

J&J SNACK FOODS CORP
Form 10-Q
April 29, 2013
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 March 30, 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
(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):

INDEX

| | Page Number |
|---|----------------|
| Part I. Financial Information | |
| Item 1. Consolidated Financial Statements | |
| Consolidated Balance Sheets – March 30, 2013(unaudited) and September 29, 2012 | 3 |
| Consolidated Statements of Earnings (unaudited) – Three and Six Months Ended March 30, 2013 and March 24, 2012 | 4 |
| Consolidated Statements of Comprehensive Income(unaudited) – Three and Six Months Ended March 30, 2013 and March 24, 2012 | 5 |
| Consolidated Statements of Cash Flows (unaudited) – Six Months Ended March 30, 2013 and March 24, 2012 | 6 |
| Notes to the Consolidated Financial Statements(unaudited) | 7 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | 20 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 24 |
| Item 4. Controls and Procedures | 24 |
| Part II. Other Information | |
| Item 4. Submission of Matters to a Vote of Security Holders | 25 |
| Item 6. Exhibits | 25 |

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

| | March 30, 2013 (unaudited) | September 29, 2012 |
|---|----------------------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 102,338 | \$ 154,198 |
| Marketable securities held to maturity | 4,077 | 1,214 |
| Accounts receivable, net | 79,285 | 76,414 |
| Inventories, net | 75,017 | 69,761 |
| Prepaid expenses and other | 3,146 | 2,220 |
| Deferred income taxes | 4,376 | 4,261 |
| Total current assets | 268,239 | 308,068 |
| Property, plant and equipment, at cost | | |
| Land | 2,496 | 2,496 |
| Buildings | 26,741 | 26,741 |
| Plant machinery and equipment | 175,412 | 172,529 |
| Marketing equipment | 237,593 | 233,612 |
| Transportation equipment | 5,526 | 4,879 |
| Office equipment | 15,568 | 14,987 |
| Improvements | 23,646 | 22,889 |
| Construction in progress | 10,069 | 5,740 |
| | 497,051 | 483,873 |
| Less accumulated depreciation and amortization | 354,097 | 342,329 |
| | 142,954 | 141,544 |
| Other assets | | |
| Goodwill | 76,899 | 76,899 |
| Other intangible assets, net | 46,232 | 48,464 |
| Marketable securities held to maturity | 2,000 | 24,998 |
| Marketable securities available for sale | 80,292 | - |
| Other | 3,217 | 3,071 |
| | 208,640 | 153,432 |
| | \$ 619,833 | \$ 603,044 |
| Liability and Stockholder's Equity | | |
| Current Liabilities | | |
| Current obligations under capital leases | \$ 297 | \$ 340 |
| Accounts payable | 51,220 | 53,047 |
| Accrued insurance liability | 9,517 | 7,532 |
| Accrued income taxes | 2,667 | 962 |
| Accrued liabilities | 3,275 | 4,027 |
| Accrued compensation expense | 10,030 | 13,151 |
| Dividends payable | 3,008 | 2,446 |
| Total current liabilities | 80,014 | 81,505 |

Edgar Filing: J&J SNACK FOODS CORP - Form 10-Q

| | | |
|--|-----------|------------|
| Long-term obligations under capital leases | 214 | 347 |
| Deferred income taxes | 45,023 | 44,874 |
| Other long-term liabilities | 673 | 831 |
| 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 18,806,000 and 18,780,000 respectively | 43,927 | 43,011 |
| Accumulated other comprehensive loss | (2,501 |) (3,132) |
| Retained Earnings | 452,483 | 435,608 |
| | 493,909 | 475,487 |
| | \$619,833 | \$603,044 |

