

J&J SNACK FOODS CORP
Form 10-Q
July 28, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 28, 2014

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.)

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6000 Central Highway, Pennsauken, NJ 08109

(Address of principal executive offices)

Telephone (856) 665-9533

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

X 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).

X Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer (X) Accelerated filer ()

Non-accelerated filer () Smaller reporting company ()
(Do not check if a smaller reporting company)

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

Yes X No

As July 22, 2014 there were 18,644,778 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)

	June 28, 2014 (unaudited)	September 28, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 67,754	\$ 97,345
Marketable securities held to maturity	-	256
Accounts receivable, net	108,685	87,545
Inventories, net	80,161	71,785
Prepaid expenses and other	4,273	3,284
Deferred income taxes	4,713	4,502
Total current assets	265,586	264,717
Property, plant and equipment, at cost		
Land	2,496	2,496
Buildings	26,741	26,741
Plant machinery and equipment	191,043	179,331
Marketing equipment	256,324	244,770
Transportation equipment	6,890	5,953
Office equipment	18,123	16,282
Improvements	26,450	24,917
Construction in progress	6,531	9,952
	534,598	510,442
Less accumulated depreciation and amortization	375,925	363,278
	158,673	147,164
Other assets		
Goodwill	86,265	76,899
Other intangible assets, net	52,345	44,012
Marketable securities held to maturity	2,000	2,000
Marketable securities available for sale	129,640	107,664
Other	3,726	3,205
	273,976	233,780
	\$ 698,235	\$ 645,661
Liability and Stockholder's Equity		
Current Liabilities		
Current obligations under capital leases	\$ 171	\$ 211

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Accounts payable	66,753	50,906
Accrued insurance liability	10,852	9,954
Accrued income taxes	1,562	1,740
Accrued liabilities	5,578	3,769
Accrued compensation expense	12,991	13,671
Dividends payable	5,975	2,988
Total current liabilities	103,882	83,239
Long-term obligations under capital leases	402	136
Deferred income taxes	45,807	45,183
Other long-term liabilities	525	538
Stockholders' Equity		
Preferred stock, \$1 par value; authorized 10,000,000 shares; none issued	-	-
Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding 18,639,000 and 18,677,000 respectively	31,499	34,516
Accumulated other comprehensive loss	(3,550)	(5,930)
Retained Earnings	519,670	487,979
	547,619	516,565
	\$ 698,235	\$ 645,661

The accompanying notes are an integral part of these statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

	Three months ended		Nine months ended	
	June 28,	June 29,	June 28,	June 29,
	2014	2013	2014	2013
Net Sales	\$257,113	\$237,036	\$665,957	\$629,770
Cost of goods sold ⁽¹⁾	172,745	161,714	460,570	442,162
Gross Profit	84,368	75,322	205,387	187,608
Operating expenses				
Marketing ⁽²⁾	21,274	19,554	56,825	53,499
Distribution ⁽³⁾	19,314	16,750	51,816	47,863
Administrative ⁽⁴⁾	7,883	7,063	21,648	20,122
Other general expense (income)	234	(429)	1,132	(480)
	48,705	42,938	131,421	121,004
Operating Income	35,663	32,384	73,966	66,604
Other income (expense)				
Investment income	1,159	904	3,273	2,576
Interest expense & other	(26)	(29)	(89)	(82)
Earnings before income taxes	36,796	33,259	77,150	69,098
Income taxes	13,118	12,087	27,525	25,040
NET EARNINGS	\$23,678	\$21,172	\$49,625	\$44,058
Earnings per diluted share	\$1.26	\$1.12	\$2.64	\$2.33
Weighted average number of diluted shares	18,832	18,913	18,814	18,890
Earnings per basic share	\$1.27	\$1.13	\$2.66	\$2.34
Weighted average number of basic shares	18,686	18,807	18,686	18,804

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- (1) Includes share-based compensation expense of \$136 and \$371 for the three months and nine months ended June 28, 2014, respectively and \$134 and \$361 for the three months and nine months ended June 29, 2013.
- (2) Includes share-based compensation expense of \$190 and \$530 for the three months and nine months ended June 28, 2014, respectively and \$186 and \$496 for the three months and nine months ended June 29, 2013.
- (3) Includes share-based compensation expense of \$12 and \$33 for the three months and nine months ended June 28, 2014, respectively and \$8 and \$23 for the three months and nine months ended June 29, 2013.
- (4) Includes share-based compensation expense of \$251 and \$704 for the three months and nine months ended June 28, 2014, respectively and \$214 and \$578 for the three months and nine months ended June 29, 2013.

