

J&J SNACK FOODS CORP  
Form 10-Q  
July 28, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 25, 2016

or

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

Commission File Number: 0-14616

J & J SNACK FOODS CORP.

(Exact name of registrant as specified in its charter)

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

22-1935537

(I.R.S. Employer Identification No.)

6000 Central Highway, Pennsauken, NJ 08109

(Address of principal executive offices)

Telephone (856) 665-9533

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

Yes                       No

Indicate by check mark whether the registrant 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 ( <input checked="" type="checkbox"/> ) | Accelerated filer ( <input type="checkbox"/> )         |
| Non-accelerated filer ( <input type="checkbox"/> )              | Smaller reporting company ( <input type="checkbox"/> ) |

(Do not check if a smaller reporting company)

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

Yes                       No

As July 20, 2016 there were 18,657,757 shares of the Registrant's Common Stock outstanding.

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

|  | <b>June 25,<br/>2016<br/>(unaudited)</b> | <b>September<br/>26,<br/>2015</b> |
|--|--|-----------------------------------|
| <b>Assets</b>                                  |  |                                   |
| Current assets                                 |  |                                   |
| Cash and cash equivalents                      | \$ 104,321                               | \$ 133,689                        |
| Marketable securities held to maturity         | 9,667                                    | -                                 |
| Accounts receivable, net                       | 114,543                                  | 102,649                           |
| Inventories                                    | 94,906                                   | 82,657                            |
| Prepaid expenses and other                     | 5,109                                    | 6,557                             |
| Deferred income taxes                          | 3,332                                    | 3,266                             |
| Total current assets                           | 331,878                                  | 328,818                           |
| Property, plant and equipment, at cost         |  |                                   |
| Land   | 2,496                                    | 2,496                             |
| Buildings                                      | 26,741                                   | 26,741                            |
| Plant machinery and equipment                  | 225,055                                  | 210,728                           |
| Marketing equipment                            | 274,371                                  | 266,047                           |
| Transportation equipment                       | 7,490                                    | 6,866                             |
| Office equipment                               | 21,739                                   | 20,586                            |
| Improvements                                   | 34,529                                   | 28,725                            |
| Construction in progress                       | 4,919                                    | 9,486                             |
| Total Property, plant and equipment, at cost   | 597,340                                  | 571,675                           |
| Less accumulated depreciation and amortization | 414,872                                  | 399,621                           |
| Property, plant and equipment, net             | 182,468                                  | 172,054                           |
| Other assets                                   |  |                                   |
| Goodwill                                       | 86,442                                   | 86,442                            |
| Other intangible assets, net                   | 41,895                                   | 45,819                            |
| Marketable securities held to maturity         | 96,197                                   | 66,660                            |
| Marketable securities available for sale       | 29,440                                   | 39,638                            |
| Other  | 2,913                                    | 3,504                             |
| Total other assets                             | 256,887                                  | 242,063                           |
| <b>Total Assets</b>                            | <b>\$ 771,233</b>                        | <b>\$ 742,935</b>                 |
| <b>Liabilities and Stockholders' Equity</b>    |  |                                   |
| Current Liabilities                            |  |                                   |
| Current obligations under capital leases       | \$ 363                                   | \$ 273                            |
| Accounts payable                               | 65,866                                   | 59,206                            |
| Accrued insurance liability                    | 10,705                                   | 10,231                            |
| Accrued liabilities                            | 5,587                                    | 5,365                             |
| Accrued compensation expense                   | 14,608                                   | 15,318                            |

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|  |                   |                   |
|--|-------------------|-------------------|
| Dividends payable  | 7,257             | 6,723             |
| Total current liabilities  | 104,386           | 97,116            |
| Long-term obligations under capital leases   | 1,327             | 1,196             |
| Deferred income taxes  | 43,657            | 43,789            |
| Other long-term liabilities  | 813               | 915               |
| <b>Stockholders' Equity</b>  |                   |                   |
| Preferred stock, \$1 par value; authorized 10,000,000 shares; none issued  | -                 | -                 |
| Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding 18,618,000 and 18,676,000 respectively | 21,756            | 31,653            |
| Accumulated other comprehensive loss   | (13,426 )         | (10,897 )         |
| Retained Earnings  | 612,720           | 579,163           |
| Total stockholders' equity   | 621,050           | 599,919           |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 771,233</b> | <b>\$ 742,935</b> |

The accompanying notes are an integral part of these statements.

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

(Unaudited)

(in thousands, except per share amounts)

|   | Three months ended |                  | Nine months ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 25,<br>2016   | June 27,<br>2015 | June 25,<br>2016  | June 27,<br>2015 |
| Net Sales                                 | \$277,981          | \$278,724        | \$730,541         | \$716,484        |
| Cost of goods sold <sup>(1)</sup>         | 185,895            | 188,328          | 505,871           | 498,037          |
| Gross Profit                              | 92,086             | 90,396           | 224,670           | 218,447          |
| Operating expenses                        |                    |                  |                   |                  |
| Marketing <sup>(2)</sup>                  | 23,721             | 23,201           | 63,714            | 62,674           |
| Distribution <sup>(3)</sup>               | 19,006             | 20,429           | 54,784            | 55,583           |
| Administrative <sup>(4)</sup>             | 8,530              | 7,910            | 23,857            | 22,897           |
| Other general expense                     | 392                | 45               | 239               | 67               |
| Total operating expenses                  | 51,649             | 51,585           | 142,594           | 141,221          |
| Operating Income                          | 40,437             | 38,811           | 82,076            | 77,226           |
| Other income (expense)                    |                    |                  |                   |                  |
| Investment income (loss)                  | 981                | (53 )            | 3,118             | 2,579            |
| Interest expense & other                  | (31 )              | (34 )            | (94 )             | (88 )            |
| Earnings before income taxes              | 41,387             | 38,724           | 85,100            | 79,717           |
| Income taxes                              | 14,596             | 14,262           | 29,743            | 29,362           |
| NET EARNINGS                              | \$26,791           | \$24,462         | \$55,357          | \$50,355         |
| Earnings per diluted share                | \$1.43             | \$1.30           | \$2.95            | \$2.68           |
| Weighted average number of diluted shares | 18,705             | 18,823           | 18,765            | 18,815           |
| Earnings per basic share                  | \$1.44             | \$1.31           | \$2.97            | \$2.70           |
| Weighted average number of basic shares   | 18,615             | 18,691           | 18,646            | 18,683           |