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 | | Six months ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | March 30, 2013 | March 24, 2012 | March 30, 2013 | March 24, 2012 |
| Net Sales | \$201,326 | \$189,554 | \$392,734 | \$362,240 |
| Cost of goods sold(1) | 143,175 | 135,567 | 280,448 | 261,847 |
| Gross Profit | 58,151 | 53,987 | 112,286 | 100,393 |
| Operating expenses | | | | |
| Marketing (2) | 16,809 | 17,404 | 33,945 | 35,063 |
| Distribution (3) | 15,713 | 14,212 | 31,113 | 28,431 |
| Administrative (4) | 6,460 | 6,219 | 13,059 | 12,285 |
| Other general expense (income) | 10 | (121) | (51) | (122) |
| | 38,992 | 37,714 | 78,066 | 75,657 |
| Operating Income | 19,159 | 16,273 | 34,220 | 24,736 |
| Other income (expense) | | | | |
| Investment income | 896 | 380 | 1,672 | 735 |
| Interest expense & other | (28) | (4) | (53) | (43) |
| Earnings before income taxes | 20,027 | 16,649 | 35,839 | 25,428 |
| Income taxes | 7,367 | 6,226 | 12,953 | 9,520 |
| NET EARNINGS | \$12,660 | \$10,423 | \$22,886 | \$15,908 |
| Earnings per diluted share | \$0.67 | \$0.55 | \$1.21 | \$0.84 |
| Weighted average number of diluted shares | 18,886 | 18,930 | 18,878 | 18,902 |
| Earnings per basic share | \$0.67 | \$0.55 | \$1.22 | \$0.84 |
| Weighted average number of basic shares | 18,800 | 18,858 | 18,803 | 18,832 |

(1)Includes share-based compensation expense of \$102 and \$227 for the three months and six months ended March 30, 2013, respectively and \$59 and \$123 for the three months and six months ended March 24, 2012.

(2)Includes share-based compensation expense of \$137 and \$310 for the three months and six months ended March 30, 2013, respectively and \$89 and \$184 for the three months and six months ended March 24, 2012.

(3)Includes share-based compensation expense of \$7 and \$15 for the three months and six months ended March 30, 2013, respectively and \$6 and \$12 for the three months and six months ended March 24, 2012.

(4)Includes share-based compensation expense of \$163 and \$364 for the three months and six months ended March 30, 2013, respectively and \$121 and \$250 for the three months and six months ended March 24, 2012.

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 | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | March 30, 2013 | March 24, 2012 | March 30, 2013 | March 24, 2012 |
| Net Earnings | \$ 12,660 | \$ 10,423 | \$ 22,886 | \$ 15,908 |
| Foreign currency translation adjustments | 570 | 931 | 447 | 775 |
| Unrealized holding gain on marketable securities | 263 | - | 292 | - |
| Tax effect | (97) | - | (108) | - |
| Total Other Comprehensive Income, net of tax | 736 | 931 | 631 | 775 |
| Comprehensive Income | \$ 13,396 | \$ 11,354 | \$ 23,517 | \$ 16,683 |

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

| | Six months ended | |
|--|------------------|-----------|
| | March 30, | March 24, |
| | 2013 | 2012 |
| Operating activities: | | |
| Net earnings | \$22,886 | \$15,908 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation of fixed assets | 13,864 | 12,712 |
| Amortization of intangibles and deferred costs | 2,388 | 2,393 |
| Share-based compensation | 916 | 569 |
| Deferred income taxes | (86) | (74) |
| Other | (63) | (109) |
| Changes in assets and liabilities net of effects from purchase of companies | | |
| (Increase)decrease in accounts receivable | (2,797) | 2,114 |
| Increase in inventories | (5,090) | (5,467) |
| (Increase) decrease in prepaid expenses | (920) | 279 |
| (Decrease)increase in accounts payable and accrued liabilities | (2,543) | 1,733 |
| Net cash provided by operating activities | 28,555 | 30,058 |
| Investing activities: | | |
| Purchases of property, plant and equipment | (15,557) | (21,071) |
| Purchases of marketable securities | (83,342) | (62,450) |
| Proceeds from redemption of marketable securities | 23,478 | 60,023 |
| Proceeds from disposal of property and equipment | 493 | 404 |
| Other | (36) | (926) |
| Net cash used in investing activities | (74,964) | (24,020) |
| Financing activities: | | |
| Payments to repurchase common stock | (2,763) | - |
| Proceeds from issuance of stock | 2,576 | 2,471 |
| Payments on capitalized lease obligations | (177) | (139) |
| Payment of cash dividend | (5,449) | (4,640) |
| Net cash used in financing activities | (5,813) | (2,308) |
| Effect of exchange rate on cash and cash equivalents | 362 | 459 |
| Net (decrease) increase in cash and cash equivalents | (51,860) | 4,189 |
| Cash and cash equivalents at beginning of period | 154,198 | 87,479 |
| Cash and cash equivalents at end of period | \$102,338 | \$91,668 |

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 and six months ended March 30, 2013 and March 24, 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 29, 2012.

