\$91,204</b>          | <b>\$ 46,714</b>                | <b>\$91,204</b>           | <b>\$ 45,385</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. There were no intangible assets acquired in the three months ended December 26, 2015. Aggregate amortization expense of intangible assets for the three months ended December 26, 2015 and December 27, 2014 was \$1,329,000 and \$1,355,000 respectively.

Estimated amortization expense for the next five fiscal years is approximately \$5,100,000 in 2016, \$2,600,000 in 2017, \$1,800,000 in 2018, \$1,700,000 in 2019 and \$1,400,000 in 2020. 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:

| Total                         | Food<br>(in thousands) | Retail<br>Service | Frozen<br>Supermarket | Beverages |
|-------------------------------|------------------------|-------------------|-----------------------|-----------|
| Balance at December 26, 2015  | \$46,832               | \$3,670           | \$35,940              | \$86,442  |
| Balance at September 26, 2015 | \$46,832               | \$3,670           | \$35,940              | \$86,442  |

There was no goodwill acquired in the three months ended December 26, 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 Note an orderly transaction between market participants. As such, fair value is a market-based measurement that 11 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, preferred stock and corporate bonds. 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 values of preferred stock and corporate bonds are based on quoted prices for identical or similar instruments in markets that are not active. As a result, preferred stock and corporate bonds are classified within Level 2 of the fair value hierarchy.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at December 26, 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 |
|--|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| Corporate Bonds                              | \$87,772                            | \$ 14                        | \$ 1,534                      | \$86,252                |
| Total investment securities held to maturity | \$87,772                            | \$ 14                        | \$ 1,534                      | \$86,252                |

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at December 26, 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                                   | \$18,733                            | \$ -                         | \$ 1,262                      | \$17,471                |
| Preferred Stock                                | 20,473                              | 17                           | 453                           | 20,037                  |
| Total investment securities available for sale | \$39,206                            | \$ 17                        | \$ 1,715                      | \$37,508                |

The mutual funds seek current income with an emphasis on maintaining low volatility and overall moderate duration. The unrealized losses of \$1.3 million are spread over 4 funds with total fair market value of \$17.5 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. The mutual funds and Fixed-to-Floating Perpetual Preferred Stock 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.

The corporate bonds generate fixed income to maturity dates in 2017 through 2021, with \$65 million maturing within 3 years. Our expectation is that we will hold the corporate bonds to their maturity dates and redeem them at our amortized cost.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at September 26, 2015 are summarized as follows:

|  | <b>Amortized<br/>Cost<br/>(in thousands)</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value</b> |
|--|--|---------------------------------------|--|----------------------------------|
| Corporate Bonds                              | \$66,660                                     | \$ 15                                 | \$ 663                                 | \$66,012                         |
| Total investment securities held to maturity | \$66,660                                     | \$ 15                                 | \$ 663                                 | \$66,012                         |

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at September 26, 2015 are summarized as follows:

|  | <b>Amortized<br/>Cost<br/>(in thousands)</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Market<br/>Value</b> |
|--|--|---------------------------------------|--|----------------------------------|
| Mutual Funds                                   | \$20,041                                     | \$ -                                  | \$ 827                                 | \$19,214                         |
| Preferred Stock                                | 20,473                                       | 114                                   | 163                                    | 20,424                           |
| Total investment securities available for sale | \$40,514                                     | \$ 114                                | \$ 990                                 | \$39,638                         |

The amortized cost and fair value of the Company's held to maturity securities by contractual maturity at December 26, 2015 and September 26, 2015 are summarized as follows:

|  | <b>December 26,<br/>2015</b>                          |                         | <b>September 26,<br/>2015</b>      |                         |
|--|---|-------------------------|------------------------------------|-------------------------|
|  | <b>Fair<br/>Amortized<br/>Cost<br/>(in thousands)</b> | <b>Market<br/>Value</b> | <b>Fair<br/>Amortized<br/>Cost</b> | <b>Market<br/>Value</b> |
| Due in one year or less                | \$-   | \$-                     | \$-                                | \$-                     |
| Due after one year through five years  | 86,685  | 85,191                  | 63,522                             | 63,010                  |
| Due after five years through ten years | 1,087   | 1,061                   | 3,138                              | 3,002                   |
| Total held to maturity securities      | \$87,772  | \$86,252                | \$66,660                           | \$66,012                |
| Less current portion                   | -   | -                       | -                                  | -                       |
| Long term held to maturity securities  | \$87,772  | \$86,252                | \$66,660                           | \$66,012                |