(1) Includes share-based compensation expense of \$174 and \$445 for the three months and nine months ended June 25, 2016, respectively and \$134 and \$354 for the three months and nine months ended June 27, 2015.

(2) Includes share-based compensation expense of \$264 and \$673 for the three months and nine months ended June 25, 2016, respectively and \$201 and \$531 for the three months and nine months ended June 27, 2015.

(3) Includes share-based compensation expense of \$13 and \$35 for the three months and nine months ended June 25, 2016, respectively and \$12 and \$33 for the three months and nine months ended June 27, 2015.

(4) Includes share-based compensation expense of \$228 and \$581 for the three months and nine months ended June 25, 2016, respectively and \$269 and \$707 for the three months and nine months ended June 27, 2015.

The accompanying notes are an integral part of these statements.

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

|   | Three months<br>ended |                  | Nine months<br>ended |                  |
|---|-----------------------|------------------|----------------------|------------------|
|   | June 25,<br>2016      | June 27,<br>2015 | June 25,<br>2016     | June 27,<br>2015 |
| Net Earnings  | \$26,791              | \$24,462         | \$55,357             | \$50,355         |
| Foreign currency translation adjustments                | (1,387 )              | (420 )           | (2,067 )             | (3,289 )         |
| Unrealized holding gain (loss) on marketable securities | 640                   | 371              | (462 )               | (1,018 )         |
| Total Other Comprehensive Income (loss)                 | (747 )                | (49 )            | (2,529 )             | (4,307 )         |
| Comprehensive Income                                    | \$26,044              | \$24,413         | \$52,828             | \$46,048         |

The accompanying notes are an integral part of these statements.



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

|   | Nine months ended |                  |
|---|-------------------|------------------|
|   | June 25,<br>2016  | June 27,<br>2015 |
| <b>Operating activities:</b>  |                   |                  |
| Net earnings  | \$55,357          | \$50,355         |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                   |                  |
| Depreciation of fixed assets  | 25,526            | 24,013           |
| Amortization of intangibles and deferred costs                                      | 4,304             | 4,445            |
| Share-based compensation  | 1,735             | 1,625            |
| Deferred income taxes   | (172 )            | (131 )           |
| Loss on sale of marketable securities   | 582               | 1,904            |
| Other   | 493               | (255 )           |
| Changes in assets and liabilities net of effects from purchase of companies         |                   |                  |
| Increase in accounts receivable   | (11,984 )         | (15,821 )        |
| Increase in inventories   | (12,478 )         | (8,052 )         |
| Decrease (increase) in prepaid expenses   | 1,419             | (511 )           |
| Increase in accounts payable and accrued liabilities                                | 6,566             | 8,980            |
| Net cash provided by operating activities   | 71,348            | 66,552           |
| <b>Investing activities:</b>  |                   |                  |
| Payment for purchases of companies, net of cash acquired                            | -                 | (615 )           |
| Purchases of property, plant and equipment  | (37,221 )         | (34,180 )        |
| Purchases of marketable securities  | (41,786 )         | (16,126 )        |
| Proceeds from redemption and sales of marketable securities                         | 11,008            | 39,968           |
| Proceeds from disposal of property and equipment                                    | 1,578             | 1,322            |
| Other   | 308               | (167 )           |
| Net cash used in investing activities   | (66,113 )         | (9,798 )         |
| <b>Financing activities:</b>  |                   |                  |
| Payments to repurchase common stock   | (15,265 )         | (2,114 )         |
| Proceeds from issuance of stock   | 3,634             | 2,174            |
| Payments on capitalized lease obligations   | (265 )            | (176 )           |
| Payment of cash dividend  | (21,267 )         | (19,425 )        |
| Net cash used in financing activities   | (33,163 )         | (19,541 )        |
| Effect of exchange rate on cash and cash equivalents                                | (1,440 )          | (2,425 )         |
| Net (decrease) increase in cash and cash equivalents                                | (29,368 )         | 34,788           |
| Cash and cash equivalents at beginning of period                                    | 133,689           | 91,760           |
| Cash and cash equivalents at end of period  | \$104,321         | \$126,548        |

The accompanying notes are an integral part of these statements.



J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 26, 2015.

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 June 25, 2016 and June 27, 2015 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen juice bars and ices are generally higher in the third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 26, 2015.