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 \$980,000 and \$685,000 at March 30, 2013 and September 29, 2012, 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 \$7,074,000 and \$6,355,000 for the three months ended March 30, 2013 and March 24, 2012, respectively, and for the six months ended March 30, 2013 and March 24, 2012 was \$13,864,000 and \$12,712,000 respectively

Note 4 Basic earnings per common share (EPS) excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted EPS takes 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 March 30, 2013 | | |
|--|--|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share amounts) | | |
| Basic EPS | | | |
| Net Earnings available to common stockholders | \$12,660 | 18,800 | \$0.67 |
| Effect of Dilutive Securities | | | |
| Options | - | 86 | - |
| Diluted EPS | | | |
| Net Earnings available to common stockholders plus assumed conversions | \$12,660 | 18,886 | \$0.67 |
| | Six Months Ended March 30, 2013 | | |
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share amounts) | | |
| Basic EPS | | | |
| Net Earnings available to common stockholders | \$22,886 | 18,803 | \$1.22 |
| Effect of Dilutive Securities | | | |
| Options | - | 75 | (0.01) |
| Diluted EPS | | | |
| Net Earnings available to common stockholders plus assumed conversions | \$22,886 | 18,878 | \$1.21 |

Three Months Ended March 24, 2012
 Income Shares Per Share
 (Numerator) (Denominator) Amount

(in thousands, except per share amounts)

Basic EPS
 Net Earnings available to common stockholders \$10,423 18,858 \$0.55

Effect of Dilutive Securities
 Options - 72 -

Diluted EPS
 Net Earnings available to common stockholders plus assumed conversions \$10,423 18,930 \$0.55

Six Months Ended March 24, 2012
 Income Shares Per Share
 (Numerator) (Denominator) Amount

(in thousands, except per share amounts)

Basic EPS
 Net Earnings available to common stockholders \$15,908 18,832 \$0.84

Effect of Dilutive Securities
 Options - 70 -

Diluted EPS
 Net Earnings available to common stockholders plus assumed conversions \$15,908 18,902 \$0.84

Note 5 At March 30, 2013, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

| | Three months ended | | Six months ended | |
|---|--|-------------------|-------------------|-------------------|
| | March 30, 2013 | March 24, 2012 | March 30, 2013 | March 24, 2012 |
| | (in thousands, except per share amounts) | | | |
| Stock Options | \$215 | \$198 | \$390 | \$293 |
| Stock purchase plan | 45 | 37 | 137 | 102 |
| Stock issued to outside directors | 12 | - | 24 | - |
| Restricted stock issued to an employee | 5 | - | 9 | - |
| | \$277 | \$235 | \$560 | \$395 |
| Per diluted share | \$0.01 | \$0.01 | \$0.03 | \$0.02 |
| The above compensation is net of tax benefits | \$132 | \$40 | \$356 | \$174 |

The Company anticipates that share-based compensation will not exceed \$1.2 million net of tax benefits, or approximately \$.06 per share for the fiscal year ending September 28, 2013.

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 2013 first six months: expected volatility of 26%; risk-free interest rate of .67%; dividend rate of .9% and expected lives of 5 years.

During the 2013 six month period, the Company granted 1,100 stock options. The weighted-average grant date fair value of these options was \$12.24. During the 2012 six month period, the Company granted 1,500 stock options. The weighted-average grant date fair value of these options was \$11.62.

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 \$445,000 and \$541,000 on March 30, 2013 and September 29, 2012, 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 March 30, 2013 and September 29, 2012, respectively, the Company has \$266,000 and \$284,000 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 June 2011, the FASB issued guidance which gives us the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, we are required to present each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this guidance do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance was adopted in our fiscal year 2013 first quarter and did not have a material impact on our financial statements.