Proceeds from the redemption and sale of marketable securities were \$1,198,000 and \$11,601,000 in the three months ended December 26, 2015 and December 27, 2014, respectively, with a loss of \$109,000 recorded in the three months ended December 26, 2015 and \$509,000 recorded in the three months ended December 27, 2014. We use the specific identification method to determine the cost of securities sold.

Note 12 Changes to the components of other accumulated comprehensive loss are as follows:

|  | Three Months ended December<br>26, 2015<br>(unaudited)<br>(in thousands) |  |            |
|--|--|--|------------|
|  | Foreign<br>Currency<br>Translation<br>Adjustment                         | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total      |
| Beginning Balance  | \$(10,021)   | \$ (876 )  | \$(10,897) |
| Other comprehensive (loss) income before reclassifications       | (640 )   | (892 )   | (1,532 )   |
| Amounts reclassified from accumulated other comprehensive income | -  | 70   | 70         |
| Ending Balance   | \$(10,661)   | \$ (1,698 )  | \$(12,359) |

All amounts are net of tax.

|  | Three Months ended<br>December 27, 2014<br>(unaudited)<br>(in thousands) |  |           |
|--|--|--|-----------|
|  | Foreign<br>Currency<br>Translation<br>Adjustment                         | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total     |
| Beginning Balance  | \$(4,632)  | \$ (1,356 )  | \$(5,988) |
| Other comprehensive (loss) income before reclassifications       | (1,955)  | (2,138 )   | (4,093)   |
| Amounts reclassified from accumulated other comprehensive income | -  | 216  | 216       |

Ending Balance \$(6,587) \$ (3,278 ) \$(9,865)

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 \$.39 per share of its common stock payable on January 7, 2016, to shareholders of record as of the close of business on December 22, 2015.

In our fiscal year ended September 26, 2015, we purchased and retired 72,698 shares of our common stock at a cost of \$8,011,118. In the quarter ended December 26, 2015, we purchased and retired 27,083 shares of our common stock at a cost of \$3,115,439. On November 8, 2012 the Company's Board of Directors authorized the purchase and retirement of 500,000 shares of the Company's common stock; 162,392 shares remain to be purchased under this authorization.

In the three months ended December 26, 2015 and December 27, 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 \$640,000 in accumulated other comprehensive loss in the 2016 first quarter and an increase of \$1,955,000 in accumulated other comprehensive loss in the 2015 first quarter.

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 December 26, 2015.

Results of Operations

Net sales increased \$10,098,000 or 5% to \$222,850,000 for the three months ended December 26, 2015 compared to the three months ended December 27, 2014.

FOOD SERVICE

Sales to food service customers increased \$3,191,000 or 2% in the first quarter to \$146,752,000. Soft pretzel sales to the food service market decreased 5% to \$38,699,000 in the first quarter due primarily to lower sales to school food service, warehouse club stores and restaurant chains.

Frozen juices and ices sales for the quarter were up 1% to \$8,315,000 with sales increases and decreases throughout our customer base. Churro sales to food service customers increased 7% to \$13,936,000 in the first quarter with sales increases and decreases throughout our customer base.

Sales of bakery products increased \$2,170,000 or 3% in the first quarter to \$76,601,000 as sales increases to two customers and school food service accounted for all of the sales increase.

Sales of handhelds increased \$988,000, or 19%, with sales to one customer accounting for all of the increase. Sales of funnel cake products increased \$1,009,000, or 58%, primarily due to increased sales to school food service.