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 \$655,000 and \$304,000 at June 25, 2016 and September 26, 2015, 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 \$8,765,000 and \$8,026,000 for the three months ended June 25, 2016 and June 27, 2015, respectively, and for the nine months ended June 25, 2016 and June 27, 2015 was \$25,526,000 and \$24,013,000, 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 June 25,<br>2016      |               |              |
|--|--|---------------|--------------|
|  | Income                                   | Shares        | Per<br>Share |
|  | (Numerator)                              | (Denominator) | Amount       |
|  | (in thousands, except per share amounts) |               |              |
| <b>Basic EPS</b>   |  |               |              |
| Net Earnings available to common stockholders                          | \$26,791                                 | 18,615        | \$ 1.44      |
| <b>Effect of Dilutive Securities</b>                                   |  |               |              |
| Options  | -  | 90            | (0.01 )      |
| <b>Diluted EPS</b>   |  |               |              |
| Net Earnings available to common stockholders plus assumed conversions | \$26,791                                 | 18,705        | \$ 1.43      |

189,170 anti-dilutive shares have been excluded in the computation of EPS for the three months ended June 25, 2016.

|  | Nine Months Ended June 25, 2016          |               |           |
|--|--|---------------|-----------|
|  | Income                                   | Shares        | Per Share |
|  | (Numerator)                              | (Denominator) | Amount    |
|  | (in thousands, except per share amounts) |               |           |
| <b>Basic EPS</b>   |  |               |           |
| Net Earnings available to common stockholders                          | \$55,357                                 | 18,646        | \$ 2.97   |
| <b>Effect of Dilutive Securities</b>                                   |  |               |           |
| Options  | -  | 119           | (0.02 )   |
| <b>Diluted EPS</b>   |  |               |           |
| Net Earnings available to common stockholders plus assumed conversions | \$55,357                                 | 18,765        | \$ 2.95   |

189,670 anti-dilutive shares have been excluded in the computation of EPS for the nine months ended June 25, 2016.

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

|                  | Nine Months Ended June 27, 2015          |               |           |
|------------------|--|---------------|-----------|
|                  | Income                                   | Shares        | Per Share |
|                  | (Numerator)                              | (Denominator) | Amount    |
|                  | (in thousands, except per share amounts) |               |           |
| <b>Basic EPS</b> |  |               |           |

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|  |          |        |         |
|--|----------|--------|---------|
| Net Earnings available to common stockholders                          | \$50,355 | 18,683 | \$ 2.70 |
| <b>Effect of Dilutive Securities</b>                                   |          |        |         |
| Options  | -        | 132    | (0.02 ) |
| <b>Diluted EPS</b>   |          |        |         |
| Net Earnings available to common stockholders plus assumed conversions | \$50,355 | 18,815 | \$ 2.68 |

Note 5 At June 25, 2016, the Company has three stock-based employee compensation plans. Share-based compensation expense (benefit) was recognized as follows:

|   | Three months ended                       |               | Nine months ended |               |
|---|--|---------------|-------------------|---------------|
|   | June 25, 2016                            | June 27, 2015 | June 25, 2016     | June 27, 2015 |
|   | (in thousands, except per share amounts) |               |                   |               |
| Stock Options                                 | \$112                                    | \$439         | \$56              | \$987         |
| Stock purchase plan                           | 96                                       | 77            | 248               | 274           |
| Restricted stock issued to an employee        | 1  | 1             | 3                 | 4             |
| Total share-based compensation                | \$209                                    | \$517         | \$307             | \$1,265       |
| The above compensation is net of tax benefits | \$470                                    | \$99          | \$1,427           | \$360         |

Income tax benefit related to share-based compensation for the three months ended December 26, 2015 has been revised to \$674,000 from \$175,000 as a result of our early adoption as of our fiscal March 2016 quarter of Accounting Standards Update NO. 2016-09, Improvements to Employee Share-Based Payment Accounting. Under this new standard, the \$499,000 increase of first quarter income tax benefit was recognized via a reduction of amounts previously recorded as additional paid in capital upon exercise of stock options. In the fiscal quarters ended in March 2016 and June 2016, we realized tax benefits of \$89,000 and \$163,000; respectively, upon similar exercises of stock options.

The Company anticipates that share-based compensation for 2016 will not exceed \$800,000 net of tax benefits.

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 2016 first nine months: expected volatility of 15.9%; risk-free interest rate of 1.2%; dividend rate of 1.4% and expected lives of 5 years.

During the 2016 nine month period, the Company granted 159,170 stock options. The weighted-average grant date fair value of these options was \$13.94. During the 2015 nine month period, the Company granted 148,840 stock options. The weighted-average grant date fair value of these options was \$15.23.



Expected volatility is based on the historical volatility of the price of our common shares over the past 49 months for 5 year options and 10 years for 10 year options. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

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

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

The total amount of gross unrecognized tax benefits is \$349,000 and \$334,000 on June 25, 2016 and September 26, 2015, respectively, all of which would impact our effective tax rate over time, if recognized. We recognize interest and penalties related to income tax matters as a part of the provision for income taxes. As of June 25, 2016 and September 26, 2015, respectively, the Company has \$214,000 and \$199,000 of accrued interest and penalties.

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

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

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

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

In November 2015, the FASB issued guidance on the balance sheet classification of deferred taxes which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet and now requires entities to classify all deferred tax assets and liabilities as noncurrent. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. We anticipate that the impact on our financial statements will be inconsequential.

In January 2016, the FASB issued guidance which requires an entity to measure equity investments at fair value with changes in fair value recognized in net income, to use the price that would be received by a seller when measuring the fair value of financial instruments for disclosure purposes, and which eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Under present guidance, changes in fair value of equity investments are recognized in Stockholder's Equity. This guidance is effective for our fiscal year ended September 2019. Early adoption is not permitted. We do not anticipate that the adoption of this new guidance will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued guidance on lease accounting which requires that an entity recognize most leases on its balance sheet. The guidance retains a dual lease accounting model for purposes of income statement recognition, continuing the distinction between what are currently known as "capital" and "operating" leases for lessees. This guidance is effective for our fiscal year ended September 2020. We anticipate that the impact of this guidance on our financial statements will be material.

