

J&J SNACK FOODS CORP

Form 10-K

November 26, 2013

---



















---

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 28, 2013

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM        TO

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

**22-1935537**

**6000 Central Highway  
Pennsauken, New Jersey**

(Address of principal executive offices)

**08109**

(Zip Code)

Registrant's telephone number, including area code: (856) 665-9533

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value	The NASDAQ Global Select Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  No  X

As of November 15, 2013, the latest practicable date, 18,678,012 shares of the Registrant’s common stock were issued and outstanding. The aggregate market value of shares held by non-affiliates of the Registrant on such date was \$1,142,800,154 based on the last sale price on March 29, 2013 of \$76.89 per share. March 29, 2013 was the last business day of the registrant’s most recently completed second fiscal quarter.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s definitive proxy statement for its Annual Meeting of Shareholders scheduled for February 18, 2014 are incorporated by reference into Part III of this report.

---

---

---

**J & J SNACK FOODS CORP.**

**2013 FORM 10-K ANNUAL REPORT**

**TABLE OF CONTENTS**

	Page
<b><u>PART I</u></b>	
Item 1 Business	1
Item 1A Risk Factors	6
Item 1B Unresolved Staff Comments	8
Item 2 Properties	8
Item 3 Legal Proceedings	9
Item 4 Mine Safety Disclosures	9
<b><u>PART II</u></b>	
Item 5 Market For Registrant’s Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities	10
Item 6 Selected Financial Data	11
Item 7 Management’s Discussion And Analysis Of Financial Condition And Results Of Operations	12
Item 7A Quantitative And Qualitative Disclosures About Market Risk	22
Item 8 Financial Statements And Supplementary Data	22
Item 9 Changes In And Disagreements With Accountants On Accounting And Financial Disclosure	22
Item 9A Controls and Procedures	22
Item 9B Other Information	23
<b><u>PART III</u></b>	
Item 10 Directors, Executive Officers and Corporate Governance	24
Item 11 Executive Compensation	24
Item 12 Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters	25
Item 13 Certain Relationships And Related Transactions, and Director Independence	25
Item 14 Principal Accountant Fees and Service	25
<b><u>PART IV</u></b>	
Item 15 Exhibits, Financial Statement Schedules	26



In addition to historical information, this document and analysis contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

## **Part I**

### **Item 1. Business**

#### *General*

J & J Snack Foods Corp. (the “Company” or “J & J”) manufactures nutritional snack foods and distributes frozen beverages which it markets nationally to the food service and retail supermarket industries. The Company’s principal snack food products are soft pretzels marketed primarily under the brand name SUPERPRETZEL, frozen juice treats and desserts marketed primarily under the LUIGI’S, WHOLE FRUIT, ICEE and MINUTE MAID® brand names, churros marketed primarily under the TIO PEPE’S and CALIFORNIA CHURROS brand names and bakery products sold primarily under the READI-BAKE, COUNTRY HOME, MARY B’S AND DADDY RAY’S brand names as well as for private label and contract packing. J & J believes it is the largest manufacturer of soft pretzels in the United States, Mexico and Canada. Other snack food products include funnel cake and dough enrobed handheld products. The Company’s principal frozen beverage products are the ICEE brand frozen carbonated beverage and the SLUSH PUPPIE brand frozen uncarbonated beverage.

The Company’s Food Service and Frozen Beverages sales are made primarily to food service customers including snack bar and food stand locations in leading chain, department, discount, warehouse club and convenience stores; malls and shopping centers; fast food outlets; stadiums and sports arenas; leisure and theme parks; movie theatres; independent retailers; and schools, colleges and other institutions. The Company’s retail supermarket customers are primarily supermarket chains.

The Company was incorporated in 1971 under the laws of the State of New Jersey.

The Company has made acquisitions as described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes thereto.

The Company operates in three business segments: Food Service, Retail Supermarkets and Frozen Beverages. These segments are described below.

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. Sales is considered to be the one and only key variable monitored by the Chief Operating Decision Makers and management when determining each segment’s and the company’s financial condition and operating performance. 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 (see Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 8 – Financial Statements and Supplementary Data for financial information about segments).

#### *Food Service*

The primary products sold by the food service segment are soft pretzels, frozen juice treats and desserts, churros, dough enrobed handheld products and baked goods. Our customers in the food service segment include snack bars and food stands in chain, department and discount stores; malls and shopping centers; casual dining restaurants; 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.

\*Minute Maid is a registered trademark of the Coca-Cola Company



### *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, 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 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.

### *Products*

#### **Soft Pretzels**

The Company's soft pretzels are sold under many brand names; some of which are: SUPERPRETZEL, PRETZEL FILLERS, PRETZELFILS, GOURMET TWISTS, MR. TWISTER, SOFT PRETZEL BITES, SOFTSTIX, SOFT PRETZEL BUNS, TEXAS TWIST, KIM & SCOTT'S GOURMET PRETZELS and SERIOUSLY TWISTED!; and, to a lesser extent, under private labels.

Soft pretzels are sold in the Food Service and Retail Supermarket segments. Soft pretzel sales amounted to 21% of the Company's revenue in fiscal year 2013, 18% in 2012 and 18% in 2011.

Certain of the Company's soft pretzels qualify under USDA regulations as the nutritional equivalent of bread for purposes of the USDA school lunch program, thereby enabling a participating school to obtain partial reimbursement of the cost of the Company's soft pretzels from the USDA.

The Company's soft pretzels are manufactured according to a proprietary formula. Soft pretzels, ranging in size from one to ten ounces in weight, are shaped and formed by the Company's twister machines. These soft pretzel tying machines are automated, high-speed machines for twisting dough into the traditional pretzel shape. Additionally, we make soft pretzels which are extruded or shaped by hand. Soft pretzels, after processing, are primarily quick-frozen in either raw or baked form and packaged for delivery.

The Company's principal marketing program in the Food Service segment includes supplying ovens, mobile merchandisers, display cases, warmers and similar merchandising equipment to the retailer to prepare and promote the sale of soft pretzels. Some of this equipment is proprietary, including combination warmer and display cases that reconstitute frozen soft pretzels while displaying them, thus eliminating the need for an oven. The Company retains ownership of the equipment placed in customer locations, and as a result, customers are not required to make an investment in equipment.

### **Frozen Juice Treats and Desserts**

The Company's frozen juice treats and desserts are marketed primarily under the LUIGI'S, WHOLE FRUIT, ICEE and MINUTE MAID brand names. Frozen juice treats and desserts are sold in the Food Service and Retail Supermarkets segments. Frozen juice treats and dessert sales were 11% of the Company's revenue in 2013, 13% of the Company's revenue in 2012 and 14% of the Company's revenue in 2011.

The Company's school food service MINUTE MAID and WHOLE FRUIT frozen juice bars and cups are manufactured from an apple and pineapple juice concentrate to which water, sweeteners, coloring (in some cases) and flavorings are added. The juice bars and cups contain three to four ounces of apple or pineapple juice and 100% of the daily US FDA value of vitamin C. The juice bars are produced in various flavors and are packaged in a sealed push-up paper container referred to as the Milliken M-pak, which the Company believes has certain sanitary and safety advantages.

The balance of the Company's frozen juice treats and desserts products are manufactured from water, sweeteners and fruit juice concentrates in various flavors and packaging including cups, tubes, sticks, M-paks, pints and tubs. Several of the products contain ice cream and WHOLE FRUIT contains pieces of fruit.

## **Churros**

The Company's churros are sold primarily under the TIO PEPE'S and CALIFORNIA CHURROS brand names. Churros are sold to the Food Service and Retail Supermarkets segments. Churro sales were 7% of the Company's sales in fiscal year 2013, 6% of the Company's sales in the fiscal year 2012 and 6% in fiscal year 2011. Churros are Hispanic pastries in stick form which the Company produces in several sizes according to a proprietary formula. The churros are deep fried, frozen and packaged. At food service point-of-sale they are reheated and topped with a cinnamon sugar mixture. The Company also sells fruit and crème-filled churros. The Company supplies churro merchandising equipment similar to that used for its soft pretzels.

## **Handheld Products**

The Company's dough enrobed handheld products are marketed under the PATIO, HAND FULLS, HOLLY RIDGE BAKERY, VILLA TALIANO, TOP PICKS brand names and under private labels. Handheld products are sold to the Food Service and Retail Supermarket segments. Handheld product sales amounted to 6% of the Company's sales in 2013, 6% in 2012 and 2% in 2011.

## **Bakery Products**

The Company's bakery products are marketed under the MRS. GOODCOOKIE, READI-BAKE, COUNTRY HOME, MARY B'S, DADDY RAY'S and JANA'S brand names, and under private labels. Bakery products include primarily biscuits, fig and fruit bars, cookies, breads, rolls, crumb, muffins and donuts. Bakery products are sold to the Food Service segment. Bakery products sales amounted to 32% of the Company's sales in fiscal year 2013, 32% in fiscal year 2012 and 32% in 2011.

## **Frozen Beverages**

The Company markets frozen beverages primarily under the names ICEE, SLUSH PUPPIE and PARROT ICE in the United States, Mexico and Canada. Frozen beverages are sold in the Frozen Beverages segment.

Frozen beverage sales amounted to 15% of revenue in fiscal year 2013, 16% in 2012 and 18% in 2011.

