

J&J SNACK FOODS CORP
Form 10-Q
January 27, 2014

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 28, 2013

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

22-1935537

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(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 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, 2014, there were 18,690,646 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)**

| | December 28, | September 28, |
|------------------------------------------------|-------------------------|--------------------------|
| | 2013 | 2013 |
| | (unaudited) | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 105,749 | \$ 97,345 |
| Marketable securities held to maturity | - | 256 |
| Accounts receivable, net | 74,620 | 87,545 |
| Inventories, net | 76,766 | 71,785 |
| Prepaid expenses and other | 3,644 | 3,284 |
| Deferred income taxes | 4,569 | 4,502 |
| Total current assets | 265,348 | 264,717 |
| Property, plant and equipment, at cost | | |
| Land | 2,496 | 2,496 |
| Buildings | 26,741 | 26,741 |
| Plant machinery and equipment | 183,867 | 179,331 |
| Marketing equipment | 246,542 | 244,770 |
| Transportation equipment | 6,688 | 5,953 |
| Office equipment | 17,496 | 16,282 |
| Improvements | 25,561 | 24,917 |
| Construction in progress | 6,202 | 9,952 |
| | 515,593 | 510,442 |
| Less accumulated depreciation and amortization | 363,508 | 363,278 |
| | 152,085 | 147,164 |
| Other assets | | |
| Goodwill | 84,615 | 76,899 |
| Other intangible assets, net | 43,718 | 44,012 |
| Marketable securities held to maturity | 2,000 | 2,000 |
| Marketable securities available for sale | 107,876 | 107,664 |
| Other | 3,495 | 3,205 |
| | 241,704 | 233,780 |
| | \$ 659,137 | \$ 645,661 |
| Liability and Stockholder's Equity | | |
| Current Liabilities | | |
| Current obligations under capital leases | \$ 265 | \$ 211 |

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| | | |
|--------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Accounts payable | 51,011 | 50,906 |
| Accrued insurance liability | 9,844 | 9,954 |
| Accrued income taxes | 7,768 | 1,740 |
| Accrued liabilities | 3,995 | 3,769 |
| Accrued compensation expense | 10,057 | 13,671 |
| Dividends payable | 5,978 | 2,988 |
| Total current liabilities | 88,918 | 83,239 |
| Long-term obligations under capital leases | 458 | 136 |
| Deferred income taxes | 45,193 | 45,183 |
| Other long-term liabilities | 535 | 538 |
| Stockholders' Equity | | |
| 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 18,681,000 and 18,677,000 respectively | 35,166 | 34,516 |
| Accumulated other comprehensive loss | (5,561) | (5,930) |
| Retained Earnings | 494,428 | 487,979 |
| | 524,033 | 516,565 |
| | \$ 659,137 | \$ 645,661 |

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 28, | December 29, |
| | 2013 | 2012 |
| Net Sales | \$203,523 | \$191,408 |
| Cost of goods sold ⁽¹⁾ | 143,617 | 137,273 |
| Gross Profit | 59,906 | 54,135 |
| Operating expenses | | |
| Marketing ⁽²⁾ | 18,032 | 17,136 |
| Distribution ⁽³⁾ | 16,120 | 15,400 |
| Administrative ⁽⁴⁾ | 6,984 | 6,599 |
| Other general expense (income) | 799 | (61) |
| | 41,935 | 39,074 |
| Operating Income | 17,971 | 15,061 |
| Other income (expense) | | |
| Investment income | 1,138 | 776 |
| Interest expense & other | (36) | (25) |
| Earnings before income taxes | 19,073 | 15,812 |
| Income taxes | 6,647 | 5,586 |
| NET EARNINGS | \$12,426 | \$10,226 |
| Earnings per diluted share | \$0.66 | \$0.54 |
| Weighted average number of diluted shares | 18,793 | 18,870 |
| Earnings per basic share | \$0.67 | \$0.54 |
| Weighted average number of basic shares | 18,679 | 18,807 |

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- (1) Includes share-based compensation expense of \$118 and \$125 for the three months ended December 28, 2013 and December 29, 2012, respectively.
- (2) Includes share-based compensation expense of \$170 and \$173 for the three months ended December 28, 2013 and December 29, 2012, respectively.
- (3) Includes share-based compensation expense of \$10 and \$8 for the three months ended December 28, 2013 and December 29, 2012, respectively.
- (4) Includes share-based compensation expense of \$226 and \$201 for the three months ended December 28, 2013 and December 29, 2012, respectively.

