J&J SNACK FOODS CORP
Form 10-Q/A
September 13, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended December 27, 2003

or

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

Commission File Number: 0-14616

J & J SNACK FOODS CORP.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

6000 Central Highway, Pennsauken, NJ 08109
(Address of principal executive offices)

Telephone (856) 665-9533

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

X Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)
X Yes No

As of January 15, 2004, there were 8,800,678 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

J & J SNACK FOODS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS

| | December 27, 2003 (Unaudited) | September 27, 2003 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 40,243 | $ 37,694 |
| Accounts receivable | 32,349 | 38,161 |
| Inventories | 25,250 | 23,202 |
| Prepaid expenses and other | 1,154 | 1,348 |
| | 98,996 | 100,405 |
| Property, plant and equipment, at cost | | |
| Land | 606 | 606 |
| Buildings | 5,106 | 5,106 |
| Plant machinery and equipment | 93,552 | 93,122 |
| Marketing equipment | 174,285 | 173,360 |
| Transportation equipment | 934 | 909 |
| Office equipment | 7,699 | 7,394 |
| Improvements | 15,759 | 15,654 |
| Construction in progress | 2,767 | 2,458 |
| | 300,708 | 298,609 |
| Less accumulated depreciation and amortization | 216,094 | 211,494 |

| | | |
|---|---|---|
| | 84,614 | 87,115 |
| Other assets | | |
| Goodwill, less accumulated amortization | 46,529 | 45,850 |
| Other intangible assets, less accumulated amortization | 1,154 | 1,231 |
| Long term investment securities held to maturity | - | 275 |
| Sundry | 2,185 | 1,807 |
| | 49,868 | 49,163 |
| | $233,478 | $236,683 |

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - Continued
(in thousands)

| LIABILITIES AND STOCKHOLDERS' EQUITY | December 27, 2003 (unaudited) | September 27, 2003 |
|---|---|---|
| Current liabilities | | |
| Accounts payable | $ 24,420 | $ 27,252 |
| Accrued liabilities | 10,338 | 12,806 |
| | 34,758 | 40,058 |
| Deferred income taxes | 13,374 | 13,374 |
| Other long-term liabilities | 644 | 687 |
| | 14,018 | 14,061 |
| Stockholders' equity | | |
| Capital stock | | |
| Preferred, $1 par value; authorized, 5,000 shares; none issued | - | - |
| Common, no par value; authorized 25,000 shares; issued and outstanding, 8,784 and 8,757, respectively | 28,523 | 28,143 |
| Accumulated other comprehensive loss | (2,024) | (1,957) |
| Retained earnings | 158,203 | 156,378 |
| | 184,702 | 182,564 |
| | $233,478 | $236,683 |

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

| | Three Months Ended December 27, 2003 | Three Months Ended December 28, 2002 |
|---|---|---|
| Net Sales | $79,945 | $77,244 |
| Cost of goods sold | 55,307 | 55,179 |
| Gross profit | 24,638 | 22,065 |
| Operating expenses | | |
| Marketing | 11,224 | 10,863 |
| Distribution | 6,960 | 6,128 |
| Administrative | 3,708 | 3,322 |
| Other general income | (33) | (58) |
| | 21,859 | 20,255 |
| Operating income | 2,779 | 1,810 |
| Other income (expenses) | | |
| Investment income | 117 | 98 |
| Interest expense | (29) | (32) |
| Earnings before income taxes | 2,867 | 1,876 |
| Income taxes | 1,042 | 675 |
| NET EARNINGS | $ 1,825 | $ 1,201 |
| Earnings per diluted share | $ .20 | $ .13 |
| Weighted average number of diluted shares | 9,039 | 9,235 |
| Earnings per basic share | $ .21 | $ .14 |
| Weighted average number of basic shares | 8,792 | 8,730 |

See accompanying notes to the consolidated financial statements.