Under the Company's principal marketing program for frozen carbonated beverages, it installs frozen beverage dispensers for its ICEE brand at customer locations and thereafter services the machines, arranges to supply customers with ingredients required for production of the frozen beverages, and supports customer retail sales efforts with in-store promotions and point-of-sale materials. In most cases, the Company retains ownership of its dispensers, and as a result, customers are not required to make an investment in equipment or arrange for the ingredients and supplies necessary to produce and market the frozen beverages. The Company also provides repair and maintenance service to customers for customers' owned equipment and sells equipment in its Frozen Beverages segment, revenue from which amounted to 8% of sales in 2013 and 7% of sales in 2012 and 2011 fiscal years. The Company sells frozen uncarbonated beverages under the SLUSH PUPPIE and PARROT ICE brands through a distributor network and through its own distribution network.

Each new frozen carbonated customer location requires a frozen beverage dispenser supplied by the Company or by the customer. Company-supplied frozen carbonated dispensers are purchased from outside vendors, built new or rebuilt by the Company.

The Company provides managed service and/or products to approximately 93,000 Company-owned and customer-owned dispensers.

The Company has the rights to market and distribute frozen beverages under the name ICEE to the entire continental United States (except for portions of nine states) as well as internationally.

### **Other Products**

Other products sold by the Company include soft drinks, funnel cakes sold under the FUNNEL CAKE FACTORY brand name and smaller amounts of various other food products. These products are sold in the Food Service and Frozen Beverages segments.

### *Customers*

The Company sells its products to two principal channels: food service and retail supermarkets. The primary products sold to the food service channel are soft pretzels, frozen beverages, frozen juice treats and desserts, churros, dough enrobed handheld products and baked goods. The primary products sold to the retail supermarket channel are soft pretzels, frozen juice treats and desserts and dough enrobed handheld products.

We have several large customers that account for a significant portion of our sales. Our top ten customers accounted for 43%, 41% and 43% of our sales during fiscal years 2013, 2012 and 2011, respectively, with our largest customer accounting for 8% of our sales in 2013, 8% of our sales in 2012 and 8% in 2011. Three of the ten customers are food distributors who sell our product to many end users. The loss of one or more of our large customers could adversely affect our results of operations. These customers typically do not enter into long-term contracts and make purchase decisions based on a combination of price, product quality, consumer demand and customer service performance. If our sales to one or more of these customers are reduced, this reduction may adversely affect our business. If receivables from one or more of these customers become uncollectible, our operating income would be adversely impacted.

The Food Service and the Frozen Beverages segments sell primarily to food service channels. The Retail Supermarkets segment sells to the retail supermarket channel.

The Company's customers in the food service segment include snack bars and food stands in chain, department and mass merchandising stores, malls and shopping centers, fast food outlets, casual dining restaurants, stadiums and sports arenas, leisure and theme parks, convenience stores, movie theatres, warehouse club stores, schools, colleges and other institutions, and independent retailers. Machines and machine parts are sold to other food and beverage companies. Within the food service industry, the Company's products are purchased by the consumer primarily for consumption at the point-of-sale.

The Company sells its products to an estimated 85-90% of supermarkets in the United States. Products sold to retail supermarket customers are primarily 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, MARY B'S biscuits and dumplings, DADDY RAY'S fig and fruit bars, ICEE Squeeze-Up Tubes, PATIO burritos and TIO PEPE'S Churros. Within the retail supermarket industry, the Company's frozen and prepackaged products are purchased by the consumer for consumption at home.

### *Marketing and Distribution*

The Company has developed a national marketing program for its products. For Food Service and Frozen Beverages segments' customers, this marketing program includes providing ovens, mobile merchandisers, display cases, warmers, frozen beverage dispensers and other merchandising equipment for the individual customer's requirements and point-of-sale materials as well as participating in trade shows and in-store demonstrations. The Company's ongoing advertising and promotional campaigns for its Retail Supermarket segment's products include trade shows, newspaper advertisements with coupons, in-store demonstrations and consumer advertising campaigns.

The Company develops and introduces new products on a routine basis. The Company evaluates the success of new product introductions on the basis of sales levels, which are reviewed no less frequently than monthly by the Company's Chief Operating Decision Makers.

The Company's products are sold through a network of about 100 food brokers, independent sales distributors and the Company's own direct sales force. For its snack food products, the Company maintains warehouse and distribution facilities in Pennsauken, Bellmawr and Bridgeport, New Jersey; Vernon (Los Angeles) and Colton, California; Scranton, Pittsburgh, Hatfield and Lancaster, Pennsylvania; Carrollton (Dallas), Texas; Atlanta, Georgia; Moscow Mills (St. Louis), Missouri; Pensacola, Florida; Solon, Ohio; Weston, Oregon; and Holly Ridge, North Carolina. Frozen beverages are distributed from 141 Company managed warehouse and distribution facilities located in 44 states, Mexico and Canada, which allow the Company to directly service its customers in the surrounding areas. The Company's products are shipped in refrigerated and other vehicles from the Company's manufacturing and warehouse facilities on a fleet of Company operated tractor-trailers, trucks and vans, as well as by independent carriers.

### *Seasonality*

The Company's sales are seasonal because frozen beverage sales and frozen juice treats and desserts sales are generally higher during the warmer months.

### *Trademarks and Patents*

The Company has numerous trademarks, the most important of which are SUPERPRETZEL, TEXAS TWIST, MR. TWISTER, SOFT PRETZEL BITES, SOFTSTIX, PRETZEL FILLERS and PRETZELFILS for its pretzel products; FROSTAR, SHAPE-UPS, MAMA TISH'S, FRUIT-A-FREEZE, WHOLE FRUIT and LUIGI'S for its frozen juice treats and desserts; TIO PEPE'S and CALIFORNIA CHURROS for its churros; ARCTIC BLAST, SLUSH PUPPIE and PARROT ICE for its frozen beverages; FUNNEL CAKE FACTORY for its funnel cake products, PATIO for its handheld burritos and MRS. GOODCOOKIE, READI-BAKE, COUNTRY HOME, CAMDEN CREEK, MARY B'S, JANA'S and DADDY RAY'S for its bakery products.

The Company markets frozen beverages under the trademark ICEE in all of the continental United States, except for portions of nine states, and in Mexico and Canada. Additionally, the Company has the international rights to the trademark ICEE.

The trademarks, when renewed and continuously used, have an indefinite term and are considered important to the Company as a means of identifying its products. The Company considers its trademarks important to the success of its business.

The Company has numerous patents related to the manufacturing and marketing of its product.

### *Supplies*

The Company's manufactured products are produced from raw materials which are readily available from numerous sources. With the exception of the Company's soft pretzel twisting equipment and funnel cake production equipment, which are made for J & J by independent third parties, and certain specialized packaging equipment, the Company's manufacturing equipment is readily available from various sources. Syrup for frozen beverages is purchased primarily from The Coca-Cola Company, Dr Pepper/Seven Up, Inc., the Pepsi Cola Company, and Jogue, Inc. Cups, straws and

lids are readily available from various suppliers. Parts for frozen beverage dispensing machines are purchased from several sources. Frozen beverage dispensers are purchased primarily from IMI Cornelius, Inc. and FBD Partnership.

### *Competition*

Snack food and bakery products markets are highly competitive. The Company's principal products compete against similar and different food products manufactured and sold by numerous other companies, some of which are substantially larger and have greater resources than the Company. As the soft pretzel, frozen juice treat and dessert, bakery products and related markets grow, additional competitors and new competing products may enter the markets. Competitive factors in these markets include product quality, customer service, taste, price, identity and brand name awareness, method of distribution and sales promotions.

The Company believes it is the only national distributor of soft pretzels. However, there are numerous regional and local manufacturers of food service and retail supermarket soft pretzels as well as several chains of retail pretzel stores.

In Frozen Beverages the Company competes directly with other frozen beverage companies. These include several companies which have the right to use the ICEE name in portions of nine states. There are many other regional frozen beverage competitors throughout the country and one large retail chain which uses its own frozen beverage brand.

The Company competes with large soft drink manufacturers for counter and floor space for its frozen beverage dispensing machines at retail locations and with products which are more widely known than the ICEE, SLUSH PUPPIE, PARROT ICE and ARCTIC BLAST frozen beverages.

The Company competes with a number of other companies in the frozen juice treat and dessert and bakery products markets.



*Risks Associated with Foreign Operations*

Foreign operations generally involve greater risk than doing business in the United States. Foreign economies differ favorably or unfavorably from the United States' economy in such respects as the level of inflation and debt, which may result in fluctuations in the value of the country's currency and real property. Sales of our foreign operations were \$23,161,000, \$19,491,000 and \$18,025,000 in fiscal years 2013, 2012 and 2011, respectively. At September 28, 2013, the total assets of our foreign operations were approximately \$24 million or 3.7% of total assets. At September 29, 2012, the total assets of our foreign operations were approximately \$16.3 million or 2.7% of total assets.

*Employees*

The Company has about 3,400 full and part time employees as of September 28, 2013. About 900 production and distribution employees throughout the Company are covered by collective bargaining agreements.

The Company considers its employee relations to be good.

*Available Information*

The Company's internet address is [www.jjsnack.com](http://www.jjsnack.com). On the investor relations section of its website, the Company provides free access to its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). The information on the website listed above is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document.