In March 2016, the FASB issued guidance on share based compensation which requires that an entity recognize all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement as discrete items in the reporting period in which they occur. Under current guidance, excess tax benefits are recognized in additional paid-in capital and tax deficiencies are recognized either as an offset to accumulated excess tax benefits, or in the income statement. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. See Note 5 to these financial statements for a discussion of the impact the adoption of this guidance in our March 2016 quarter had on our consolidated financial statements.



Note 8 Inventories consist of the following:

|                         | June 25,<br>2016<br>(unaudited)<br>(in thousands) | September<br>26,<br>2015 |
|-------------------------|---|--------------------------|
| Finished goods          | \$41,991  | \$ 34,258                |
| Raw Materials           | 20,077  | 17,000                   |
| Packaging materials     | 6,845   | 5,949                    |
| Equipment parts & other | 25,993  | 25,450                   |
| Total Inventories       | \$94,906  | \$ 82,657                |

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

Our three reportable segments are Food Service, Retail Supermarkets and Frozen Beverages. All inter-segment net sales and expenses have been eliminated in computing net sales and operating income (loss). These segments are described below

#### Food Service

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

### Retail Supermarkets

The primary products sold to the retail supermarket channel are soft pretzel products – including SUPERPRETZEL, frozen juice treats and desserts including LUIGI'S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, WHOLE FRUIT frozen fruit bars and sorbet, PHILLY SWIRL cups and sticks, ICEE Squeeze-Up Tubes and dough enrobed handheld products including PATIO burritos. Within the retail supermarket channel, our frozen and prepackaged products are purchased by the consumer for consumption at home.

### Frozen Beverages

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

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

|                                     | Three months ended |                  | Nine months ended |                  |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
|                                     | June 25,<br>2016   | June 27,<br>2015 | June 25,<br>2016  | June 27,<br>2015 |
|                                     | (unaudited)        |                  |                   |                  |
|                                     | (in thousands)     |                  |                   |                  |
| Sales to External Customers:        |                    |                  |                   |                  |
| Food Service                        |                    |                  |                   |                  |
| Soft pretzels                       | \$44,410           | \$42,920         | \$125,943         | \$124,737        |
| Frozen juices and ices              | 18,564             | 19,331           | 37,850            | 38,604           |
| Churros                             | 15,819             | 14,979           | 43,452            | 42,568           |
| Handhelds                           | 7,047              | 5,853            | 20,371            | 16,055           |
| Bakery                              | 74,475             | 79,643           | 221,500           | 224,865          |
| Other                               | 8,833              | 4,522            | 15,507            | 9,242            |
| Total Food Service                  | \$169,148          | \$167,248        | \$464,623         | \$456,071        |
| Retail Supermarket                  |                    |                  |                   |                  |
| Soft pretzels                       | \$7,136            | \$7,431          | \$25,611          | \$27,460         |
| Frozen juices and ices              | 26,038             | 29,421           | 48,009            | 52,298           |
| Handhelds                           | 3,813              | 4,667            | 11,121            | 14,115           |
| Coupon redemption                   | (826 )             | (811 )           | (1,911 )          | (2,811 )         |
| Other                               | 852                | 420              | 2,143             | 986              |
| Total Retail Supermarket            | \$37,013           | \$41,128         | \$84,973          | \$92,048         |
| Frozen Beverages                    |                    |                  |                   |                  |
| Beverages                           | \$44,352           | \$44,990         | \$102,966         | \$99,278         |
| Repair and maintenance service      | 18,398             | 17,270           | 53,105            | 48,303           |
| Machines sales                      | 8,942              | 7,696            | 23,911            | 19,771           |
| Other                               | 128                | 392              | 963               | 1,013            |
| Total Frozen Beverages              | \$71,820           | \$70,348         | \$180,945         | \$168,365        |
| Consolidated Sales                  | \$277,981          | \$278,724        | \$730,541         | \$716,484        |
| Depreciation and Amortization:      |                    |                  |                   |                  |
| Food Service                        | \$5,777            | \$5,267          | \$16,846          | \$15,782         |
| Retail Supermarket                  | 288                | 283              | 862               | 849              |
| Frozen Beverages                    | 4,095              | 4,052            | 12,122            | 11,827           |
| Total Depreciation and Amortization | \$10,160           | \$9,602          | \$29,830          | \$28,458         |
| Operating Income:                   |                    |                  |                   |                  |

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|                        |          |          |          |          |
|------------------------|----------|----------|----------|----------|
| Food Service           | \$24,619 | \$20,479 | \$59,041 | \$51,621 |
| Retail Supermarket     | 4,266    | 6,406    | 7,825    | 9,607    |
| Frozen Beverages       | 11,552   | 11,926   | 15,210   | 15,998   |
| Total Operating Income | \$40,437 | \$38,811 | \$82,076 | \$77,226 |

Capital Expenditures:

|                            |          |          |          |          |
|----------------------------|----------|----------|----------|----------|
| Food Service               | \$5,961  | \$9,315  | \$19,470 | \$20,065 |
| Retail Supermarket         | 140      | -        | 339      | 62       |
| Frozen Beverages           | 7,385    | 6,932    | 17,412   | 14,053   |
| Total Capital Expenditures | \$13,486 | \$16,247 | \$37,221 | \$34,180 |