Note 8 Inventories consist of the following:

| | March 30, 2013 (unaudited) (in thousands) | September 29, 2012 |
|---|--|-----------------------|
| Finished goods | \$35,626 | \$32,439 |
| Raw Materials | 16,291 | 14,584 |
| Packaging materials | 6,571 | 5,985 |
| Equipment parts & other | 16,529 | 16,753 |
| | \$75,017 | \$69,761 |
| The above inventories are net of reserves | \$4,174 | \$3,883 |

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, 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:

Edgar Filing: J&J SNACK FOODS CORP - Form 10-Q

| | Three months ended | | Six months ended | |
|---------------------------------------|--|-------------------|-------------------|-------------------|
| | March 30, 2013 (unaudited) (in thousands) | March 24, 2012 | March 30, 2013 | March 24, 2012 |
| Sales to External Customers: | | | | |
| Food Service | | | | |
| Soft pretzels | \$35,337 | \$27,396 | \$67,931 | \$53,013 |
| Frozen juices and ices | 10,122 | 11,574 | 17,649 | 19,426 |
| Churros | 14,067 | 11,547 | 27,874 | 21,933 |
| Handhelds | 6,938 | 7,579 | 13,252 | 13,993 |
| Bakery | 67,084 | 64,364 | 135,389 | 125,184 |
| Other | 1,845 | 1,864 | 3,485 | 3,844 |
| | \$135,393 | \$124,324 | \$265,580 | \$237,393 |
| Retail Supermarket | | | | |
| Soft pretzels | \$10,046 | \$8,473 | \$18,624 | \$16,607 |
| Frozen juices and ices | 8,998 | 9,495 | 15,468 | 16,575 |
| Handhelds | 5,117 | 5,787 | 11,430 | 11,668 |
| Coupon redemption | (754) | (569) | (1,543) | (1,326) |
| Other | 146 | 248 | 277 | 744 |
| | \$23,553 | \$23,434 | \$44,256 | \$44,268 |
| Frozen Beverages | | | | |
| Beverages | \$25,183 | \$26,397 | \$50,480 | \$50,378 |
| Repair and maintenance service | 12,710 | 11,946 | 24,552 | 23,489 |
| Machines sales | 3,945 | 3,022 | 6,993 | 5,935 |
| Other | 542 | 431 | 873 | 777 |
| | \$42,380 | \$41,796 | \$82,898 | \$80,579 |
| Consolidated Sales | \$201,326 | \$189,554 | \$392,734 | \$362,240 |
| Depreciation and Amortization: | | | | |
| Food Service | \$4,717 | \$4,204 | \$9,226 | \$8,404 |
| Retail Supermarket | 7 | 5 | 15 | 10 |
| Frozen Beverages | 3,541 | 3,326 | 7,011 | 6,691 |
| | \$8,265 | \$7,535 | \$16,252 | \$15,105 |
| Operating Income: | | | | |
| Food Service | \$15,363 | \$12,748 | \$27,960 | \$20,002 |
| Retail Supermarket | 2,404 | 1,658 | 3,974 | 3,482 |
| Frozen Beverages | 1,392 | 1,867 | 2,286 | 1,252 |
| | \$19,159 | \$16,273 | \$34,220 | \$24,736 |
| Capital Expenditures: | | | | |
| Food Service | \$4,682 | \$6,579 | \$9,942 | \$12,892 |
| Retail Supermarket | - | - | - | - |
| Frozen Beverages | 3,394 | 5,623 | 5,615 | 8,179 |
| | \$8,076 | \$12,202 | \$15,557 | \$21,071 |

Edgar Filing: J&J SNACK FOODS CORP - Form 10-Q

Assets:

| | | | | |
|--------------------|-----------|-----------|-----------|-----------|
| Food Service | \$471,807 | \$422,513 | \$471,807 | \$422,513 |
| Retail Supermarket | 6,082 | 4,087 | 6,082 | 4,087 |
| Frozen Beverages | 141,944 | 140,388 | 141,944 | 140,388 |
| | \$619,833 | \$566,988 | \$619,833 | \$566,988 |