**Item 1A. Risk Factors**

You should carefully consider the risks described below, together with all of the other information included in this report, in considering our business and prospects. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem insignificant may also impair our business operations. Following is a discussion of known potentially significant risks which could result in harm to our business, financial condition or results of operations.

*Risks of Shortages or Increased Cost of Raw Materials*

We are exposed to the market risks arising from adverse changes in commodity prices, affecting the cost of our raw materials and energy. The raw materials and energy which we use for the production and distribution of our products are largely commodities that are subject to price volatility and fluctuations in availability caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. We purchase these materials and energy mainly in the open market. If commodity price changes result in increases in raw materials and energy costs, we may not be able to increase our prices to offset these increased costs without suffering reduced volume, revenue and operating income.

*General Risks of the Food Industry*

Food processors are subject to the risks of adverse changes in general economic conditions; evolving consumer preferences and nutritional and health-related concerns; changes in food distribution channels; federal, state and local food processing controls or other mandates; consumer product liability claims; and risks of product tampering. The increased buying power of large supermarket chains, other retail outlets and wholesale food vendors could result in greater resistance to price increases and could alter the pattern of customer inventory levels and access to shelf space.

*Environmental Risks*

The disposal of solid and liquid waste material resulting from the preparation and processing of foods is subject to various federal, state and local laws and regulations relating to the protection of the environment. Such laws and regulations have an important effect on the food processing industry as a whole, requiring substantially all firms in the industry to incur material expenditures for modification of existing processing facilities and for construction of upgraded or new waste treatment facilities.

We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. Enactment of more stringent laws or regulations or more strict interpretation of existing laws and regulations may require additional expenditures by us, some of which could be material.

#### *Risks Resulting from Several Large Customers*

We have several large customers that account for a significant portion of our sales. Our top ten customers accounted for 43%, 41% and 43% of our sales during fiscal years 2013, 2012 and 2011, respectively, with our largest customer accounting for 8% of our sales in 2013, 8% of our sales in 2012 and 8% in 2011. Three of the ten customers are food distributors who sell our product to many end users. The loss of one or more of our large customers could adversely affect our results of operations. These customers typically do not enter into long-term contracts and make purchase decisions based on a combination of price, product quality, consumer demand and customer service performance. If our sales to one or more of these customers are reduced, this reduction may adversely affect our business. If receivables from one or more of these customers become uncollectible, our operating income would be adversely impacted.

#### *Competition*

Our businesses operate in highly competitive markets. We compete against national and regional manufacturers and distributors on the basis of price, quality, product variety and effective distribution. Many of our major competitors in the market are larger and have greater financial and marketing resources than we do. Increased competition and anticipated actions by our competitors could lead to downward pressure on prices and/or a decline in our market share, either of which could adversely affect our results. See “Competition” in Item 1 for more information about our competitors.

#### *Risks Relating to Manufacturing*

Our ability to purchase, manufacture and distribute products is critical to our success. Damage or disruption to our manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemic, political upheaval, strikes or other reasons could impair our ability to manufacture or distribute our products.

*Our Certificate of Incorporation may inhibit a change in control that you may favor*

Our Certificate of Incorporation contains provisions that may delay, deter or inhibit a future acquisition of J & J Snack Foods Corp. not approved by our Board of Directors. This could occur even if our shareholders are offered an attractive value for their shares or if a substantial number or even a majority of our shareholders believe the takeover is in their best interest. These provisions are intended to encourage any person interested in acquiring us to negotiate with and obtain the approval of our Board of Directors in connection with the transaction. Provisions that could delay, deter or inhibit a future acquisition include the following:

- a classified Board of Directors;
- the requirement that our shareholders may only remove Directors for cause;
- limitations on share holdings and voting of certain persons;
- special Director voting rights; and
- the ability of the Board of Directors to consider the interests of various constituencies, including our employees, customers, suppliers, creditors and the local communities in which we operate.

*Risks Relating to the Control by Gerald B. Shreiber*

Gerald B. Shreiber is the founder of the Company and the current beneficial owner of 20% of its outstanding stock. Our Certificate of Incorporation provides that he has three votes on the Board of Directors (subject to certain adjustments). Therefore, he and one other director have voting control of the Board. The performance of this Company is greatly impacted by his leadership and decisions. His voting control reduces the restrictions on his actions. His retirement, disability or death may have a significant impact on our future operations.

*Risk Related to Product Changes*

There are risks in the marketplace related to trade and consumer acceptance of product improvements, packing initiatives and new product introductions.

*Risks Related to Change in the Business*

Our ability to successfully manage changes to our business processes, including selling, distribution, product capacity, information management systems and the integration of acquisitions, will directly affect our results of operations.

*Risks Associated with Foreign Operations*

Foreign operations generally involve greater risk than doing business in the United States. Foreign economies differ favorably or unfavorably from the United States' economy in such respects as the level of inflation and debt, which may result in fluctuations in the value of the country's currency and real property. Further, there may be less government regulation in various countries, and difficulty in enforcing legal rights outside the United States. Additionally, in some foreign countries, there is the possibility of expropriation or confiscatory taxation limitations on the removal of property or other assets, political or social instability or diplomatic developments which could affect the operations and assets of U.S. companies doing business in that country. Sales of our foreign operations were \$23,161,000, \$19,491,000 and \$18,025,000 in fiscal years 2013, 2012 and 2011, respectively. At September 28, 2013, the total assets of our foreign operations were approximately \$24 million or 3.7% of total assets. At September 29, 2012, the total assets of our foreign operations were approximately \$16.3 million or 2.7% of total assets.

*Seasonality and Quarterly Fluctuations*

Our sales are affected by the seasonal demand for our products. Demand is greater during the summer months primarily as a result of the warm weather demand for our ICEE and frozen juice treats and desserts products. Because of seasonal fluctuations, there can be no assurance that the results of any particular quarter will be indicative of results for the full year or for future years.

**Item 1B. Unresolved Staff Comments**

We have no unresolved SEC staff comments to report.

**Item 2. Properties**

The Company's primary east coast manufacturing facility is located in Pennsauken, New Jersey in a 70,000 square foot building on a two-acre lot. Soft pretzels are manufactured at this Company-owned facility which also serves as the Company's corporate headquarters. This facility operates at approximately 50% of capacity. The Company owns a 128,000 square foot building adjacent to this manufacturing facility which contains a large freezer for warehousing and distribution purposes. The warehouse has a utilization rate of 80-90% depending on product demand. The Company leases, through January 2022, 16,000 square feet of office and warehouse space located next to the Pennsauken, New Jersey plant and owns a 43,000 square foot office and warehouse building in the same complex.

The Company owns a 150,000 square foot building on eight acres in Bellmawr, New Jersey. The facility is used by the Company to manufacture some of its products including funnel cake, pretzels and churros. The facility operates at about 65% of capacity.

The Company's primary west coast manufacturing facility is located in Vernon (Los Angeles), California. It consists of a 137,000 square foot facility in which soft pretzels, churros and various lines of baked goods are produced and warehoused. Included in the 137,000 square foot facility is a 30,000 square foot freezer used for warehousing and distribution purposes. The facility is leased through November 2030. The Company leases an additional 80,000 square feet of office and warehouse space, adjacent to its manufacturing facility, through November 2030. The manufacturing facility operates at approximately 45% of capacity.

The Company leases through June 2015 45,000 square foot churros manufacturing facility located in Colton, California which operates at approximately 60% of capacity.

The Company leases an 85,000 square foot bakery manufacturing facility located in Atlanta, Georgia. The lease runs through December 2020. The facility operates at about 55% of capacity.

The Company owns a 46,000 square foot frozen juice treat and dessert manufacturing facility and a 42,000 square foot dry storage warehouse located on six acres in Scranton, Pennsylvania. The manufacturing facility operates at approximately 65% of capacity.

The Company leases a 29,600 square foot soft pretzel manufacturing facility located in Hatfield, Pennsylvania. The lease runs through June 2017. The facility operates at approximately 60% of capacity.

The Company leases a 48,000 square foot soft pretzel manufacturing facility located in Carrollton, Texas. The lease runs through April 2019. The facility operates at approximately full capacity. The Company leases an additional property containing a 6,500 square foot storage freezer across the street from the manufacturing facility, which lease expires May 2016.

The Company leases an 18,000 square foot soft pretzel manufacturing facility located in Chambersburg, Pennsylvania. The lease runs through September 2016. The facility operates at approximately 30% of capacity.

The Company's fresh bakery products manufacturing facility and offices are located in Bridgeport, New Jersey in three buildings totaling 133,000 square feet. The buildings are leased through December 2015. The manufacturing facility operates at approximately 55% of capacity.

The Company owns a 165,000 square foot fig and fruit bar manufacturing facility located on 9-1/2 acres in Moscow Mills (St. Louis), Missouri. The facility operates at about 55% of capacity.

The Company leases a building in Pensacola, Florida for the manufacturing, packing and warehousing of dumplings. The building is approximately 14,000 square feet and the lease runs through December 2017. The manufacturing facility operates at approximately 75% of capacity.

The Company owns an 84,000 square foot handheld products manufacturing facility in Holly Ridge, North Carolina, which operates at about 40% of capacity.