Sales of new products in the first twelve months since their introduction were approximately \$2.2 million in this quarter. Price increases accounted for approximately \$4.0 million of sales in the quarter and net volume decreases, including new product sales as defined above, accounted for approximately \$800,000 of sales decline in the quarter.

Operating income in our Food Service segment increased from \$15,493,000 to \$15,902,000 in the quarter. Operating income for the quarter increased primarily because of lower marketing expenses.

## RETAIL SUPERMARKETS

Sales of products to retail supermarkets decreased \$1,127,000 or 5% to \$21,260,000 in the first quarter. Soft pretzel sales for the first quarter were down 5% to \$8,740,000 due primarily to the discontinuance of SUPERPRETZEL BAVARIAN Soft Pretzel Bread which was introduced in the year ago quarter. Sales of frozen juices and ices decreased \$91,000 or 1% to \$9,064,000 in the first quarter. Coupon redemption costs, a reduction of sales, decreased 47% or about \$499,000 for the quarter. Handheld sales to retail supermarket customers decreased 21% to \$3,875,000 in the quarter with a sales decrease to one customer and trade spending for the introduction of new products accounting for about 2/3 of the decrease.

Sales of new products in the first twelve months since their introduction were approximately \$300,000 in the quarter. Price increases accounted for approximately \$650,000 of sales in the quarter and net volume decreases, including new product sales as defined above and net of decreased coupon costs, accounted for approximately \$1.8 million of the sales decrease in this quarter. Operating income in our Retail Supermarkets segment increased from \$666,000 to \$1,090,000 in the quarter primarily because of lower coupon and advertising expenses, which were higher a year ago to introduce our SUPERPRETZEL BAVARIAN Soft Pretzel Bread.



## FROZEN BEVERAGES

Frozen beverage and related product sales increased 17% to \$54,838,000 in the first quarter. Beverage related sales alone were up 10% in the quarter. Gallon sales were up 11% for the quarter with about 2/3 of the increase coming from movie theater chains. Service revenue increased 16% to \$17,763,000 in the first quarter with sales increases and decreases throughout our customer base.

Sales of beverage machines, which tend to fluctuate from year to year while following no specific trend, were \$8,732,000 or 52% higher in the three month period. The approximate number of company owned frozen beverage dispensers was 53,800 and 53,100 at December 26, 2015 and September 26, 2015, respectively. Operating income in our Frozen Beverage segment was \$1,368,000 in this year's quarter compared to \$451,000 last year as higher sales in all areas of the business contributed to the improvement in operating income.

## CONSOLIDATED

Gross profit as a percentage of sales was about the same at 28.64% in this year's three month period and 28.72% last year.

Total operating expenses increased \$984,000 in this quarter but as a percentage of sales decreased from 20.9% percent to 20.4%. Marketing expenses decreased to 8.81% of sales from 9.16%, distribution expenses decreased to 8.19% of sales from 8.24% and administrative expenses decreased to 3.45% of sales from 3.54%. Marketing expenses decreased as a percent of sales because of the much higher frozen beverage sales relative to marketing expenses and generally lower marketing expenses in our food service segment.

Operating income increased \$1,750,000 or 11% to \$18,360,000 in the first quarter as a result of the aforementioned items.

Investment income decreased by \$194,000 in the quarter due primarily to lower yields on our investments as we have decreased our holdings of mutual funds and reinvested the proceeds into corporate bonds.



The effective income tax rate has been estimated at 36% for this year's quarter and 37% for last year's quarter. We are estimating an effective income tax rate of approximately 36% for the year. Last year's quarter's rate was impacted by a low tax benefit on share based compensation and by realized losses on sales of investment securities that are not deductible.

Net earnings increased \$1,223,000 or 11% in the current three month period to \$12,479,000 as a result of the aforementioned items.

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 2015 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 26, 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 December 26, 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 & 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

101.1 The following financial information from J&J Snack Foods Corp.'s Quarterly Report on Form 10-Q for the quarter ended December 26, 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: January 25, 2016

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

Dated: January 25, 2016

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