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 March 30, 2013 and September 29, 2012 are as follows:

| | March 30, 2013 | | September 29, 2012 | |
|------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| (in thousands) | | | | |
| FOOD SERVICE | | | | |
| Indefinite lived intangible assets | | | | |
| Trade Names | \$ 12,880 | \$ - | \$ 12,880 | \$ - |
| Amortized intangible assets | | | | |
| Non compete agreements | 545 | 467 | 545 | 456 |
| Customer relationships | 40,187 | 24,385 | 40,187 | 22,582 |
| License and rights | 3,606 | 2,566 | 3,606 | 2,519 |
| | \$ 57,218 | \$ 27,418 | \$ 57,218 | \$ 25,557 |
| RETAIL SUPERMARKETS | | | | |
| Indefinite lived intangible assets | | | | |
| Trade Names | \$ 4,006 | \$ - | \$ 4,006 | \$ - |
| Amortized Intangible Assets | | | | |
| Customer relationships | 279 | 47 | 279 | 31 |
| | \$ 4,285 | \$ 47 | \$ 4,285 | \$ 31 |
| 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 | 4,521 | 6,478 | 4,201 |
| Licenses and rights | 1,601 | 679 | 1,601 | 644 |
| | \$ 17,592 | \$ 5,398 | \$ 17,592 | \$ 5,043 |
| CONSOLIDATED | \$ 79,095 | \$ 32,863 | \$ 79,095 | \$ 30,631 |

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. No intangible assets were acquired in the six months ended March 30, 2013. Aggregate amortization expense of intangible assets for the three months ended March 30, 2013 and March 24, 2012 was \$1,113,000 and \$1,114,000, respectively and for the six months ended March 30, 2013 and March 24, 2012 was \$2,232,000 and \$2,246,000 respectively.

Estimated amortization expense for the next five fiscal years is approximately \$4,500,000 in 2013, \$4,400,000 in 2014 and 2015 and \$4,200,000 in 2016 and \$1,700,000 in 2017. 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 March 30, 2013 | \$ 39,115 | \$ 1,844 | \$ 35,940 | \$ 76,899 |

There were no changes in the carrying amounts of goodwill for the three and six months ended March 30, 2013.

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 March 30, 2013 are summarized as follows:

| | Amortized Cost (in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|--------------------------------|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| Guaranteed Investment Contract | \$3,341 | \$- | \$- | \$3,341 |
| US Government Agency Debt | 2,000 | 14 | - | 2,014 |
| Certificates of Deposit | 736 | - | - | \$736 |
| | \$6,077 | \$14 | \$0 | \$6,091 |

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at March 30, 2013 are summarized as follows:

| | Amortized Cost (in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|--------------|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| Mutual Funds | \$80,000 | \$519 | \$227 | \$80,292 |
| | \$80,000 | \$519 | \$227 | \$80,292 |

The mutual funds seek current income with an emphasis on maintaining low volatility and overall moderate duration.

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

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at September 29, 2012 are summarized as follows:

| | Amortized Cost (in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|---------------------------|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| US Government Agency Debt | \$24,998 | \$126 | \$- | \$25,124 |
| Certificates of Deposit | 1,214 | - | - | 1,214 |
| | \$26,212 | \$126 | \$- | \$26,338 |

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

The amortized cost and fair value of the Company's held to maturity securities by contractual maturity at March 30, 2013 and September 29, 2012 are summarized as follows:

| | March 30, 2013 | | September 29, 2012 | |
|--|----------------|-------------------|--------------------|-------------------|
| | Amortized Cost | Fair Market Value | Amortized Cost | Fair Market Value |
| | (in thousands) | | | |
| Due in one year or less | \$4,077 | \$4,077 | \$1,214 | \$1,214 |
| Due after one year through five years | - | - | - | - |
| Due after five years through ten years | 2,000 | 2,014 | 24,998 | 25,124 |
| Total held to maturity securities | \$6,077 | \$6,091 | \$26,212 | \$26,338 |
| Less current portion | 4,077 | 4,077 | 1,214 | 1,214 |
| Long term held to maturity securities | \$2,000 | \$2,014 | \$24,998 | \$25,124 |

Proceeds from the redemption and sale of marketable securities were \$23,238,000 and \$23,478,000 in the three months and six months ended March 30, 2013, respectively; and \$26,713,000 and \$60,023,000 in the three months and six month ended March 24, 2012, respectively, with no gain or loss recorded. We use the specific identification method to determine the cost of securities sold.