The Company leases a 70,000 square foot handheld products manufacturing facility in Weston, Oregon, which operates at about 45% of capacity. The facility is leased through May 13, 2021.

The Company also leases approximately 141 warehouse and distribution facilities in 44 states, Mexico and Canada.

**Item 3. Legal Proceedings**

The Company has no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party or of which any of their property is subject.

**Item 4. Mine Safety Disclosures**

Not Applicable



**PART II****Item 5. Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities**

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol "JJSF." The following table sets forth the high and low sale price quotations as reported by NASDAQ and dividend information for the common stock for each quarter of the years ended September 29, 2012 and September 28, 2013.

	<b>Common Stock Market Price</b>		<b>Dividend</b>
	<b>High</b>	<b>Low</b>	<b>Declared</b>
<b><u>Fiscal 2012</u></b>			
First quarter	\$54.53	\$45.12	\$ 0.1300
Second quarter	54.17	46.73	0.1300
Third quarter	58.15	48.57	0.1300
Fourth quarter	59.80	51.91	0.1300
<b><u>Fiscal 2013</u></b>			
First quarter	\$65.60	\$55.96	\$ 0.1600
Second quarter	77.33	61.52	0.1600
Third quarter	80.85	72.80	0.1600
Fourth quarter	84.48	74.63	0.1600

As of October 23, 2013, we had 7,550 beneficial shareholders.

In our fiscal year ended September 28, 2013, we purchased and retired 204,397 shares of our common stock at a cost of \$14,500,215. In our first quarter, we purchased and retired 48,255 shares at a cost of \$2,762,622. In our third quarter, we purchased and retired 58,840 shares at a cost of \$4,435,078. In our fourth quarter, we purchased and retired 97,302 shares at a cost of \$7,302,515.

In our fiscal year ended September 29, 2012, we purchased and retired 142,038 shares of our common stock at a cost of \$8,167,125.

In our fiscal year ended September 24, 2011, we did not purchase and retire any shares of our common stock.

On November 8, 2012 the Company's Board of directors authorized the purchase and retirement of an additional 500,000 shares of the Company's common stock; 343,858 shares remain to be purchased under that authorization.

For information on the Company's Equity Compensation Plans, please see Item 12 herein.

## Stock Performance Graph

**Item 6. Selected Financial Data**

The selected financial data for the last five years was derived from our audited consolidated financial statements. The following selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes thereto, especially as the information pertains to fiscal 2011, 2012 and 2013.

	<b>Fiscal year ended in September</b>				
	<b>(In thousands except per share data)</b>				
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net Sales	\$867,683	\$830,796	\$744,071	\$696,703	\$653,047
Net Earnings	\$64,381	\$54,118	\$55,063	\$48,409	\$41,312
Total Assets	\$645,661	\$603,044	\$550,816	\$483,994	\$439,827
Long-Term Debt	\$-	\$-	\$-	\$-	\$-
Capital Lease Obligations	\$347	\$687	\$801	\$863	\$381
Stockholders' Equity	\$516,565	\$475,487	\$432,388	\$380,575	\$342,844
Common Share Data					
Earnings Per Diluted Share	\$3.41	\$2.86	\$2.93	\$2.59	\$2.21
Earnings Per Basic Share	\$3.43	\$2.87	\$2.95	\$2.61	\$2.23
Book Value Per Share	\$27.66	\$25.32	\$23.09	\$20.58	\$18.51
Common Shares Outstanding At Year End	18,677	18,780	18,727	18,491	18,526
Cash Dividends Declared Per Common Share	\$0.64	\$0.52	\$0.47	\$0.43	\$0.39

## **Item 7. Management’s Discussion And Analysis Of Financial Condition And Results Of Operations**

In addition to historical information, this document and analysis contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

### **Critical Accounting Policies, Judgments and Estimates**

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of those financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company discloses its significant accounting policies in the accompanying notes to its audited consolidated financial statements.

Judgments and estimates of uncertainties are required in applying the Company’s accounting policies in certain areas. Following are some of the areas requiring significant judgments and estimates: revenue recognition, accounts receivable, cash flow and valuation assumptions in performing asset impairment tests of long-lived and intangible assets, estimates of the value and useful lives of intangible assets and insurance reserves.

There are numerous critical assumptions that may influence accounting estimates in these and other areas. We base our critical assumptions on historical experience, third-party data and various other estimates we believe to be reasonable. A description of the aforementioned policies follows:

*Revenue Recognition* - 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. Off-invoice allowances are deducted directly from the amount invoiced to our customer when our products are shipped to the customer. Offsets to revenue for allowances, end-user pricing adjustments and trade spending are recorded primarily as a reduction of accounts receivable based on our estimates of liability which are based on customer programs and historical experience. These offsets to revenue are based primarily on the quantity of product purchased over specific time periods. For our Retail Supermarket and Frozen Beverages segments, we accrue for the liability based on products sold multiplied by per product offsets. Offsets to revenue for our Food Service segment are calculated in a similar manner for offsets owed to our direct customers; however, because shipments to end-users are unknown to us until reported by our direct customers or by the end-users, there is a greater degree of uncertainty as to the accuracy of the amounts accrued for end-user offsets. Additional uncertainty may occur as customers take deductions when they make payments to us. This creates complexities because our customers do not always provide reasons for the deductions taken. Additionally, customers may take deductions to which they are not entitled and the length of time customers take deductions to which they are entitled can vary from two weeks to well over a year. Because of the aforementioned uncertainties, the process to determine these estimates requires judgment. We feel that due to constant monitoring of the process, including but not limited to comparing actual results to estimates made on a monthly basis, these estimates are reasonable in all material respects. Our recorded liability for allowances, end-user pricing adjustments and trade spending was approximately \$10 million at September 28, 2013 and \$12 million at September 29, 2012, respectively.

*Accounts Receivable* - We record accounts receivable at the time revenue is recognized. Bad debt expense is recorded in marketing and administrative expenses. The amount of the allowance for doubtful accounts is based on our estimate of the accounts receivable amount that is uncollectable. It is comprised of a general reserve based on historical experience and amounts for specific customers' accounts receivable balances that we believe are at risk due to our knowledge of facts regarding the customer(s). We continually monitor our estimate of the allowance for doubtful accounts and adjust it monthly. We usually have approximately 15 customers with accounts receivable balances of between \$1 million to \$10 million. Failure of these customers, and others with lesser balances, to pay us the amounts owed, could have a material impact on our consolidated financial statements.

Accounts receivable due from any of our customers is subject to risk. Our total bad debt expense was \$276,000 and \$423,000 for the fiscal years 2012 and 2011, respectively. We had a credit to expense of \$70,000 in fiscal year 2013. At September 28, 2013 and September 29, 2012, our accounts receivables were \$87,545,000 and \$76,414,000 net of an allowance for doubtful accounts of \$854,000 and \$987,000.

*Asset Impairment* – We have three reporting units with goodwill totaling \$76,899,000 as of September 28, 2013. Goodwill is evaluated annually by the Company for impairment. We perform impairment tests for our reporting units, which is also the operating segment level, with recorded goodwill utilizing primarily the discounted cash flow method. This methodology used to estimate the fair value of the total Company and its reporting units requires inputs and assumptions (i.e. revenue growth, operating profit margins, capital spending requirements and discount rates) that reflect current market conditions. The estimated fair value of each reporting unit is compared to the carrying value of the reporting unit. If the carrying value of the reporting unit exceeds its fair value, the goodwill of the reporting unit is potentially impaired, and the Company then determines the implied fair value of goodwill, which is compared to the carrying value of goodwill to determine if impairment exists. Our tests at September 28, 2013 show that the fair value of each of our reporting units with goodwill exceeded its carrying value. Therefore no further analysis was required. The inputs and assumptions used involve considerable management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning. The actual performance of the reporting units could differ from management’s estimates due to changes in business conditions, operating performance, economic conditions, competition and consumer preferences.

Licenses and rights, customer relationships and non compete agreements are being amortized by the straight-line method over periods ranging from 3 to 20 years and amortization expense is reflected throughout operating expenses. Long-lived assets, including fixed assets and amortizing intangibles, are reviewed for impairment as events or changes in circumstances occur indicating that the carrying amount of the asset may not be recoverable. Indefinite lived intangibles are reviewed annually for impairment. Cash flow and sales analyses are used to assess impairment. The estimates of future cash flows and sales involve considerable management judgment and are based upon assumptions about expected future operating performance. Assumptions used in these forecasts are consistent with internal planning. The actual cash flows and sales could differ from management’s estimates due to changes in business conditions, operating performance, economic conditions, competition and consumer preferences.

*Useful Lives of Intangible Assets* - Most of our trade names which have carrying value have been assigned an indefinite life and are not amortized because we plan to receive the benefit from them indefinitely. If we decide to curtail or eliminate the use of any of the trade names or if sales that are generated from any particular trade name do not support the carrying value of the trade name, then we would record impairment or assign an estimated useful life and amortize over the remaining useful life. Rights such as prepaid licenses and non compete agreements are amortized over contractual periods. The useful lives of customer relationships are based on the discounted cash flows expected to be received from sales to the customers adjusted for an attrition rate. The loss of a major customer or declining sales in general could create an impairment charge.