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		Nine months ended	
	June 28,	June 29,	June 28,	June 29,
	2014	2013	2014	2013
Net Earnings	\$23,678	\$21,172	\$49,625	\$44,058
Foreign currency translation adjustments	262	(947)	(14)	(500)
Unrealized holding gain (loss) on marketable securities	965	(2,672)	2,394	(2,488)
Total Other Comprehensive Income (loss), net of tax	1,227	(3,619)	2,380	(2,988)
Comprehensive Income	\$24,905	\$17,553	\$52,005	\$41,070

All amounts are net of tax.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (in thousands)

	Nine months ended	
	June 28,	June 29,
	2014	2013
Operating activities:		
Net earnings	\$49,625	\$44,058
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of fixed assets	23,599	21,298
Amortization of intangibles and deferred costs	3,929	3,577
Share-based compensation	1,638	1,458
Deferred income taxes	(257)	(167)
Loss on sale of marketable securities	361	-
Other	(205)	(118)
Changes in assets and liabilities net of effects from purchase of companies		
Increase in accounts receivable	(17,390)	(16,104)
Increase in inventories	(6,320)	(5,462)
Increase in prepaid expenses	(262)	(1,248)
Increase in accounts payable and accrued liabilities	14,417	6,408
Net cash provided by operating activities	69,135	53,700
Investing activities:		
Payment for purchases of companies, net of cash acquired	(28,528)	-
Purchases of property, plant and equipment	(31,346)	(26,954)
Purchases of marketable securities	(26,932)	(113,352)
Proceeds from redemption and sales of marketable securities	7,245	23,958
Proceeds from disposal of property and equipment	1,241	782
Other	(408)	(19)
Net cash used in investing activities	(78,728)	(115,585)
Financing activities:		
Payments to repurchase common stock	(5,903)	(7,198)
Proceeds from issuance of stock	1,107	2,899
Payments on capitalized lease obligations	(273)	(267)
Payment of cash dividend	(14,949)	(8,457)
Net cash used in financing activities	(20,018)	(13,023)
Effect of exchange rate on cash and cash equivalents	20	(22)
Net decrease in cash and cash equivalents	(29,591)	(74,930)
Cash and cash equivalents at beginning of period	97,345	154,198
Cash and cash equivalents at end of period	\$67,754	\$79,268

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

The results of operations for the three and nine months ended June 28, 2014 and June 29, 2013 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen juice bars and ices are generally higher in our third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2013.

We recognize revenue from our products when the products are shipped to our customers. Repair and maintenance equipment service revenue is recorded when it is performed provided the customer terms are that the customer is to be charged on a time and material basis or on a straight-line basis over the term of the contract when the customer has signed a service contract. Revenue is recognized only where persuasive evidence of an Note arrangement exists, our price is fixed or estimable and collectability is reasonably assured. We record offsets to 2 revenue for allowances, end-user pricing adjustments, trade spending, coupon redemption costs and returned product. Customers generally do not have the right to return product unless it is damaged or defective. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors. The allowance for doubtful receivables was \$370,000 and \$854,000 at June 28, 2014 and September 28, 2013, respectively.

Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights, customer relationships and Note non-compete agreements arising from acquisitions are amortized by the straight-line method over periods 3 ranging from 3 to 20 years. Depreciation expense was \$8,008,000 and \$7,434,000 for the three months ended June 28, 2014 and June 29, 2013, respectively, and for the nine months ended June 28, 2014 and June 29, 2013 was \$23,599,000 and \$21,298,000 respectively.

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

	Three Months Ended June 28, 2014		
	Income	Shares	Per Share
	(Numerator)(Denominator)		Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	\$23,678	18,686	\$ 1.27
Effect of Dilutive Securities			
Options	-	146	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	\$23,678	18,832	\$ 1.26
	Nine Months Ended June 28, 2014		
	Income	Shares	Per Share
	(Numerator)(Denominator)		Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	\$49,625	18,686	\$ 2.66
Effect of Dilutive Securities			
Options	-	128	(0.02)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	\$49,625	18,814	\$ 2.64

	Three Months Ended June 29, 2013		
	Income	Shares	Per Share
	(Numerator)		(Denominator) Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	\$21,172	18,807	\$ 1.13
Effect of Dilutive Securities			
Options	-	106	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	\$21,172	18,913	\$ 1.12
	Nine Months Ended June 29, 2013		
	Income	Shares	Per Share
	(Numerator)		(Denominator) Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	\$44,058	18,804	\$ 2.34
Effect of Dilutive Securities			
Options	-	86	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	\$44,058	18,890	\$ 2.33