Assets:

|                    |           |           |           |           |
|--------------------|-----------|-----------|-----------|-----------|
| Food Service       | \$563,571 | \$541,314 | \$563,571 | \$541,314 |
| Retail Supermarket | 26,110    | 26,711    | 26,110    | 26,711    |
| Frozen Beverages   | 181,552   | 174,901   | 181,552   | 174,901   |
| Total Assets       | \$771,233 | \$742,926 | \$771,233 | \$742,926 |



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

The carrying amounts of acquired intangible assets for the Food Service, Retail Supermarkets and Frozen Beverage segments as of June 25, 2016 and September 26, 2015 are as follows:

|                                    | <b>June 25, 2016</b>   |                                 | <b>September 26, 2015</b> |                                 |
|------------------------------------|------------------------|---------------------------------|---------------------------|---------------------------------|
|                                    | <b>Gross</b>           |                                 | <b>Gross</b>              |                                 |
|                                    | <b>Carrying Amount</b> | <b>Accumulated Amortization</b> | <b>Carrying Amount</b>    | <b>Accumulated Amortization</b> |
|                                    | <b>(in thousands)</b>  |                                 |                           |                                 |
| <b>FOOD SERVICE</b>                |                        |                                 |                           |                                 |
| Indefinite lived intangible assets |                        |                                 |                           |                                 |
| Trade Names                        | \$13,072               | \$ -                            | \$13,072                  | \$ -                            |
| Amortized intangible assets        |                        |                                 |                           |                                 |
| Non compete agreements             | 592                    | 557                             | 592                       | 538                             |
| Customer relationships             | 40,797                 | 36,296                          | 40,797                    | 33,584                          |
| License and rights                 | 3,606                  | 2,869                           | 3,606                     | 2,802                           |
| <b>TOTAL FOOD SERVICE</b>          | <b>\$58,067</b>        | <b>\$ 39,722</b>                | <b>\$58,067</b>           | <b>\$ 36,924</b>                |
| <b>RETAIL SUPERMARKETS</b>         |                        |                                 |                           |                                 |
| Indefinite lived intangible assets |                        |                                 |                           |                                 |
| Trade Names                        | \$7,206                | \$ -                            | \$7,206                   | \$ -                            |
| Amortized Intangible Assets        |                        |                                 |                           |                                 |
| Non compete agreements             | 160                    | 160                             | 160                       | 114                             |
| Customer relationships             | 7,979                  | 1,821                           | 7,979                     | 1,220                           |
| <b>TOTAL RETAIL SUPERMARKETS</b>   | <b>\$15,345</b>        | <b>\$ 1,981</b>                 | <b>\$15,345</b>           | <b>\$ 1,334</b>                 |
| <b>FROZEN BEVERAGES</b>            |                        |                                 |                           |                                 |
| Indefinite lived intangible assets |                        |                                 |                           |                                 |
| Trade Names                        | \$9,315                | \$ -                            | \$9,315                   | \$ -                            |
| Amortized intangible assets        |                        |                                 |                           |                                 |
| Non compete agreements             | 198                    | 198                             | 198                       | 198                             |
| Customer relationships             | 6,678                  | 6,501                           | 6,678                     | 6,075                           |
| Licenses and rights                | 1,601                  | 907                             | 1,601                     | 854                             |
| <b>TOTAL FROZEN BEVERAGES</b>      | <b>\$17,792</b>        | <b>\$ 7,606</b>                 | <b>\$17,792</b>           | <b>\$ 7,127</b>                 |
| <b>CONSOLIDATED</b>                | <b>\$91,204</b>        | <b>\$ 49,309</b>                | <b>\$91,204</b>           | <b>\$ 45,385</b>                |



Amortized intangible assets are being amortized by the straight-line method over periods ranging from 3 to 20 years and amortization expense is reflected throughout operating expenses. There were no intangible assets acquired in the three and nine months ended June 25, 2016. Aggregate amortization expense of intangible assets for the three months ended June 25, 2016 and June 27, 2015 was \$1,267,000 and \$1,332,000, respectively and for the nine months ended June 25, 2016 and June 27, 2015 was \$3,924,000 and \$4,039,000, respectively.

Estimated amortization expense for the next five fiscal years is approximately \$5,100,000 in 2016, \$2,600,000 in 2017, \$1,800,000 in 2018, \$1,700,000 in 2019 and \$1,400,000 in 2020. The weighted average amortization period of the intangible assets is 10.0 years.

## Goodwill

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

|                               | Food<br>Service<br>(in thousands) | Retail<br>Supermarket | Frozen<br>Beverages | Total    |
|-------------------------------|-----------------------------------|-----------------------|---------------------|----------|
| Balance at June 25, 2016      | \$46,832                          | \$ 3,670              | \$ 35,940           | \$86,442 |
| Balance at September 26, 2015 | \$46,832                          | \$ 3,670              | \$ 35,940           | \$86,442 |

There was no goodwill acquired in the three and nine months ended June 25, 2016.

We have classified our investment securities as marketable securities held to maturity and available for sale. The FASB defines fair value as the price that would be received from selling an asset or paid to transfer a liability in Note an orderly transaction between market participants. As such, fair value is a market-based measurement that 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.