*Insurance Reserves* - We have a self-insured medical plan which covers approximately 1,400 of our employees. We record a liability for incurred but not yet reported or paid claims based on our historical experience of claims payments and a calculated lag time period. We maintain a spreadsheet that includes claims payments made each month according to the date the claim was incurred. This enables us to have an historical record of claims incurred but not yet paid at any point in the past. We then compare our accrued liability to the more recent claims incurred but not yet paid amounts and adjust our recorded liability up or down accordingly. Our recorded liability at September 28, 2013 and September 29, 2012 was \$1,516,000 and \$1,332,000, respectively. Considering that we have stop loss coverage of \$200,000 for each individual plan subscriber, the general consistency of claims payments and the short time lag, we believe that there is not a material exposure for this liability. Because of the foregoing, we do not engage a third party actuary to assist in this analysis.

We self-insure, up to loss limits, worker's compensation and automobile liability claims. Accruals for claims under our self-insurance program are recorded on a claims-incurred basis. Under this program, the estimated liability for claims incurred but unpaid in fiscal years 2013 and 2012 was \$3,200,000 and \$1,800,000, respectively. Our total recorded liability for all years' claims incurred but not yet paid was \$8,500,000 and \$6,200,000 at September 28, 2013 and September 29, 2012, respectively. We estimate the liability based on total incurred claims and paid claims adjusting for loss development factors which account for the development of open claims over time. We estimate the amounts we expect to pay for some insurance years by multiplying incurred losses by a loss development factor which is based on insurance industry averages and the age of the incurred claims; our estimated liability is then the difference between the amounts we expect to pay and the amounts we have already paid for those years. Loss development factors that we use range from 1.0 to 2.0. However, for some years, the estimated liability is the difference between the amounts we have already paid for that year and the maximum we could pay under the program in effect for that particular year because the calculated amount we expect to pay is higher than the maximum. For other years, where there are few claims open, the estimated liability we record is the amount the insurance company has reserved for those claims. We evaluate our estimated liability on a continuing basis and adjust it accordingly. Due to the multi-year length of these insurance programs, there is exposure to claims coming in lower or higher than anticipated; however, due to constant monitoring and stop loss coverage of \$350,000 on individual claims, we believe our exposure is not material. Because of the foregoing, we do not engage a third party actuary to assist in this analysis. In connection with these self-insurance agreements, we customarily enter into letters of credit arrangements with our insurers. At each of September 28, 2013 and September 29, 2012, we had outstanding letters of credit totaling \$8,175,000.

Refer to Note A to the accompanying consolidated financial statements for additional information on our accounting policies.

## RESULTS OF OPERATIONS

### Fiscal 2013 (52 weeks) Compared to Fiscal 2012 (53 weeks)

Net sales increased \$36,887,000, or 4%, to \$867,683,000 in fiscal 2013 from \$830,796,000 in fiscal 2012. Excluding sales from the extra week in 2012, sales increased approximately 6 1/2% from 2012 to 2013.

Excluding sales from the acquisition of Kim & Scott's Gourmet Pretzels in June 2012 in the twelve months post acquisition and the extra week in 2012, sales increased approximately 6% for the year.

We have three reportable segments, as disclosed in the accompanying notes to the consolidated financial statements: Food Service, Retail Supermarkets and Frozen Beverages.

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. Sales is considered to be the one and only key variable monitored by the Chief Operating Decision Makers and management when determining each segment's and the company's financial condition and operating performance. 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.

### FOOD SERVICE

Sales to food service customers increased \$39,497,000 or 8%, to \$560,759,000 in fiscal 2013. Excluding sales from the extra week in 2012, sales increased approximately 10% from 2012 to 2013. Excluding Kim & Scott's sales in the twelve months post acquisition and the extra week in 2012, sales increased approximately 9% for the year. Soft pretzel sales to the food service market increased 23% to \$145,026,000 for the year aided by increased sales to restaurant chains, warehouse club stores and throughout our customer base. Increased sales to two customers accounted for approximately 1/3 of the pretzel sales increase. Excluding Kim & Scott's sales, food service soft pretzel



sales increased 20% for the year. Frozen juice bar and ices sales decreased \$4,982,000 or 9%, to \$48,831,000 for the year primarily as the result of lower sales to warehouse club stores due we believe to weather and school food service accounts due to changes in USDA school food programs. We believe the impact of the changes in the USDA school food programs on our frozen juice and ices sales has bottomed out. Churro sales to food service customers increased 22% to \$56,099,000 in 2013 with sales to one restaurant chain accounting for all of the sales increase. Sales of bakery products increased \$8,591,000, or 3%, for the year as sales increases and decreases were spread throughout our customer base. Handheld sales to food service customers were down 5% to \$26,488,000 in 2013 as two customers accounted for all of the decrease in sales. Sales of new products in the first twelve months since their introduction were approximately \$11.2 million for the year. Price increases accounted for approximately \$11.6 million of sales for the year and net volume increases, including new product sales as defined above and sales resulting from the acquisition of Kim & Scott's, accounted for approximately \$27.9 million of sales for the year. Operating income in our Food Service segment increased from \$49,770,000 in 2012 to \$65,907,000 in 2013. Operating income benefited from increased sales volume, price increases and lower ingredient and packaging costs of approximately \$2 million. Operating income was impacted by a product write down of \$500,000 and by a \$2.1 million increase in liability insurance expense from last year. The increase in insurance expense is due to an increase in claims and estimates for claims incurred but not yet paid.

## RETAIL SUPERMARKETS

Sales of products to retail supermarkets decreased \$7,529,000 or 7% to \$102,339,000 in fiscal year 2013. Excluding sales from the extra week in 2012, sales decreased approximately 5% from 2012 to 2013. Excluding Kim & Scott's sales in the twelve months post acquisition and the extra week in 2012, sales decreased approximately 5% for the year. Soft pretzel sales to retail supermarkets were \$34,597,000 compared to \$33,842,000 in 2012 on a unit volume increase of 2%. Sales of frozen juices and ices decreased \$5,596,000 or 10% to \$48,077,000 on a volume decrease of about 9%. Frozen juices and ices sales were impacted by cold weather throughout the second half of the year. Coupon redemption costs, a reduction of sales, increased 14% or about \$459,000 for the year. Handheld sales to retail supermarket customers decreased 8% to \$22,528,000 in 2013 as two customers accounted for all of the decrease in sales. Sales of products in the first twelve months since their introduction were approximately \$1.4 million in fiscal year 2013. Price increases accounted for approximately \$2.9 million of sales for the year and net volume decreases, including new product sales as defined above and Kim & Scott's sales and net of increased coupon costs, reduced sales by approximately \$10.4 million for the year. Operating income in our Retail Supermarkets segment decreased from \$13,316,000 in 2012 to \$8,594,000 in 2013 with 84% of the decrease, or \$3,982,000, coming in the fourth quarter. The fourth quarter was impacted by sharply lower sales of frozen juices and ices, which were down 26%, and by increased trade spending needed to generate those sales. We believe that the impact of cold weather on frozen novelties' sales was widespread among manufacturers.

## FROZEN BEVERAGES

Frozen beverage and related product sales increased 2% to \$204,585,000 in fiscal 2013. Excluding sales from the extra week in 2012, sales increased approximately 4% from 2012 to 2013. Beverage sales alone decreased 2% to \$132,274,000 for the year with increases and decreases throughout our customer base. Gallon sales were down 4% in our base ICEE business. Service revenue increased 8% to \$52,813,000 for the year with increases and decreases spread across our customer base. Sales of beverage machines, which tend to fluctuate from year to year while following no specific trend, increased from \$13,136,000 in 2012 to \$17,376,000 in 2013. The estimated number of Company owned frozen beverage dispensers was 44,700 and 42,500 at September 28, 2013 and September 29, 2012, respectively. Operating income in our Frozen Beverage segment increased from \$21,881,000 in 2012 to \$22,903,000 in 2013 as a result of increased service revenue and machine sales as discussed above and controlled expenses.

## CONSOLIDATED

Other than as commented upon above by segment, there are no material specific reasons for the reported sales increases or decreases. Sales levels can be impacted by the appeal of our products to our customers and consumers and their changing tastes, competitive and pricing pressures, sales execution, marketing programs, seasonal weather, customer stability and general economic conditions.

Gross profit as a percentage of sales increased to 30.35% in 2013 from 30.11% in 2012 primarily due to higher volume in our food service segment, and the margin also benefitted by lower ingredient and packaging costs of about \$2.3 million. Gross profit was impacted by about \$2.1 million of increased liability insurance expense compared to last year and a product write down of \$500,000 related to a new product that was not successful. Ingredient and packaging costs can be extremely volatile and may be significantly different from what we are presently expecting and therefore we cannot project the impact of ingredient and packaging costs on our business going forward.

Total operating expenses increased \$680,000 to \$165,898,000 in fiscal 2013 but as a percentage of sales decreased .77 percentage points to 19% of sales. Marketing expenses decreased .65 percentage points and remained at 9% of sales as a result of higher sales and lower expenses of which about \$800,000 resulted from a management and sales meeting held in 2012 which did not reoccur in 2013. Distribution expenses as a percent of sales were 7.49% in both years. Administrative expenses were 3.16% and 3.15% of sales in 2013 and 2012, respectively. Other general income of \$651,000 this year compared to other general expense of \$458,000 in 2012. Included in other general income in 2013 is \$805,000 of settlement income related to prior acquisitions. Included in other general expense in 2012 is \$404,000 of acquisition costs and costs of relocating Kim & Scott's operations.