See accompanying notes to the consolidated financial statements

J&J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

| | Three months ended | |
|----------------------------------------------------|--------------------|--------------|
| | December 28, | December 29, |
| | 2013 | 2012 |
| Net Earnings | \$ 12,426 | \$ 10,226 |
| Foreign currency translation adjustments | (104) | (123) |
| Unrealized holding gain on marketable securities | 212 | 18 |
| Total Other Comprehensive Income(Loss), net of tax | 108 | (105) |
| Comprehensive Income | \$ 12,534 | \$ 10,121 |

All amounts are net of tax.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (in thousands)

| | Three months ended | |
|-------------------------------------------------------------------------------------|--------------------|--------------|
| | December 28, | December 29, |
| | 2013 | 2012 |
| Operating activities: | | |
| Net earnings | \$ 12,426 | \$ 10,226 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation of fixed assets | 7,688 | 6,790 |
| Amortization of intangibles and deferred costs | 1,252 | 1,197 |
| Share-based compensation | 524 | 507 |
| Deferred income taxes | (59) | 15 |
| Loss on sale of marketable securities | 260 | - |
| Other | (93) | (2) |
| Changes in assets and liabilities net of effects from purchase of companies | | |
| Decrease in accounts receivable | 12,906 | 9,787 |
| Increase in inventories | (5,140) | (6,994) |
| Increase in prepaid expenses | (358) | (483) |
| Increase (decrease) in accounts payable and accrued liabilities | 1,872 | (3,781) |
| Net cash provided by operating activities | 31,278 | 17,262 |
| Investing activities: | | |
| Payment for purchases of of companies, net of cash acquired | (11,000) | - |
| Purchases of property, plant and equipment | (9,317) | (7,481) |
| Purchases of marketable securities | (5,240) | (80,002) |
| Proceeds from redemption and sales of marketable securities | 5,495 | 240 |
| Proceeds from disposal of property and equipment | 360 | 261 |
| Other | (109) | (37) |
| Net cash used in investing activities | (19,811) | (87,019) |
| Financing activities: | | |
| Payments to repurchase common stock | - | (2,763) |
| Proceeds from issuance of stock | 120 | 1,700 |
| Payments on capitalized lease obligations | (124) | (88) |
| Payment of cash dividend | (2,988) | (3,004) |
| Net cash used in financing activities | (2,992) | (4,155) |
| Effect of exchange rate on cash and cash equivalents | (71) | (70) |
| Net increase (decrease) in cash and cash equivalents | 8,404 | (73,982) |
| Cash and cash equivalents at beginning of period | 97,345 | 154,198 |
| Cash and cash equivalents at end of period | \$ 105,749 | \$ 80,216 |

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

The results of operations for the three months ended December 28, 2013 and December 29, 2012 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 28, 2013.

Note 2 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 arrangement exists, our price is fixed or estimable and collectability is reasonably assured. We record offsets to 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 \$854,000 and \$854,000 at December 28, 2013 and September 28, 2013, respectively.

Note 3 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 non-compete agreements arising from acquisitions are amortized by the straight-line method over periods ranging from 3 to 20 years. Depreciation expense was \$7,688,000 and \$6,790,000 for the three months ended December 28, 2013 and December 29, 2012, respectively.

Note 5 At December 28, 2013, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

| | Three months ended December 28, 29, 2013 2012 (in thousands, except per share amounts) | |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------|---------|
| Stock Options | \$312 | \$ 175 |
| Stock purchase plan | 129 | 92 |
| Stock issued to outside directors | - | 12 |
| Restricted stock issued to an employee | 4 | 4 |
| | \$445 | \$ 283 |
| Per diluted share | \$0.02 | \$ 0.01 |
| The above compensation is net of tax benefits | \$79 | \$ 224 |

The Company anticipates that share-based compensation will not exceed \$1.7 million net of tax benefits, or approximately \$.09 per share for the fiscal year ending September 27, 2014.

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 2014 first three months: expected volatility of 20.6%; risk-free interest rate of 1.4%; dividend rate of .8% and expected lives of 5 years.