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

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at June 25, 2016 are summarized as follows:

|  | Amortized<br>Cost<br>(in thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Market<br>Value |
|--|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| Corporate Bonds                              | \$104,904                           | \$ 594                       | \$ 418                        | \$105,080               |
| Certificates of Deposit                      | 960                                 | 11                           | -                             | 971                     |
| Total investment securities held to maturity | \$105,864                           | \$ 605                       | \$ 418                        | \$106,051               |

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at June 25, 2016 are summarized as follows:

|  | Amortized<br>Cost<br>(in thousands) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Market<br>Value |
|--|-------------------------------------|------------------------------|-------------------------------|-------------------------|
| Mutual Funds                                   | \$13,987                            | \$ -                         | \$ 884                        | \$13,103                |
| Preferred Stock                                | 16,791                              | 25                           | 479                           | 16,337                  |
| Total investment securities available for sale | \$30,778                            | \$ 25                        | \$ 1,363                      | \$29,440                |

The mutual funds seek current income with an emphasis on maintaining low volatility and overall moderate duration. The unrealized losses of \$884,000 are spread over 4 funds with total fair market value of \$13.1 million. The Fixed-to-Floating Perpetual Preferred Stock generate fixed income to call dates in 2018, 2019 and 2025 and then income is based on a spread above LIBOR if the securities are not called. The unrealized losses of \$479,000 on the Preferred Stock are spread over 12 holdings with fair market value of \$14.8 million. The mutual funds and Fixed-to-Floating Perpetual Preferred Stock do not have contractual maturities; however, we classify them as long term assets as it is our intent to hold them for a period of over one year, although we may sell some or all of them depending on presently unanticipated needs for liquidity or market conditions. The corporate bonds generate fixed income to maturity dates in 2017 through 2021, with \$85 million maturing within 3 years. Our expectation is that we will hold the corporate bonds to their maturity dates and redeem them at our amortized cost.



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

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

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

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

The amortized cost and fair value of the Company's held to maturity securities by contractual maturity at June 25, 2016 and September 26, 2015 are summarized as follows:

|  | <b>June 25, 2016</b>                         |                                  | <b>September 26,<br/>2015</b> |                                  |
|--|--|----------------------------------|-------------------------------|----------------------------------|
|  | <b>Amortized<br/>Cost<br/>(in thousands)</b> | <b>Fair<br/>Market<br/>Value</b> | <b>Amortized<br/>Cost</b>     | <b>Fair<br/>Market<br/>Value</b> |
| Due in one year or less                | \$9,667                                      | \$9,675                          | \$-                           | \$-                              |
| Due after one year through five years  | 96,197                                       | 96,376                           | 63,522                        | 63,010                           |
| Due after five years through ten years | -  | -                                | 3,138                         | 3,002                            |
| Total held to maturity securities      | \$105,864                                    | \$106,051                        | \$66,660                      | \$66,012                         |
| Less current portion                   | 9,667  | 9,675                            | -                             | -                                |
| Long term held to maturity securities  | \$96,197                                     | \$96,376                         | \$66,660                      | \$66,012                         |





Proceeds from the redemption and sale of marketable securities were \$5,624,000 and \$11,008,000 in the three and nine months ended June 25, 2016 and \$26,367,000 and \$39,968,000 in the three and nine months ended June 27, 2015, respectively. Losses of \$176,000 and \$582,000 were recorded in the three and nine months ended June 25, 2016 and \$1,395,000 and \$1,904,000 were recorded in the three and nine months ended June 27, 2015, respectively.

We use the specific identification method to determine the cost of securities sold.

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

|  | Three Months Ended<br>June 25, 2016<br>(unaudited)<br>(in thousands) |  |            | Nine Months Ended<br>June 25, 2016<br>(unaudited)<br>(in thousands) |  |            |
|--|--|--|------------|---|--|------------|
|  | Foreign<br>Currency<br>Translation<br>Adjustment                     | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total      | Foreign<br>Currency<br>Translation<br>Adjustment                    | Unrealized<br>Holding<br>Loss on<br>Marketable<br>Securities | Total      |
| Beginning Balance  | \$(10,701)   | \$ (1,978 )  | \$(12,679) | \$(10,021)  | \$ (876 )  | \$(10,897) |
| Other comprehensive income (loss) before reclassifications       | (1,387 )   | 534  | (853 )     | (2,067 )  | (812 )   | (2,879 )   |
| Amounts reclassified from accumulated other comprehensive income | -  | 106  | 106        | -   | 350  | 350        |
| Ending Balance   | \$(12,088)   | \$ (1,338 )  | \$(13,426) | \$(12,088)  | \$ (1,338 )  | \$(13,426) |

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

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

### Liquidity and Capital Resources

Our current cash and cash equivalents balances and cash expected to be provided by future operations are our primary sources of liquidity. We believe that these sources, along with our borrowing capacity, are sufficient to fund future growth and expansion. See Note 11 to these financial statements for a discussion of our investment securities.

The Company's Board of Directors declared a regular quarterly cash dividend of \$.39 per share of its common stock payable on July 7, 2016, to shareholders of record as of the close of business on June 15, 2016.

In our fiscal year ended September 26, 2015, we purchased and retired 72,698 shares of our common stock at a cost of \$8,011,118. In the three months ended June 25, 2016 we purchased and retired 34,052 shares at a cost of \$3,506,693 and in the nine months ended June 25, 2016, we purchased and retired 141,700 shares at a cost of \$15,265,019. 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; 47,775 shares remain to be purchased under this authorization.

In the three months ended June 25, 2016 and June 27, 2015 fluctuations in the valuation of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused an increase of \$1,387,000 in accumulated other comprehensive loss in the 2016 third quarter and an increase of \$420,000 accumulated other comprehensive loss in the 2015 third quarter. In the nine month period, fluctuations in the valuation of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused an increase of \$2,067,000 in accumulated other comprehensive loss in the 2016 nine month period and an increase of \$3,289,000 in accumulated other comprehensive loss in the 2015 nine month period.