Operating income increased \$12,437,000 or 15% to \$97,404,000 in fiscal year 2013 as a result of the aforementioned items.

Investment income increased by \$2,100,000 to \$3,492,000 due to increased investments in marketable securities. We invested \$80 million in the first quarter and \$30 million in the third quarter in mutual funds that seek current income with an emphasis on maintaining low volatility and overall moderate duration. We estimate the annual yield from these funds to approximate 3.5 – 3.75%. US Government Agency debt of \$23.0 million held at September 29, 2012 which was yielding 2.0% was called in the year ended September 28, 2013.

The effective income tax rate decreased to 36% from 37% last year because actual liability for last year's taxes was less than estimated and the estimate for this year's taxes has been lowered accordingly.

Net earnings increased \$10,263,000 or 19%, in fiscal 2013 to \$64,381,000, or \$3.41 per diluted share as a result of the aforementioned items.

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

#### **Fiscal 2012 (53 weeks) Compared to Fiscal 2011 (52 weeks)**

Net sales increased \$86,725,000, or 12%, to \$830,796,000 in fiscal 2012 from \$744,071,000 in fiscal 2011. Excluding sales from the extra week in 2012, sales increased approximately 10% from 2011 to 2012.

Excluding sales from the acquisitions of the frozen handheld business of ConAgra Foods in May 2011 and Kim & Scott's Gourmet Pretzels in June 2012 in the twelve months post acquisitions and the extra week in 2012, sales increased approximately 5% for the year.

We have three reportable segments, as disclosed in the accompanying notes to the consolidated financial statements: Food Service, Retail Supermarkets and Frozen Beverages.

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. Sales is considered to be the one and only key variable

monitored by the Chief Operating Decision Makers and management when determining each segment's and the company's financial condition and operating performance. 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.

## FOOD SERVICE

Sales to food service customers increased \$57,700,000 or 12%, to \$521,262,000 in fiscal 2012. Excluding sales from the extra week in 2012, sales increased approximately 10% from 2011 to 2012. Excluding handhelds and Kim & Scott's sales in the twelve months post acquisitions and the extra week in 2012, sales increased approximately 6% for the year. Soft pretzel sales to the food service market increased 14% to \$118,014,000 for the year aided by increased sales to restaurant chains, warehouse club stores and throughout our customer base. Increased sales to one customer accounted for approximately 25% of the pretzel sales increase. Excluding Kim & Scott's sales, food service soft pretzel sales increased 12% for the year. Frozen juice bar and ices sales increased \$4,073,000 or 8%, to \$53,813,000 for the year primarily as the result of higher sales to warehouse club stores and throughout our customer base. Increased sales to one customer accounted for about 85% of the frozen juices and ices sales increase. Churro sales to food service customers increased 11% to \$45,974,000 in 2012 with sales increasing generally throughout our customer base, with sales to international customers accounting for about 1/3 of the sales increase. Sales of bakery products increased \$24,904,000, or 10%, for the year as sales were spread throughout our customer base. Handheld sales to food service customers were \$27,818,000 in 2012. Funnel cake and related funnel cake product sales decreased by \$8,564,000 to \$8,033,000 with lower sales to three customers accounting for all of the decrease. Sales of new products in the first twelve months since their introduction were approximately \$15.2 million for the year. Price increases accounted for approximately \$16.1 million of sales for the year and net volume increases, including new product sales as defined above and sales resulting from the acquisitions of Kim & Scott's and the handheld business, accounted for approximately \$41.6 million of sales for the year. Operating income in our Food Service segment increased from \$46,171,000 in 2011 to \$49,770,000 in 2012 primarily as a result of increased sales volume and price increases which offset higher ingredient and packaging cost increases of about \$9 million and the negative impact of the sharp decline in funnel cake sales.

## RETAIL SUPERMARKETS

Sales of products to retail supermarkets increased \$18,769,000 or 21% to \$109,868,000 in fiscal year 2012. Excluding sales from the extra week in 2012, sales increased approximately 18% from 2011 to 2012. Excluding handheld sales and Kim & Scott's sales in the twelve months post acquisitions and the extra week in 2012, sales increased approximately 2% for the year. Soft pretzel sales to retail supermarkets were \$33,842,000 compared to \$32,044,000 in 2011 on a unit volume increase of 2%. Sales of frozen juices and ices increased \$1,733,000 or 3% to \$53,673,000 on flat volume. Coupon redemption costs, a reduction of sales, decreased 16% or about \$635,000 for the year. Handheld sales to retail supermarket customers were \$24,358,000 in 2012. Sales of products in the first twelve months since their introduction were approximately \$7.0 million in fiscal year 2012. Price increases accounted for approximately \$3.7 million of sales for the year and net volume increases, including new product sales as defined above and handheld sales and Kim & Scott's sales and net of decreased coupon costs, accounted for approximately \$15.0 million of sales for the year. Operating income in our Retail Supermarkets segment increased from \$11,830,000 in 2011 to \$13,316,000 in 2012 primarily due to operating income generated by handheld sales and lower coupon expense.

## FROZEN BEVERAGES

Frozen beverage and related product sales increased 5% to \$199,666,000 in fiscal 2012. Excluding sales from the extra week in 2012, sales increased approximately 4% from 2011 to 2012. Beverage sales alone increased 2% to \$135,436,000 for the year with increases and decreases throughout our customer base. Domestic gallon sales were flat in our base ICEE business. Service revenue increased 15% to \$49,115,000 for the year with increases and decreases spread across our customer base. Sales of beverage machines, which tend to fluctuate from year to year while following no specific trend, increased from \$11,362,000 in 2011 to \$13,136,000 in 2012. The estimated number of Company owned frozen beverage dispensers was 42,500 and 40,800 at September 29, 2012 and September 24, 2011, respectively. Operating income in our Frozen Beverage segment increased from \$18,582,000 in 2011 to \$21,881,000 in 2012 as a result of increased sales as discussed above and controlled expenses. Higher gasoline costs of approximately \$900,000 impacted the year's operating income.

## CONSOLIDATED

Other than as commented upon above by segment, there are no material specific reasons for the reported sales increases or decreases. Sales levels can be impacted by the appeal of our products to our customers and consumers and their changing tastes, competitive and pricing pressures, sales execution, marketing programs, seasonal weather, customer stability and general economic conditions.

Gross profit as a percentage of sales decreased to 30.11% in 2012 from 30.88% in 2011. Higher ingredient and packaging costs compared to last year of approximately \$10 million and the lower gross profit margin of handheld sales were primarily responsible for the decreased gross profit percentage. Without this handhelds impact, gross profit as a percentage of sales would have been roughly the same for 2011 and 2012. Ingredient and packaging costs can be extremely volatile and may be significantly different from what we are presently expecting and therefore we cannot project the impact of ingredient and packaging costs on our business going forward; however, there has been a very significant increase in the market cost of flour and packaging as well as other lesser used ingredients over the past six months which we anticipate will result in higher costs over some portions of our fiscal year 2013.

Total operating expenses increased \$12,027,000 to \$165,218,000 in fiscal 2012 but as a percentage of sales decreased .70 percentage points to 20% of sales. Marketing expenses decreased .30 percentage points and remained at 9% of sales. Distribution expenses decreased .23 percentage points to 7% of sales. Administrative expenses decreased .15 percentage points and were 3% of sales in both years. The drops in percentages were generally because of increased sales. Other general expense of \$458,000 this year compared to other general expense of \$524,000 in 2011. Included in other general expense in 2012 is \$404,000 of acquisition costs and costs of relocating Kim & Scott's operations. Included in other general expense in 2011 is \$546,000 of acquisition costs.

Operating income for the year was impacted by approximately \$800,000 of costs of a management and sales meeting held in October 2011, which has historically been held every five years.

Operating income increased \$8,384,000 or 11% to \$84,967,000 in fiscal year 2012 as a result of the aforementioned items.

Gain on the bargain purchase of a business of \$6,580,000 in 2011 resulted from the fair value of the identifiable assets acquired in the handhelds acquisition exceeding the purchase price.

Investment income increased by \$351,000 to \$1,392,000 due to increased investments in marketable securities.

The effective income tax rate increased 2.78 percentage points to 37% from 35% last year. Adjusting out the effect of the gain on bargain purchase of a business, the effective tax rate in 2011 was 37%.

Net earnings decreased \$945,000 or 2%, in fiscal 2012 to \$54,118,000, or \$2.86 per diluted share as a result of the aforementioned items. Without the benefit of the gain on bargain purchase of a business in 2011, net earnings were \$48,483,000 in 2011 compared to \$54,118,000 this year.

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.

## ACQUISITIONS

On June 10, 2010 we acquired the assets of California Churros, Inc., a manufacturer and seller of premium brand churros selling its products under the brand CALIFORNIA CHURROS. Headquartered and with its manufacturing facility in Colton, CA, California Churros had sales of approximately \$2.5 million in our 2010 fiscal year.

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

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



These acquisitions were accounted for under the purchase method of accounting, and their operations are included in the accompanying consolidated financial statements from their respective acquisition dates.