During the 2014 three month period, the Company granted 97,975 stock options. The weighted-average grant date fair value of these options was \$15.21. During the 2013 three month period, the Company granted 1,100 stock options. The weighted-average grant date fair value of these options was \$12.24.

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.

Note 6 We account for our income taxes under the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and 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 \$429,000 and \$438,000 on December 28, 2013 and September 28, 2013, 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 28, 2013 and September 28, 2013, respectively, the Company has \$223,000 and \$224,000 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 February 2013, the FASB issued guidance which requires us to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, we are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts not required under U.S. GAAP to be reclassified in their entirety to net income, we are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This guidance was effective for our fiscal year 2014 first quarter and its adoption did not have a material impact on our financial statements.

Note 8 Inventories consist of the following:

| | December 28, | September 28, |
|-------------------------------------------|-----------------|------------------|
| | 2013 | 2013 |
| | (unaudited) | |
| | (in thousands) | |
| Finished goods | \$37,075 | \$ 33,013 |
| Raw Materials | 14,589 | 14,489 |
| Packaging materials | 6,311 | 5,937 |
| Equipment parts & other | 18,791 | 18,346 |
| | \$76,766 | \$ 71,785 |
| The above inventories are net of reserves | \$4,652 | \$ 4,449 |

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.

We have applied no aggregation criteria to any of these operating segments in order to determine reportable segments. 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 by the retail supermarket segment 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, WHOLE FRUIT Sorbet, ICEE Squeeze-Up Tubes, dough enrobed handheld products and TIO PEPE'S Churros. 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, ARCTIC BLAST, 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 28, | December 29, |
| | 2013 | 2012 |
| | (unaudited) | |
| | (in thousands) | |
| Sales to External Customers: | | |
| Food Service | | |
| Soft pretzels | \$39,308 | \$32,594 |
| Frozen juices and ices | 8,229 | 7,527 |
| Churros | 13,951 | 13,807 |
| Handhelds | 6,404 | 6,314 |
| Bakery | 69,076 | 68,305 |
| Other | 1,812 | 1,640 |
| | \$138,780 | \$130,187 |
| Retail Supermarket | | |
| Soft pretzels | \$8,915 | \$8,578 |
| Frozen juices and ices | 6,423 | 6,470 |
| Handhelds | 5,287 | 6,313 |
| Coupon redemption | (680) | (789) |
| Other | 219 | 131 |
| | \$20,164 | \$20,703 |
| Frozen Beverages | | |
| Beverages | \$25,189 | \$25,297 |
| Repair and maintenance service | 13,609 | 11,842 |
| Machines sales | 5,523 | 3,048 |
| Other | 258 | 331 |
| | \$44,579 | \$40,518 |
| Consolidated Sales | \$203,523 | \$191,408 |
| Depreciation and Amortization: | | |
| Food Service | \$5,139 | \$4,509 |
| Retail Supermarket | 8 | 8 |
| Frozen Beverages | 3,793 | 3,470 |
| | \$8,940 | \$7,987 |
| Operating Income : | | |
| Food Service | \$15,151 | \$12,597 |
| Retail Supermarket | 1,964 | 1,570 |
| Frozen Beverages | 856 | 894 |
| | \$17,971 | \$15,061 |
| Capital Expenditures: | | |
| Food Service | \$5,848 | \$5,260 |

| | | |
|--------------------|---------|---------|
| Retail Supermarket | - | - |
| Frozen Beverages | 3,469 | 2,221 |
| | \$9,317 | \$7,481 |

Assets:

| | | |
|--------------------|-----------|-----------|
| Food Service | \$502,756 | \$460,524 |
| Retail Supermarket | 6,059 | 6,090 |
| Frozen Beverages | 150,322 | 139,624 |
| | \$659,137 | \$606,238 |

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 28, 2013 and September 28, 2013 are as follows:

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| | December 28, 2013 | | September 28, 2013 | |
|------------------------------------|------------------------------|---------------------|---------------------------|---------------------|
| | Gross | | Gross | |
| | Carrying | Accumulated | Carrying | Accumulated |
| | Amount | Amortization | Amount | Amortization |
| | (in thousands) | | | |
| FOOD SERVICE | | | | |
| Indefinite lived intangible assets | | | | |
| Trade Names | \$13,072 | \$- | \$12,880 | \$ - |
| Amortized intangible assets | | | | |
| Non compete agreements | 592 | 486 | 545 | 478 |
| Customer relationships | 40,797 | 27,119 | 40,187 | 26,187 |
| License and rights | 3,606 | 2,637 | 3,606 | 2,614 |
| | \$58,067 | \$30,242 | \$57,218 | \$ 29,279 |
| RETAIL SUPERMARKETS | | | | |
| Indefinite lived intangible assets | | | | |
| Trade Names | \$4,006 | \$- | \$4,006 | \$ - |
| Amortized Intangible Assets | | | | |
| Customer relationships | 279 | 70 | 279 | 62 |
| | \$4,285 | \$70 | \$4,285 | \$ 62 |
| FROZEN BEVERAGES | | | | |
| Indefinite lived intangible assets | | | | |
| Trade Names | \$9,315 | \$- | \$9,315 | \$ - |
| Amortized intangible assets | | | | |
| Non compete agreements | 198 | 198 | 198 | 198 |
| Customer relationships | 6,478 | 4,984 | 6,478 | 4,830 |
| Licenses and rights | 1,601 | 732 | 1,601 | 714 |
| | \$17,592 | \$5,914 | \$17,592 | \$ 5,742 |
| CONSOLIDATED | \$79,944 | \$36,226 | \$79,095 | \$ 35,083 |

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 \$849,000 were acquired in the food service segment in the New York Pretzel acquisition in the three months ended December 28, 2013. Aggregate amortization expense of intangible assets for the three months ended December 28, 2013 and December 29, 2012 was \$1,143,000 and \$1,119,000, respectively.

Estimated amortization expense for the next five fiscal years is approximately \$4,500,000 in 2014 and 2015 and \$4,200,000 in 2016, \$1,800,000 in 2017 and \$1,000,000 in 2018. The weighted average amortization period of the intangible assets is 10.1 years.

Goodwill

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

| | Food Service (in thousands) | Retail Supermarket | Frozen Beverages | Total |
|------------------------------|-----------------------------------|-----------------------|---------------------|----------|
| Balance at December 28, 2013 | \$46,831 | \$ 1,844 | \$ 35,940 | \$84,615 |

Goodwill of \$7,716,000 was acquired in the New York Pretzel acquisition in the three months ended December 28, 2013, all of which was allocated to the food service segment.

Note 11 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 values are derived solely from level 1 inputs.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at December 28, 2013 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses | Fair Market Value |
|---------------------------|-------------------|------------------------------------------------|-------------------------------|-------------------------|
| US Government Agency Debt | \$ 2,000 | - | \$ 71 | \$1,929 |
| | \$ 2,000 | \$ 0 | \$ 71 | \$1,929 |

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at December 28, 2013 are summarized as follows:

| | Amortized Cost (in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|--------------|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| Mutual Funds | \$109,630 | \$ 447 | \$ 2,201 | \$107,876 |
| | \$109,630 | \$ 447 | \$ 2,201 | \$107,876 |

The mutual funds seek current income with an emphasis on maintaining low volatility and overall moderate duration. The funds 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 unrealized losses of \$2,201,000 are spread over 21 funds with total fair market value of \$71.4 million.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at September 28, 2013 are summarized as follows:

Amortized Gross Gross Fair

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| | Cost | Unrealized | | Market |
|---------------------------|----------|-----------------------|--------|---------|
| | | Gains | Losses | Value |
| | | (in thousands) | | |
| US Government Agency Debt | \$ 2,000 | \$ - | \$ 50 | \$1,950 |
| Certificates of Deposit | 256 | - | - | 256 |
| | \$ 2,256 | \$ - | \$ 50 | \$2,206 |

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at September 28, 2013 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains (in thousands) | Gross Unrealized Losses | Fair Market Value |
|--------------|-------------------|------------------------------------------------|-------------------------------|-------------------------|
| Mutual Funds | \$ 109,891 | \$ 254 | \$ 2,481 | \$ 107,664 |
| | \$ 109,891 | \$ 254 | \$ 2,481 | \$ 107,664 |