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

| | Three Months Ended December 27, 2003 | Three Months Ended December 28, 2002 |
|---|---|---|
| Operating activities: | | |
| Net earnings | $ 1,825 | $ 1,201 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization of fixed assets | 5,872 | 7,019 |
| Amortization of intangibles and deferred costs | 194 | 189 |
| Other | (35) | (249) |
| Changes in assets and liabilities, net of effects from purchase of companies | | |
| Decrease in accounts receivable | 5,814 | 6,370 |
| Increase in inventories | (1,985) | (1,386) |
| Decrease (increase) in prepaid expenses | 194 | (404) |
| Decrease in accounts payable and accrued liabilities | (5,342) | (7,229) |
| Net cash provided by operating activities | 6,537 | 5,511 |
| Investing activities: | | |
| Purchase of property, plant and equipment | (3,252) | (3,196) |
| Payments for purchase of companies, net of cash acquired | (1,631) | - |
| Proceeds from investments held to maturity | 275 | 150 |
| Proceeds from disposal of property and equipment | 200 | 1,640 |
| Other | 40 | (189) |
| Net cash used in investing activities | (4,368) | (1,595) |
| Financing activities: | | |
| Proceeds from issuance of stock | 380 | - |
| Net cash provided by financing activities | 380 | - |
| Net increase in cash and cash equivalents | 2,549 | 3,916 |
| Cash and cash equivalents at beginning of period | 37,694 | 14,158 |
| Cash and cash equivalents at end of period | $40,243 | $18,074 |

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The results of operations for the three months ended December 27, 2003 and December 28, 2002 are not necessarily indicative of results for the full year. Sales of our retail stores are generally higher in the first quarter due to the holiday shopping season. Sales of our frozen beverages and frozen juice bars and ices are generally higher in the third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended September 27, 2003.

Note 2 We recognize revenue from Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage products at the time the products are shipped to third parties. When we perform services for others under time and material agreements, revenue is recognized upon the completion of the services. We also sell fixed-fee service contracts. The terms of coverage range between 12 and 60 months. We record deferred income on service contracts which is amortized by the straight-line method over the term of the contracts. We provide an allowance for doubtful receivables after taking into account historical experience and other factors.

Note 3 Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights arising from acquisitions are amortized by the

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straight-line method over periods ranging from 4 to 20 years.

Note 4 Our calculation of earnings per share in accordance with SFAS No. 128, "Earnings Per Share," is as follows:

| | Three Months Ended December 27, 2003 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share amounts) | | |
| Basic EPS | | | |
| Net Earnings available to common stockholders | $1,825 | 8,792 | $ .21 |
| Effect of Dilutive Securities | | | |
| Options | - | 247 | (.01) |

| | Income | Shares | Per Share |
|---|---|---|---|
| Diluted EPS | | | |
| Net Earnings available to common stockholders plus assumed conversions | $1,825 | 9,039 | $ .20 |

92,394 anti-dilutive weighted shares have been excluded in the computation of the three months ended December 27, 2003 diluted EPS because the options' exercise price is greater than the average market price of the common stock.

| | Three Months Ended December 28, 2002 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| | (in thousands, except per share amounts) | | |
| Basic EPS | | | |
| Net Earnings available to common stockholders | $1,201 | 8,730 | $ .14 |
| Effect of Dilutive Securities | | | |
| Options | - | 505 | (.01) |
| Diluted EPS | | | |
| Net Earnings available to common stockholders plus assumed conversions | $1,201 | 9,235 | $ .13 |

110,000 anti-dilutive weighted shares have been excluded in the computation of the three months ended December 28, 2002 diluted EPS because the options' exercise price is greater than the average market price of the common stock.

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Note 5 The Company accounts for stock options under SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, which contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees". Entities that continue to account for stock options using APB Opinion 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

At December 27, 2003, the Company has one stock-based employee compensation plan. The Company accounts for this plan under the recognition and measurement principles of APB No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Stock-based employee compensation costs are not reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation.

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| | Three Months Ended December 27, 2003 | December 28, 2002 |
|---|---|---|
| | (in thousands, except per share amounts) | |
| Net income, as reported | $1,825 | $1,201 |
| Less: stock-based compensation costs determined under fair value based method for all awards | 281 | 341 |
| Net income, pro forma | $1,544 | $ 860 |
| Earnings per share of common stock - basic: | | |
| As reported | $ .21 | $ .14 |
| Pro forma | $ .18 | $ .09 |
| Earnings per share of common stock - diluted: | | |
| As reported | $ .20 | $ .13 |
| Pro forma | $ .17 | $ .09 |

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2003 and fiscal 2004: expected volatility of 43% and 36%; risk-free interest rate of 3.07% and rates ranging between 2.27% and 3.49%; and expected lives ranging between 5 and 10 years.