Our general-purpose bank credit line which expires in December 2016 provides for up to a \$50,000,000 revolving credit facility. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. There were no outstanding balances under this facility at June 25, 2016.

## Results of Operations

Net sales decreased \$743,000 or about 1/4 of 1% to \$277,981,000 for the three months and increased \$14,057,000 or 2% to \$730,541,000 for the nine months ended June 25, 2016 compared to the three and nine months ended June 27, 2015.

## FOOD SERVICE

Sales to food service customers increased \$1,900,000 or 1% in the third quarter to \$169,148,000 and increased \$8,552,000 or 2% for the nine months. Soft pretzel sales to the food service market increased 3% to \$44,410,000 in the third quarter and increased 1% to \$125,943,000 in the nine months with sales increases and decreases in the third quarter spread among our customers and with sales of \$1.2 million under an already ended limited time offer program to a new restaurant chain customer. Soft pretzel sales to restaurant chains were 13% higher compared to last year's quarter primarily due to the above mentioned sales and for the nine months, soft pretzel sales to restaurant chains were marginally higher than last year.

Frozen juices and ices sales decreased 4% to \$18,564,000 in the three months and were down 2% to \$37,850,000 in the nine months with lower sales to one customer accounting for the entire decrease in both periods. Churro sales to food service customers increased 6% to \$15,819,000 in the third quarter and were up 2% to \$43,452,000 for the nine months with sales increases and decreases spread among our customers.

Sales of bakery products decreased \$5,168,000 or 6% in the third quarter to \$74,475,000 and decreased \$3,365,000 or 1% for the nine months. Sales to one customer were down \$4.4 million in the quarter compared to last year as the customer added a secondary supplier. We expect sales to this customer to be down approximately \$1 million a month through January 2017.

Sales of handhelds increased \$1,194,000 or 20% in the quarter with the sales increase split among two customers and \$4,317,000 or 27% for the nine months with 90% of the increase coming from sales to one customer. Sales of funnel cake increased \$4,463,000 or 109% in the quarter to \$8,570,000 and \$6,559,000 or 81% to \$14,651,000 for the nine months primarily due to increased sales to school food service and to sales of \$3.8 million in the third quarter to a new

restaurant chain customer. We do not expect additional funnel cake sales to this customer until the second quarter of our fiscal year 2017.

Sales of new products in the first twelve months since their introduction were approximately \$14 million in this quarter and \$24 million in the nine months. Price increases accounted for approximately \$900,000 of sales in the quarter and \$6.8 million in the nine months and net volume increases, including new product sales as defined above, accounted for approximately \$1.0 million of sales in the quarter and \$1.7 in the nine months.

Operating income in our Food Service segment increased from \$20,479,000 to \$24,619,000 in the quarter and increased from \$51,621,000 to \$59,041,000 in the nine months. Operating income for both periods benefitted from lower marketing expenses, lower ingredient costs, significantly increased volume of our handhelds and funnel cake products, pricing and more favorable product mix and was hurt by higher group health insurance costs and lower volume of our frozen juices and ices and bakery products.

## RETAIL SUPERMARKETS

Sales of products to retail supermarkets decreased \$4,115,000 or 10% to \$37,013,000 in the third quarter and decreased \$7,075,000 or 8% to \$84,973,000 in the nine months. Soft pretzel sales for the third quarter were down 4% to \$7,136,000 with sales increases and decreases spread over our customer base and products and were down 7% to \$25,611,000 for the nine months. About one third of the pretzel sales decline in the nine month period was due to the discontinuance of SUPERPRETZEL BAVARIAN Soft Pretzel Bread and lower sales to two customers accounted for roughly 90% of the balance of the decline. Sales of frozen juices and ices decreased \$3,383,000 or 11% to \$26,038,000 in the third quarter and were down 8% to \$48,009,000 for the nine months. Increased trade spending to introduce WHOLE FRUIT Organic juice tubes and new PHILLY SWIRL products and general declines in sales of our existing PHILLY SWIRL products accounted for all of the sales decline in frozen juices and ices in the nine months and over 80% of the decline in the third quarter. PHILLY SWIRL sales were down in both periods primarily because of lower sales to a customer in Canada due to the stronger US dollar, lower sales to one warehouse club store which carried fewer SKUS this year and decreased sales to one retail supermarket customer of a product that is being discontinued. We expect a significant improvement of sales of PHILLY SWIRL products in our fourth quarter compared to last year. Coupon redemption costs, a reduction of sales, which were higher in the first six months a year ago supporting the introduction of the SUPERPRETZEL BAVARIAN Soft Pretzel Bread, were essentially unchanged for the quarter at \$826,000 and decreased 32% to \$1,911,000 for the nine months. Handheld sales to retail supermarket customers decreased 18% to \$3,813,000 in the quarter and decreased 21% to \$11,121,000 for the nine months. Roughly 25% of the handhelds sales decline in the quarter and 40% for the nine months resulted from increased trade spending to introduce PILLSBURY mini dessert pies. The balance of the sales decline was spread over our customer base. We expect significant sales in our fourth quarter of our new products, especially OREO Churros and WHOLE FRUIT Organic Juice tubes.

Sales of new products in the third quarter were approximately \$2.5 million and were \$4.5 million for the nine months. Price increases accounted for approximately \$300,000 of sales in the quarter and \$1.5 million in the nine months and net volume decreases including new product sales as defined above and net of decreased coupon costs, lowered sales by approximately \$4.4 million in this quarter and \$8.6 million in the nine months. Operating income in our Retail Supermarkets segment decreased from \$6,406,000 to \$4,266,000 in the quarter primarily because of approximately

\$600,000 of increased trade spending related to the introduction of WHOLE FRUIT Organic juice tubes, OREO churros, PILLSBURY mini dessert pies and other new products and sharply lower frozen juices and ices sales volume and decreased from \$9,607,000 to \$7,825,000 in the nine months primarily because of increased trade spending of \$1.8 million for the introduction of new products as mentioned above and lower sales volume offset by \$900,000 of lower coupon expenses.