Note 12 In May 2011, we acquired the frozen handheld business of ConAgra Foods. This business had sales of approximately \$50 million over the prior twelve months to food service and retail supermarket customers and sales of \$18.3 million in our 2011 fiscal year from the acquisition date.

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.

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 purchase price allocation for the handhelds acquisition is as follows:

| | (in thousands) |
|-----------------------------|----------------|
| Working Capital | \$6,955 |
| Property, plant & equipment | 11,036 |
| Trade Names | 1,325 |
| Customer Relationships | 207 |
| Deferred tax liability | (4,137) |
| | |
| Net Assets Acquired | 15,386 |
| | |
| Purchase Price | 8,806 |
| | |
| Gain on bargain purchase | \$6,580 |

The purchase price allocation resulted in the recognition of a gain on bargain purchase of approximately \$6,580,000 which is included in other income in the consolidated statement of earnings for the three and nine months ended June 25, 2011. The gain on bargain purchase resulted from the fair value of the identifiable net assets acquired exceeding the purchase price.

Acquisition costs of \$546,000 for the handhelds acquisition are included in other general expense in the consolidated statements of earnings for the year September 24, 2011.

The purchase price allocation for the Kim and Scott's acquisition is as follows:

| | (in thousands) |
|-----------------------------|----------------|
| Working Capital | \$(89) |
| Property, plant & equipment | 724 |
| Trade Names | 126 |
| Customer Relationships | 235 |
| Non Compete Agreement | 75 |
| Goodwill | 6,829 |
| | |
| Purchase Price | \$7,900 |

Acquisition costs of \$155,000 for the Kim & Scott's acquisition are included in other general expense in the consolidated statements of earnings for the year ended September 29, 2012.

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).

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 \$.16 per share of its common stock payable on April 3, 2013, to shareholders of record as of the close of business on March 11, 2013.

In our fiscal year ended September 29, 2012, we purchased and retired 142,038 shares of our common stock at a cost of \$8,167,125. All of the shares were purchased in the fourth quarter. Subsequent to September 29, 2012 and through October 31, 2012, we purchased and retired 48,255 shares of our common stock at a cost of \$2,762,602. 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.

In the three months ended March 30, 2013 and March 24, 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 a decrease of \$570,000 in accumulated other comprehensive loss in the 2013 second quarter and a decrease of \$931,000 in accumulated other comprehensive loss in the 2012 second quarter. In the six month period, fluctuations in the valuation of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused a decrease of \$447,000 in accumulated other comprehensive loss in the 2013 six month period and a decrease of \$775,000 in accumulated other comprehensive loss in the 2012 six month period.

Our general-purpose bank credit line which expires in December 2016 provides for up to a \$50,000,000 revolving credit facility. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. There were no outstanding balances under this facility at March 30, 2013.

Results of Operations

Net sales increased \$11,772,000 or 6% for the three months to \$201,326,000 and \$30,494,000 or 8% to \$392,734,000 for the six months ended March 30, 2013 compared to the three and six months ended March 24, 2012.

In the March quarter, January sales increased 13.5% over the sales of the prior year while the sales increase for February and March was 3.5%. The lower sales increase in February and March resulted primarily from lower sales compared to a year ago in February and March of frozen juices and ices, handhelds and bakery products in our foodservice segment.

Excluding sales resulting from the acquisition of Kim & Scott's Gourmet Pretzels in June 2012, sales increased approximately 5% for the three months and 8% for the six months.