The amortized cost and fair value of the Company's held to maturity securities by contractual maturity at December 28, 2013 and September 28, 2013 are summarized as follows:

| | December 28, 2013 | | September 28, 2013 | |
|----------------------------------------|----------------------|-------------------------------------------|-----------------------|-------------------------|
| | Amortized Cost | Fair Market Value (in thousands) | Amortized Cost | Fair Market Value |
| Due in one year or less | \$- | \$- | \$256 | \$256 |
| Due after one year through five years | - | - | - | - |
| Due after five years through ten years | 2,000 | 1,929 | 2,000 | 1,950 |
| Total held to maturity securities | \$2,000 | \$1,929 | \$2,256 | \$2,206 |
| Less current portion | - | - | 256 | 256 |
| Long term held to maturity securities | \$2,000 | \$1,929 | \$2,000 | \$1,950 |

Proceeds from the redemption and sale of marketable securities were \$5,495,000 and \$240,000 in the three months ended December 28, 2013 and December 29, 2012, respectively, with a loss of \$260,000 recorded in the three months ended December 28, 2013 and none last year. We use the specific identification method to determine the cost of securities sold.

Note 12 In June 2012, we acquired the assets of Kim & Scott's Gourmet Pretzels, Inc., a manufacturer and seller of a premium brand soft pretzel. This business had sales of approximately \$8 million over the prior twelve months to food service and retail supermarket customers and had sales of approximately \$1.8 million in our 2012 fiscal year

from the acquisition date.

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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.

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 input).

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

Three Months ended December 28, 2013

(unaudited)

(in thousands)

| | Foreign Currency Translation Adjustments | Unrealized Holding Loss on Marketable Securities | Total |
|------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------|------------|
| Beginning Balance | \$ (3,703) | \$ (2,227) | \$ (5,930) |
| Other comprehensive(loss)income before reclassifications | (104) | 212 | 108 |
| Amounts reclassified from accumulated other comprehensive income | - | 261 | 261 |
| Ending Balance | \$ (3,807) | \$ (1,754) | \$ (5,561) |

All amounts are net of tax.

Three Months ended December 29, 2012

(unaudited)

(in thousands)

| Foreign Currency | Unrealized Holding | Total |
|---------------------|-----------------------|-------|
|---------------------|-----------------------|-------|

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| | Translation Adjustments | Loss on Marketable Securities | |
|------------------------------------------------------------------|----------------------------|-------------------------------------|-----------|
| Beginning Balance | \$ (3,132) | \$ - | \$(3,132) |
| Other comprehensive(loss)income before reclassifications | (123) | 18 | (105) |
| Amounts reclassified from accumulated other comprehensive income | - | - | - |
| Ending Balance | \$ (3,255) | \$ 18 | \$(3,237) |

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 \$.32 per share of its common stock payable on January 7, 2014, to shareholders of record as of the close of business on December 20, 2013.

In our fiscal year ended September 28, 2013, we purchased and retired 204,397 shares of our common stock at a cost of \$14,500,215. We did not purchase any shares in the quarter ended December 28, 2013. 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; 343,858 shares remain to be purchased under this authorization.

In the three months ended December 28, 2013 and December 29, 2012 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 \$104,000 in accumulated other comprehensive loss in the 2014 first quarter and an increase of \$123,000 in accumulated other comprehensive loss in the 2013 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 28, 2013.

Results of Operations

Net sales increased \$12,115,000 or 6% to \$203,523,000 for the three months ended December 28, 2013 compared to the three months ended December 29, 2012.

FOOD SERVICE

Sales to food service customers increased \$8,593,000 or 7% in the first quarter to \$138,780,000. Excluding sales resulting from the acquisition of New York Pretzel in October 2013, food service sales increased approximately 6% for the quarter. Soft pretzel sales to the food service market increased 21% to \$39,308,000 in the first quarter due to increased sales to restaurant chains, warehouse club stores, school food service and throughout our customer base. Increased sales to one customer accounted for approximately 1/3 of the increase in pretzel sales in the quarter. Without New York Pretzel, pretzel sales increased about 19%. Frozen juices and ices sales increased 9% to \$8,229,000 in the three months resulting from sales increases throughout our customer base. Churro sales to food service customers increased 1% to \$13,951,000 in the first quarter which was net of a decline in sales of \$764,000 to one restaurant chain which rolled out a churros product in the year ago period.

Sales of bakery products increased \$771,000 or 1% in the first quarter to \$69,076,000 as sales increases were spread throughout our customer base.