## FROZEN BEVERAGES

Frozen beverage and related product sales increased 2% to \$71,820,000 in the third quarter and increased 7% to \$180,945,000 in the nine month period. Beverage related sales alone were down 1% to \$44,352,000 in the third quarter and were up 4% to \$102,966,000 in the nine month period. Gallon sales were essentially unchanged for the three months and were up 5% for the nine month period primarily due to higher sales to movie theaters. Service revenue increased 7% to \$18,398,000 in the third quarter and increased 10% to \$53,105,000 for the nine month period with sales increases and decreases spread throughout our customer base.

Sales of beverage machines, which tend to fluctuate from year to year while following no specific trend, were \$8,942,000, an increase of 16% from last year's third quarter and were \$23,911,000, or 21% higher than last year, in the nine month period. The approximate number of company owned frozen beverage dispensers was 55,500 and 53,100 at June 25, 2016 and September 26, 2015, respectively. Operating income in our Frozen Beverage segment decreased to \$11,552,000 in this quarter and \$15,210,000 for the nine months compared to \$11,926,000 and \$15,998,000 in last years' periods, respectively. Higher group health insurance costs of about \$500,000 and flat gallons volume contributed to the lower operating income for the third quarter and higher group health insurance costs of about \$1.1 million and a bad debt write off of \$200,000 contributed to the lower operating income in the nine months.

## CONSOLIDATED

Gross profit as a percentage of sales was 33.13% in the three month period this year and 32.43% last year. For the nine month period, gross profit as a percentage of sales was 30.75% this year and 30.49% a year ago. For both periods, gross profit percentage benefitted from lower ingredient costs, pricing, increased handhelds and funnel cake business and more favorable product mix in our food service business offset by higher costs in our frozen beverages business and increased trade spending related to the introduction of WHOLE FRUIT Organic juice tubes, OREO churros, PILLSBURY mini dessert pies and new PHILLY SWIRL products in our retail supermarket business, as well as by sharply lower volume in our retail supermarket business.

Total operating expenses were essentially unchanged at \$51,649,000 in the third quarter and as a percentage of sales increased from 18.51% percent to 18.58%. For the nine months, operating expenses increased \$1,373,000, and as a percentage of sales decreased from 19.71% to 19.51%. Marketing expenses increased to 8.5% of sales in this year's quarter from 8.3% last year and were 8.7% of sales in both years' nine months. Distribution expenses were 6.8% of sales in this year's quarter and were 7.3% of sales in last year's quarter, and were 7.5% in this year's nine month period and 7.8% of sales last years' nine month period. Distribution expenses benefitted this quarter and nine months from lower fuel costs and shipping efficiencies. Administrative expenses were 3.1% of sales this quarter and 3.3% for the nine month period as compared to 2.8% of sales last year in the third quarter and 3.2% for the nine months.





Operating income increased \$1,626,000 or 4% to \$40,437,000 in the third quarter and increased \$4,850,000 or 6% to \$82,076,000 for the nine months as a result of the aforementioned items.

Investment income of \$981,000 this year compared to a loss of \$53,000 last year and was higher by \$539,000 in the nine months. Last year's investment income was reduced by realized losses of \$1.4 million and \$1.9 million in the three and nine months periods which compares to realized losses of \$176,000 and \$582,000 in this year's three and nine months.

The effective income tax rate has been estimated at 35% and 37% for the quarter this year and last year, respectively and 35% and 37% for the nine months this year and last year, respectively. The effective income tax rate for the three months ended December 26, 2015 has been revised to 33.4% as a result of our early adoption in the March 2016 quarter of Accounting Standards Update NO. 2016-09, Improvements to Employee Share-Based Payment Accounting. Under this new standard, \$499,000 of first quarter income tax benefit was recognized via a reduction of amounts previously recorded as additional paid in capital upon exercise of stock options. In the March 2016 and June 2016 fiscal quarters, we have realized a tax benefit of \$89,000 and \$163,000; respectively, upon similar exercises of stock options. We are estimating an effective income tax rate of approximately 35 1/4-35 1/2% for the year, which includes approximately 3/4 of 1 percentage point decrease because of the above referenced change in accounting.

Net earnings increased \$2,329,000 or 10% in the current three month period to \$26,791,000 and were \$55,357,000 for the nine months this year compared to \$50,355,000 for the nine month period last year, an increase of 10%.

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

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth, in item 7a. "Quantitative and Qualitative Disclosures About Market Risk," in its 2015 annual report on Form 10-K filed with the SEC.

Item 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of June 25, 2016, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting during the quarter ended June 25, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit  
No.

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

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

101.1 The following financial information from J & J Snack Foods Corp.'s Quarterly Report on Form 10-Q for the quarter ended June 25, 2016, formatted in XBRL (extensible Business Reporting Language):  
(i) Consolidated Balance Sheets,  
(ii) Consolidated Statements of Earnings,  
(iii) Consolidated Statements of Comprehensive Income,  
(iv) Consolidated Statements of Cash Flows and  
(v) the Notes to the Consolidated Financial Statements



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

J & J SNACK FOODS CORP.

Dated: July 28, 2016

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

Dated: July 28, 2016

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