## **LIQUIDITY AND CAPITAL RESOURCES**

Although there are many factors that could impact our operating cash flow, most notably net earnings, we believe that our future operating cash flow, along with our borrowing capacity, our current cash and cash equivalent balances and our investment securities is sufficient to fund future growth and expansion. See Note C to these financial statements for a discussion of our investment securities.

Fluctuations in the value of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused an increase of \$571,000 in accumulated other comprehensive loss in 2013, a decrease of \$782,000 in accumulated other comprehensive loss in 2012 and an increase of \$1,060,000 in 2011. In 2013, sales of the two subsidiaries were \$23,161,000 as compared to \$19,491,000 in 2012 and \$18,025,000 in 2011.

In our fiscal year ended September 28, 2013, we purchased and retired 204,397 shares of our common stock at a cost of \$14,500,215. In our first quarter, we purchased and retired 48,255 shares at a cost of \$2,762,622. In our third quarter, we purchased and retired 58,840 shares at a cost of \$4,435,078. In our fourth quarter, we purchased and retired 97,302 shares at a cost of \$7,302,515.

In our fiscal year ended September 29, 2012, we purchased and retired 142,038 shares of our common stock at a cost of \$8,167,125.

In our fiscal year ended September 24, 2011, we did not purchase and retire any shares of our common stock.

In November 2011, we entered into an amendment and modification to an amended and restated loan agreement with our existing banks which provides for up to a \$50,000,000 revolving credit facility repayable in November 2016. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. There were no outstanding balances under the facility at September 28, 2013 or at September 29, 2012. The significant financial covenants are:

.Tangible net worth must initially be more than \$294 million.

Total funded indebtedness divided by earnings before interest expense, income taxes, depreciation and amortization shall not be greater than 2.25 to 1.

We were in compliance with the financial covenants described above at September 28, 2013.

We self-insure, up to loss limits, certain insurable risks such as worker's compensation and automobile liability claims. Accruals for claims under our self-insurance program are recorded on a claims-incurred basis. Under this program, the estimated liability for claims incurred but unpaid in fiscal years 2013 and 2012 was \$3,200,000 and \$1,800,000, respectively. In connection with certain self-insurance agreements, we customarily enter into letters of credit arrangements with our insurers. At each of September 28, 2013 and September 29, 2012, we had outstanding letters of credit totaling \$8,175,000.

The following table presents our contractual cash flow commitments on long-term debt, operating leases and purchase commitments for raw materials and packaging. See Notes to the consolidated financial statements for additional information on our long-term debt and operating leases.

	<b>Payments Due by Period</b>				
	<b>(in thousands)</b>				
	<b>Less</b>				
<b>Total</b>	Than	<b>1-3</b>	<b>4-5</b>	<b>After</b>	
	1 Year	Years	Years	5 Years	
Long-term debt, including current maturities	\$-	\$-	\$-	\$-	\$-
Capital lease obligations	347	211	100	36	-
Purchase commitments	40,000	40,000	-	-	-
Operating leases	45,420	8,556	13,365	7,877	15,622
<b>Total</b>	<b>\$85,767</b>	<b>\$48,767</b>	<b>\$13,465</b>	<b>\$7,913</b>	<b>\$15,622</b>

The purchase commitments do not exceed our projected requirements over the related terms and are in the normal course of business.

### **Fiscal 2013 Compared to Fiscal 2012**

Cash and cash equivalents and marketable securities held to maturity and available for sale increased \$26,855,000, or 15%, to \$207,265,000 from a year ago for reasons described below.

Accounts receivables, net increased \$11,131,000, or 15%, to \$87,545,000 in 2013. On a days' outstanding basis, the balance a year ago was at an unusually low level; the increase this year is partly due to a bounceback and partly due to the composition of the receivables. Inventories increased \$2,024,000 or 3% to \$71,785,000 in 2013 primarily due to higher unit costs of inventory.

Prepaid expenses and other increased to \$3,284,000 from \$2,220,000 last year because of requirements for prepayments by various vendors.

Net property, plant and equipment increased \$5,620,000 to \$147,164,000 because purchases of property, plant and equipment for the improvement and expansion of our manufacturing capabilities and frozen carbonated beverage business exceeded depreciation on existing assets. Included in purchases of property, plant and equipment in 2013 is approximately \$5.4 million for equipment additions at our manufacturing facility in Moscow Mills, MO which essentially completes the multi-year expansion of that facility.

Goodwill remained the same at \$76,899,000.

Other intangible assets, less accumulated amortization decreased \$4,452,000 to \$44,012,000 due entirely to amortization expense of \$4,452,000.

Marketable securities available for sale and held to maturity increased by \$83,708,000 to \$109,920,000 as we invested \$110 million into mutual funds designed to generate current income while maintaining a low volatility and overall moderate duration.

Accrued insurance liability increased \$2,130,000 due to increases in insurance company estimates for incurred but not yet paid claims under our insurance liability programs for prior years and higher claims levels during 2013.

Accrued compensation expense increased 4% to \$13,671,000 due to an increase in our employee base and a general increase in the level of pay rates.

Deferred income tax liabilities increased by \$309,000 to \$45,183,000 which related primarily to amortization of goodwill and other intangible assets.

Other long-term liabilities at September 28, 2013 include \$438,000 of gross unrecognized tax benefits which decreased from \$541,000 a year ago due to reductions for tax positions of prior years.

Common stock decreased \$8,495,000 to \$34,516,000 in 2013 because repurchases of our common stock of \$14,500,000 exceeded increases totaling \$6,005,000 from the exercise of incentive and nonqualified stock options, stock issued under our stock purchase plan for employees, stock issued under our deferred stock plan and share-based compensation expense.

Net cash provided by operating activities decreased \$2,877,000 to \$86,548,000 in 2013 primarily because of an increase of accounts receivables in 2013 of \$11,148,000 compared to an increase of \$605,000 in 2012 and an increase in accounts payable and accrued liabilities of \$578,000 in 2013 compared to an increase of \$5,248,000 in 2012 which more than offset increased net earnings of \$10,263,000 and other positive factors.

Net cash used in investing activities increased \$111,519,000 to \$120,837,000 in 2013 from \$9,318,000 in 2012 primarily because net purchases of marketable securities of \$85,934,000 in 2013 compared to net proceeds from marketable securities of \$41,294,000 in 2012.

Net cash used in financing activities of \$22,360,000 in 2013 compared to net cash used by financing activities of \$13,800,000 in 2012. The increase was caused primarily by increased payments of \$6,333,000 to repurchase common stock and increased dividend payments of \$1,919,000.

In 2013, the major variables in determining our net increase in cash and cash equivalents and marketable securities were our net earnings, depreciation and amortization of fixed assets, increase in accounts receivable, purchases of property, plant and equipment, payments of cash dividend and the repurchase of common stock. Other variables which in the past have had a significant impact on our change in cash and cash equivalents are proceeds from borrowings and payments of long-term debt and purchases of companies. As discussed in results of operations, our net earnings may be influenced by many factors. Depreciation and amortization of fixed assets is primarily determined by past purchases of property, plant and equipment although it could be impacted by a significant acquisition. Purchases of property, plant and equipment are primarily determined by our ongoing normal manufacturing and marketing requirements but could be increased significantly for manufacturing expansion requirements or large frozen beverage customer needs. From time to time, we have repurchased common stock and we anticipate that we will do so again in the future. We are actively seeking acquisitions that could be a significant use of cash. Although we have no long-term debt at September 28, 2013, we may borrow in the future depending on our needs.

### **Fiscal 2012 Compared to Fiscal 2011**

Cash and cash equivalents and marketable securities held to maturity increased \$25,425,000, or 16%, to \$180,410,000 from a year ago for reasons described below.

Accounts receivables, net increased \$1,414,000, or 2%, to \$76,414,000 in 2012 due to increased sales levels in our fourth quarter which was offset by improved collections. Inventories increased \$6,300,000 or 10% to \$69,761,000 in 2012 due to higher unit costs of inventory and increased inventory requirements due to increased sales.

Prepaid expenses and other decreased to \$2,220,000 from \$4,196,000 last year because of higher estimated federal income tax payments made in 2011 prior to the enactment of the law extending bonus depreciation which resulted in prepaid income taxes of \$1,814,000 at September 2011.

Net property, plant and equipment increased \$16,894,000 to \$141,544,000 because purchases of property, plant and equipment for the improvement and expansion of our manufacturing capabilities and frozen carbonated beverage business exceeded depreciation on existing assets, and because of the addition of \$724,000 in fixed assets acquired in the Kim & Scott's acquisition. Included in purchases of property, plant and equipment in 2012 is approximately \$6.5 million for a building addition at our manufacturing facility in Moscow Mills, MO and \$7.5 million for pretzel lines added at our facilities in Bellmawr, NJ and Carrollton, TX.

Goodwill increased to \$76,899,000 because of \$6,829,000 acquired in the Kim & Scott's acquisition.

Other intangible assets, less accumulated amortization decreased \$3,541,000 to \$48,464,000 due to intangible assets of \$436,000 acquired in the Kim & Scott's acquisition and a separate purchase of a \$500,000 intangible asset, net of amortization expense of \$4,477,000.

Accounts payable and accrued liabilities increased \$5,057,000 due to increased levels of business and higher purchase costs of ingredients and packaging, and because of an accrued liability of \$962,000 for income taxes that existed on September 2012 compared to none at September 2011.