Sales of new products in the first twelve months since their introduction were approximately \$2.5 million in this quarter. Price increases accounted for approximately \$900,000 of sales in the quarter and net volume increases, including new product sales as defined above and sales resulting from the acquisition of New York Pretzel, accounted for approximately \$7.7 million of sales in the quarter.

Operating income in our Food Service segment increased from \$12,597,000 to \$15,151,000 in the quarter. Operating income for the quarter benefited from increased sales volume, price increases and lower ingredient costs.

RETAIL SUPERMARKETS

Sales of products to retail supermarkets decreased \$539,000 or 3% to \$20,164,000 the first quarter. Soft pretzel sales for the first quarter were up 4% to \$8,915,000 on a unit volume increase of 2-1/2% for the quarter. Sales of frozen juices and ices decreased \$47,000 or less than 1% to \$6,423,000 in the first quarter on a unit volume decrease of 4% in this quarter. Coupon redemption costs, a reduction of sales, decreased 14% or about \$109,000 for the quarter. Handheld sales to retail supermarket customers decreased 16% to \$5,287,000 in the quarter with sales increases and decreases throughout our customer base and with sales to one customer down \$1.1 million who began buying product in the year ago period which has been unsuccessful.

Price increases accounted for approximately \$700,000 of sales in the quarter and net volume decreases, net of decreased coupon costs, accounted for approximately \$1.2 million of the sales decrease in this quarter. Operating income in our Retail Supermarkets segment increased from \$1,570,000 to \$1,964,000 in the quarter primarily because of lower coupon and advertising expenses.

FROZEN BEVERAGES

Frozen beverage and related product sales increased 10% to \$44,579,000 in the first quarter. Beverage related sales alone were down less than 1% in the first quarter. Gallon sales were down 3% for the three months. Service revenue increased 15% to \$13,609,000 in the first quarter 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 \$2,475,000 or 81% higher in the three month period. The approximate number of company owned frozen beverage dispensers was 45,100 and 44,700 at December 28, 2013 and September 28, 2013, respectively. Operating income in our Frozen Beverage segment was \$856,000 in this year's quarter compared to \$894,000 last year as higher operating expenses in this seasonally low period offset the benefits of increased sales.

CONSOLIDATED

Gross profit as a percentage of sales increased to 29.43% in the three month period from 28.28% last year. Higher volume in our food service segment was the primary reason for the improved gross profit margin.

Total operating expenses increased \$2,861,000 in this quarter and as a percentage of sales increased from 20.4% percent to 20.6%. The increase in percentage was because of \$800,000 of other general expenses this year for shutdown costs of our Norwalk, CA manufacturing facility. Marketing expenses were 9% of sales in both years' quarter. Distribution expenses were 8% of sales in both years' quarter. Administrative expenses were 3.43% of sales this year compared to 3.45% of sales last year.

Operating income increased \$2,910,000 or 19% to \$17,971,000 in the first quarter as a result of the aforementioned items.

Investment income increased by \$362,000 in the quarter due primarily to increased investments of marketable securities. We have invested \$107.8 million in mutual funds that seek current income with an emphasis on maintaining low volatility and overall moderate duration. We estimate the annual yield from these funds to approximate 3.5 – 3.75%.

The effective income tax rate has been estimated at 35% for both years' quarter. We are estimating an effective income tax rate of approximately 36% for the year. The first quarter benefitted from a reduction of tax expense because of changes in estimates related to a prior year.

Net earnings increased \$2,200,000 or 22% in the current three month period to \$12,246,000 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 2013 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 28, 2013, 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 28, 2013, 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 & Certification Pursuant to the 18 U.S.C. Section 1350, as
Adopted Pursuant to Section 906 of the Sarbanes-Oxley

99.6 Act of 2002

101 The following financial information from J&J Snack
Foods Corp.'s Quarterly Report on Form 10-Q for the
quarter ended December 28, 2013, 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

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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 27, 2014 /s/ Gerald B. Shreiber
Gerald B. Shreiber
Chairman of the Board,
President, Chief Executive
Officer and Director
(Principal Executive Officer)

Dated: January 27, 2014 /s/ Dennis G. Moore
Dennis G. Moore, Senior Vice
President, Chief Financial
Officer and Director
(Principal Financial Officer)
(Principal Accounting Officer)