Note 5 At June 28, 2014, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

	Three months ended		Nine months ended	
	June 28,	June 29,	June 28,	June 29,
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Stock Options	\$404	\$206	\$1,104	\$596
Stock purchase plan	102	179	279	316
Stock issued to outside directors	-	11	-	35
Stock issued to employees	8	4	16	13
	\$514	\$400	\$1,399	\$960
Per diluted share	\$0.03	\$0.02	\$0.07	\$0.05
The above compensation is net of tax benefits	\$75	\$142	\$239	\$498

The Company anticipates that share-based compensation will not exceed \$1.8 million net of tax benefits, or approximately \$.10 per share for the fiscal year ending September 27, 2014.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2014 first nine months: expected volatility of 20.6%; risk-free interest rate of 1.4%; dividend rate of .8% and expected lives of 5 years.

During the 2014 nine month period, the Company granted 101,572 stock options. The weighted-average grant date fair value of these options was \$15.24. During the 2013 nine month period, the Company granted 1,600 stock options. The weighted-average grant date fair value of these options was \$13.76.

Expected volatility is based on the historical volatility of the price of our common shares over the past 55 months for 5 year options and 10 years for 10 year options. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

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

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

The total amount of gross unrecognized tax benefits is \$411,000 and \$438,000 on June 28, 2014 and September 28, 2013, respectively, all of which would impact our effective tax rate over time, if recognized. We recognize interest and penalties related to income tax matters as a part of the provision for income taxes. As of June 28, 2014 and September 28, 2013, respectively, the Company has \$221,000 and \$224,000 of accrued interest and penalties.

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

Note 7 In February 2013, the FASB issued guidance which requires us to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, we are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts not required under U.S. GAAP to be reclassified in their entirety to net income, we are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. This guidance was effective for our fiscal year 2014 first quarter and its adoption did not have a material impact on our financial statements.

Note 8 Inventories consist of the following:

	June 28, 2014 (unaudited) (in thousands)	September 28, 2013
Finished goods	\$37,980	\$ 33,013
Raw Materials	15,780	14,489
Packaging materials	6,346	5,937
Equipment parts & other	20,055	18,346
	\$80,161	\$ 71,785
The above inventories are net of reserves	\$4,427	\$ 4,449

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.

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, PHILLY SWIRL stix and cups; dough enrobed handheld products and TIO PEPE'S Churros. Within the retail supermarket channel, our frozen and prepackaged products are purchased by the consumer for consumption at home.

Frozen Beverages

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

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

	Three months ended		Nine months ended	
	June 28,	June 29,	June 28,	June 29,
	2014	2013	2014	2013
	(unaudited)			
	(in thousands)			
Sales to External Customers:				
Food Service				
Soft pretzels	\$41,337	\$36,136	\$119,460	\$104,067
Frozen juices and ices	18,215	16,468	38,301	34,117
Churros	15,622	14,774	43,003	42,648
Handhelds	6,221	6,806	18,337	20,058
Bakery	72,459	68,099	207,704	203,488
Other	4,019	2,939	8,177	6,424
	\$157,873	\$145,222	\$434,982	\$410,802
Retail Supermarket				
Soft pretzels	\$7,090	\$8,576	\$26,314	\$27,200
Frozen juices and ices	24,187	18,226	39,012	33,694
Handhelds	4,661	4,995	14,763	16,425
Coupon redemption	(1,350)	(954)	(2,719)	(2,497)
Other	244	237	676	514
	\$34,832	\$31,080	\$78,046	\$75,336
Frozen Beverages				
Beverages	\$41,762	\$40,996	\$93,664	\$91,476
Repair and maintenance service	16,610	13,833	43,354	38,385
Machines sales	5,492	5,035	14,774	12,028
Other	544	870	1,137	1,743
	\$64,408	\$60,734	\$152,929	\$143,632
Consolidated Sales	\$257,113	\$237,036	\$665,957	\$629,770
Depreciation and Amortization:				
Food Service	\$5,330	\$4,943	\$15,702	\$14,169
Retail Supermarket	134	9	150	24
Frozen Beverages	3,962	3,671	11,676	10,682
	\$9,426	\$8,623	\$27,528	\$24,875
Operating Income:				
Food Service	\$21,245	\$18,822	\$53,958	\$46,782
Retail Supermarket	3,489	2,883	8,055	6,857
Frozen Beverages	10,929	10,679	11,953	12,965
	\$35,663	\$32,384	\$73,966	\$66,604
Capital Expenditures:				
Food Service	\$5,500	\$4,798	\$16,339	\$