Accrued compensation expense increased 2% to \$13,151,000 due to an increase in our employee base and a general increase in the level of pay rates.

Deferred income tax liabilities increased by \$3,824,000 to \$44,874,000 which related primarily to amortization of goodwill and other intangible assets and depreciation of property, plant and equipment.

Other long-term liabilities at September 29, 2012 include \$825,000 of gross unrecognized tax benefits which decreased from \$973,000 a year ago due to reductions for tax positions of prior years.

Common stock decreased \$2,006,000 to \$43,011,000 in 2012 because repurchases of our common stock of \$8,167,000 exceeded increases totaling \$6,161,000 from the exercise of incentive and nonqualified stock options, stock issued under our stock purchase plan for employees, stock issued under our deferred stock plan and share-based compensation expense.

Net cash provided by operating activities increased \$8,969,000 to \$89,425,000 in 2012 primarily because of an increase of accounts receivable of \$605,000 in 2012 compared to an increase of \$5,231,000 in 2011 and an increase in deferred income taxes of \$3,108,000 in 2012 compared to an increase of \$6,108,000 in 2011. Additionally, net earnings in 2011 included a gain on bargain purchase of a business of \$6,580,000 which did not contribute to cash provided by operating activities.

Net cash used in investing activities decreased \$54,587,000 to \$9,318,000 in 2012 from \$63,905,000 in 2011 primarily because net proceeds from redemption and sales of marketable securities of \$41,294,000 in 2012 compared to net purchases of marketable securities of \$25,725,000 in 2011. This change of \$67,019,000 was partially offset by higher spending of \$13,676,000 on purchases of property, plant and equipment.

Net cash used in financing activities of \$13,800,000 in 2012 compared to net cash used by financing activities of \$3,407,000 in 2011. The increase was caused primarily by \$8,167,000 of payments to repurchase common stock and increased dividend payments of \$1,009,000.

In 2012, the major variables in determining our net increase in cash and cash equivalents and marketable securities were our net earnings, depreciation and amortization of fixed assets, purchases of property, plant and equipment, purchases of companies, payments of cash dividend and the repurchase of common stock. Other variables which in the past have had a significant impact on our change in cash and cash equivalents are proceeds from borrowings and payments of long-term debt. As discussed in results of operations, our net earnings may be influenced by many factors. Depreciation and amortization of fixed assets is primarily determined by past purchases of property, plant and equipment although it could be impacted by a significant acquisition. Purchases of property, plant and equipment are primarily determined by our ongoing normal manufacturing and marketing requirements but could be increased significantly for manufacturing expansion requirements or large frozen beverage customer needs. From time to time, we have repurchased common stock and we anticipate that we will do so again in the future. We are actively seeking acquisitions that could be a significant use of cash. Although we have no long-term debt at September 29, 2012, we may borrow in the future depending on our needs.

#### **Item 7A. Quantitative And Qualitative Disclosures About Market Risk**

**The following is the Company's quantitative and qualitative analysis of its financial market risk:**

##### *Interest Rate Sensitivity*

The Company has in the past entered into interest rate swaps to limit its exposure to interest rate risk and may do so in the future if the Board of Directors feels that such non-trading purpose is in the best interest of the Company and its shareholders. As of September 28, 2013, the Company had no interest rate swap contracts.

##### *Interest Rate Risk*

At September 28, 2013, the Company had no long-term debt obligations.

##### *Purchasing Risk*

The Company's most significant raw material requirements include flour, shortening, corn syrup, sugar, juice, cheese, chocolate, and a variety of nuts. The Company attempts to minimize the effect of future price fluctuations related to the purchase of raw materials primarily through forward purchasing to cover future manufacturing requirements,



generally for periods from 1 to 12 months. Future contracts are not used in combination with forward purchasing of these raw materials. The Company's procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

#### *Foreign Exchange Rate Risk*

The Company has not entered into any forward exchange contracts to hedge its foreign currency rate risk as of September 28, 2013, because it does not believe its foreign exchange exposure is significant.

### **Item 8. Financial Statements And Supplementary Data**

The financial statements of the Company are filed under this Item 8, beginning on page F-1 of this report.

### **Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure**

None.

### **Item 9A. Controls And Procedures**

#### *Disclosure Controls and Procedures*

We carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended for financial reporting, as of September 28, 2013. Based on that evaluation, our chief executive officer and chief financial officer concluded that these controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported as specified in Securities and Exchange Commission rules and forms. There were no changes in these controls or procedures identified in connection with the evaluation of such controls or procedures that occurred during our last fiscal quarter, or in other factors that have materially affected, or are reasonably likely to materially affect these controls or procedures. There were no changes in the Company's internal controls over financial reporting that occurred during our last fiscal quarter.



Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. These disclosure controls and procedures include, among other things, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

*Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the chief executive officer and chief financial officer and effected by the board of directors and management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and board of directors;

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of September 28, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992).

Based on our assessment, our management believes that, as of September 28, 2013, our internal control over financial reporting is effective. There have been no changes that occurred during our fourth quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent registered public accounting firm, Grant Thornton LLP, audited our internal control over financial reporting as of September 28, 2013. Their report, dated November 26, 2013, expressed an unqualified opinion on our internal control over financial reporting. That report appears in Item 15 of Part IV of this Annual Report on Form 10-K and is incorporated by reference to this Item 9A.

**Item 9B. Other Information**

There was no information required on Form 8-K during the quarter that was not reported.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Portions of the information concerning directors and executive officers, appearing under the captions “Information Concerning Nominees For Election To Board” and “Information Concerning Continuing Directors And Executive Officers” and information concerning Section 16(a) Compliance appearing under the caption “Compliance with Section 16(a) of the Securities Exchange Act of 1934” in the Company’s Proxy Statement filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on February 18, 2014 (“2013 Proxy Statement”) is incorporated herein by reference.

Portions of the information concerning the Audit Committee, the requirement for an Audit Committee Financial Expert and the Nominating Committee in the Company’s 2013 Proxy Statement filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on February 18, 2014 is incorporated herein by reference.

The Company has adopted a Code of Ethics pursuant to Section 406 of the Sarbanes-Oxley Act of 2002, which applies to the Company’s principal executive officer and senior financial officer. The Company has also adopted a Code of Business Conduct and Ethics which applies to all employees. The Company will furnish any person, without charge, a copy of the Code of Ethics upon written request to J & J Snack Foods Corp., 6000 Central Highway, Pennsauken, New Jersey 08109, Attn: Dennis Moore. A copy of the Code of Ethics can also be found on our website at [www.jjsnack.com](http://www.jjsnack.com). Any waiver of any provision of the Code of Ethics granted to the principal executive officer or senior financial officer may only be granted by a majority of the Company’s disinterested directors. If a waiver is granted, information concerning the waiver will be posted on our website [www.jjsnack.com](http://www.jjsnack.com) for a period of 12 months.

### **Item 11. Executive Compensation**

Information concerning executive compensation appearing in the Company’s 2013 Proxy Statement under the caption “Management Remuneration” is incorporated herein by reference.

The following is a list of the executive officers of the Company and their principal past occupations or employment. All such persons serve at the pleasure of the Board of Directors and have been elected to serve until the Annual Meeting of Shareholders on February 18, 2014 or until their successors are duly elected.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gerald B. Shreiber	71	Chairman of the Board, President, Chief Executive Officer and Director
Dennis G. Moore	57	Senior Vice President, Chief Financial Officer, Secretary, Treasurer and Director
Robert M. Radano	64	Senior Vice President, Sales and Chief Operating Officer
Dan Fachner	53	President of The ICEE Company Subsidiary
Gerard G. Law	39	Senior Vice President and Assistant to the President
Robert J. Pape	56	Senior Vice President Sales

Gerald B. Shreiber is the founder of the Company and has served as its Chairman of the Board, President, and Chief Executive Officer since its inception in 1971. His term as a director expires in 2015.

Dennis G. Moore joined the Company in 1984. He served in various controllership functions prior to becoming the Chief Financial Officer in June 1992. His term as a director expires in 2017.

Robert M. Radano joined the Company in 1972 and in May 1996 was named Chief Operating Officer of the Company. Prior to becoming Chief Operating Officer, he was Senior Vice President, Sales responsible for national food service sales of J & J.

Dan Fachner has been an employee of ICEE-USA Corp., which was acquired by the Company in May 1987, since 1979. He was named Senior Vice President of The ICEE Company in April 1994 and became President in May 1997.

Gerard G. Law joined the Company in 1992. He served in various manufacturing and sales management capacities prior to becoming Senior Vice President, Western Operations in 2009. He was named to his present position in 2011 in which he has responsibility for marketing, research and development and overseeing a number of the manufacturing facilities of J & J.

Robert J. Pape joined the Company in 1998. He served in various sales and sales management capacities prior to becoming Senior Vice President Sales in 2010.

**Item 12. Security Ownership Of Certain Beneficial Owners And Management And Related Stockholder Matters**

Information concerning the security ownership of certain beneficial owners and management appearing in the Company's 2013 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference.

The following table details information regarding the Company's existing equity compensation plans as of September 28, 2013.

	(	(	(
	a	b	c
<b>Plan Category</b>	)	)	)