FOOD SERVICE

Sales to food service customers increased \$11,069,000 or 9% in the second quarter to \$135,393,000 and increased \$28,187,000 or 12% for the six months. Excluding Kim & Scott's sales, food service sales increased approximately 8% for the second quarter and increased 11% for the six months. Soft pretzel sales to the food service market increased 29% to \$35,337,000 in the second quarter and increased 28% to \$67,931,000 in the six months due to increased sales to restaurant chains, warehouse club stores and throughout our customer base. Increased sales to three customers accounted for approximately 50% of the increase in pretzel sales in the quarter and six months. Without Kim & Scott's, pretzel sales increased about 24% for the three months and 24% for the six months. Frozen juices and ices sales decreased 13% to \$10,122,000 in the three months and 9% to \$17,649,000 in the six months resulting from lower sales to school food service accounts. Churro sales to food service customers increased 22% to \$14,067,000 in the second quarter and were up 27% to \$27,874,000 in the six months with sales to one restaurant chain accounting for over 90% of the increase in both periods.

Sales of bakery products increased \$2,720,000 or 4% in the second quarter to \$67,084,000 and increased \$10,205,000 or 8% for the six months as sales increases and decreases were spread throughout our customer base.

Sales of new products in the first twelve months since their introduction were approximately \$2.1 million in this quarter and \$6.9 million in the six months. Price increases accounted for approximately \$3.5 million of sales in the quarter and \$6.5 million in the six months and net volume increases, including new product sales as defined above and sales resulting from the acquisition of Kim & Scott's, accounted for approximately \$7.6 million of sales in the quarter and \$21.7 million of sales in the six months.

Operating income in our Food Service segment increased from \$12,748,000 to \$15,363,000 in the quarter and increased from \$20,002,000 to \$27,960,000 for the six months. Operating income for the quarter and six months benefited from increased sales volume, price increases and lower ingredients and packaging costs.

RETAIL SUPERMARKETS

Sales of products to retail supermarkets increased \$119,000 or less than 1% to \$23,553,000 in the second quarter and were essentially unchanged at \$44,256,000 in the first half. Excluding Kim & Scott's sales, sales decreased 1% for the second quarter and 1% for the six months. Soft pretzel sales for the second quarter were up 19% to \$10,046,000 and were up 12% to \$18,624,000 for the six months on a unit volume increase of 18% for the quarter and 11% for the six months. Excluding Kim & Scott's sales, soft pretzel sales increased about 15% for this quarter and 9% for the six months. Soft pretzel sales benefited from increased distribution of our sweet cinnamon variety and perhaps from additional advertising. Sales of frozen juices and ices decreased \$497,000 or 5% to \$8,998,000 in the second quarter and were down 7% to \$15,468,000 in the first half on a unit volume decrease of 14% in this quarter and 14% for the six months. Reduced trade spending, a reduction of sales, accounted for the difference between the case decline and the sales decline. Frozen juices and ices sales were impacted by lost distribution and perhaps by unseasonably cold weather. Coupon redemption costs, a reduction of sales, increased 33% or about \$185,000 for the quarter and 16% to \$1,543,000 for the six months. Handheld sales to retail supermarket customers decreased 12% to \$5,117,000 in the quarter and 2% to \$11,430,000 for the six months due primarily to lower sales to one customer.

Sales of new products in the first twelve months since their introduction were approximately \$800,000 in the second quarter and \$2.0 million in the six months. Price increases accounted for approximately \$700,000 of sales in the quarter and \$900,000 in the six months and net volume decreases, including new product sales as defined above and Kim & Scott's sales and net of increased coupon costs, reduced sales by approximately \$600,000 in this quarter and \$900,000 in the six months. Operating income in our Retail Supermarkets segment increased from \$1,658,000 to \$2,404,000 in the quarter and from \$3,482,000 to \$3,974,000 in the six months primarily because of reduced allowances for the introduction of products into retailers, reduced trade spending in general and improved margins.

FROZEN BEVERAGES

Frozen beverage and related product sales increased 1% to \$42,380,000 in the second quarter and increased \$2,319,000 or 3% to \$82,898,000 in the six month period. Beverage related sales alone decreased 5% to \$25,183,000 in the second quarter and were essentially unchanged at \$50,480,000 in the six months. Gallon sales were down 10% for the three months and 4% for the six months with over 2/3 of the drop in gallons in both periods concentrated in four customers. Service revenue increased 6% to \$12,710,000 in the second quarter and 5% to \$24,552,000 for the six months 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 \$923,000 or 31% higher in the three month period and \$1,058,000 higher in the six months. The approximate number of company owned frozen beverage dispensers was 43,100 and 42,500 at March 30, 2013 and September 29, 2012, respectively. Operating income in our Frozen Beverage segment decreased \$475,000 to \$1,392,000 in the second quarter and increased to \$2,286,000 from \$1,252,000 in the six months. The decrease in operating income in the quarter resulted from lower beverage sales. For the six months, the increase in operating income was primarily from a reduction in operating expenses.

CONSOLIDATED

Gross profit as a percentage of sales increased to 28.88% in the three month period from 28.48% last year and increased to 28.59% in the six month period from 27.71% a year ago. Higher volume in our food service segment was the primary reason for the improved gross profit margin in the three and six month periods and the second quarter also benefitted by lower ingredient and packaging costs of approximately \$700,000. Ingredient and packaging costs can be extremely volatile and may be significantly different from what we are presently expecting and therefore we cannot project the impact of ingredient and packaging costs on our business going forward.

Total operating expenses increased \$1,278,000 in the second quarter but as a percentage of sales decreased .53 percentage points from 20% percent to 19%. For the first half, operating expenses increased \$2,409,000, but as a percentage of sales decreased 1.01 percentage points from 21% to 20%. The drop in percentages was generally because of increased sales in our food service segment and lower expenses in our frozen beverage segment and the overall reduction of \$800,000 in expense because of the management and sales meeting we had in last year's first quarter. Marketing expenses decreased from 9% to 8% of sales in the quarter and decreased from 10% to 9% of sales in the six months also because of higher sales and reduction of expenses. Distribution expenses were 7.80% of sales in this year's quarter and were 7.50% of sales in last year's quarter, and were 8% of sales in both years' six months. Administrative expenses were 3% of sales in all periods.

Operating income increased \$2,886,000 or 18% to \$19,159,000 in the second quarter and increased \$9,484,000 or 38% to \$34,220,000 in the first half as a result of the aforementioned items.

Investment income increased by \$516,000 and \$937,000 in the second quarter and six months, respectively, due primarily to increased investments of marketable securities. We invested \$80 million in the first quarter in mutual funds that seek current income with an emphasis on maintaining low volatility and overall moderate duration. We estimate yield from these funds to approximate 3.5 – 4.0%. US Government Agency debt of \$23.0 million held at September 29, 2012 which was yielding 2.0% has been called in the six months ending March 30, 2013.

The effective income tax rate has been estimated at 37% and 37% for the quarter this year and last year, respectively and 36% and 37% for the six months this year and last year, respectively. We are estimating an effective income tax rate of between 36 1/2% and 37% for the year. The six months benefitted from a reduction of tax expense because of changes in estimates related to a prior year.

Net earnings increased \$2,237,000 or 21% in the current three month period to \$12,660,000 and increased 44% to \$22,886,000 for the six months this year from \$15,908,000 last year 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 2012 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 March 30, 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 March 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The results of voting at the Annual Meeting of Shareholders held on February 7, 2013 is as follows:

| Proposal One | Votes For | Votes Withheld |
|---|------------|----------------|
| Election of Sidney R. Brown as Director | 16,499,610 | 606,763 |

| Proposal Two | Votes For | Votes Against | Votes Abstain | Broker Non-Vote |
|---|------------|---------------|---------------|-----------------|
| Advisory Vote on the Approval of the Compensation of Executives | 16,795,644 | 222,916 | 87,813 | 0 |

Based upon review of the above results of voting, the Board of Directors plans to submit Proposal Two for a shareholder vote at its Annual Meeting of Shareholders to be held in February 2014.

The Company had 18,774,966 shares outstanding on December 11, 2012, the record date.

Item 6. Exhibits

Exhibit
No.

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

99.5 & Certification Pursuant to the 18 U.S.C.
99.6 Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley 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 March 30, 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

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: April 29, 2013

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

Dated: April 29, 2013

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