Note 6 In November 2002, FASB Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), was issued. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee.



We previously did not record a liability when guaranteeing obligations unless it became probable that we would have to perform under the guarantee. FIN 45 applies prospectively to guarantees we issue or modify subsequent to December 31, 2002, but has certain disclosure requirements effective for interim and annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a significant impact on our consolidated financial position, results of operations or cash flows.

In January 2002, the FASB issued Interpertation 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements, for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities within the scope of FIN 46 will be required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. FIN 46 applies immediately to variable interest entities created after January 31, 2002, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2002, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2002. The adoption of FIN 46 did not have a material effect on our consolidated financial position, results of operations, or cash flows.

On May 15, 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity.

Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is



effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material effect on our consolidated financial position, results of operations or cash flows.

Note 7 Inventories consist of the following:

| | December 27, 2003 (unaudited) | September 27, 2003 |
|---|---|---|
| | (in thousands) | |
| Finished goods | $11,637 | $10,537 |
| Raw materials | 3,232 | 2,775 |
| Packaging materials | 3,166 | 2,975 |
| Equipment parts & other | 7,215 | 6,915 |
| | $25,250 | $23,202 |

Note 8 We principally sell our products to the food service and retail supermarket industries. We also distribute our products directly to the consumer through our chain of retail stores referred to as The Restaurant Group. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business and restaurant group because of different distribution and capital requirements. We maintain separate and discrete financial information for the four operating segments mentioned above which is available to our Chief Operating Decision Makers. We have applied no aggregate criteria to any of these operating segments in order to determine reportable segments. Our four reportable segments are Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages. All inter-segment net sales and expenses have been eliminated in computing net sales and operating income (loss). These segments are described below.

Food Service

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

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purchased by the consumer primarily for consumption at the point-of-sale.

Retail Supermarkets

The primary products sold to the retail supermarket industry are soft pretzel products, including SUPERPRETZEL, LUIGI'S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, ICEE Squeeze Up Tubes and TIO PEPE'S Churros. Within the retail supermarket industry, our frozen and prepackaged products are purchased by the consumer for consumption at home.

The Restaurant Group

We sell direct to the consumer through our Restaurant Group, which operates BAVARIAN PRETZEL BAKERY and PRETZEL GOURMET, our chain of specialty snack food retail outlets.

Frozen Beverages

We sell frozen beverages to the food service industry, including our restaurant group, primarily under the names ICEE and ARCTIC BLAST in the United States, Mexico and Canada.

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



| | Three Months Ended December 27, 2003 | December 28, 2002 |
|---|---|---|
| | (in thousands) | |
| Sales to external customers: | | |
| Food Service | $ 47,941 | $ 43,806 |
| Retail Supermarket | 6,277 | 5,739 |
| The Restaurant Group | 2,568 | 3,090 |
| Frozen Beverages | 23,159 | 24,609 |
| | $ 79,945 | $ 77,244 |
| Depreciation and Amortization: | | |
| Food Service | $ 3,282 | $ 3,340 |
| Retail Supermarket | - | - |
| The Restaurant Group | 111 | 157 |
| Frozen Beverages | 2,673 | 3,711 |
| | $ 6,066 | $ 7,208 |
| Operating Income(Loss): | | |
| Food Service | $ 2,848 | $ 2,663 |
| Retail Supermarket | 59 | (414) |
| The Restaurant Group | 52 | 130 |
| Frozen Beverages | (180) | (569) |
| | $ 2,779 | $ 1,810 |
| Capital Expenditures: | | |

| | | |
|---|---|---|
| Food Service | $ 1,236 | $ 1,398 |
| Retail Supermarket | - | - |
| The Restaurant Group | 9 | 20 |
| Frozen Beverages | 2,007 | 1,778 |
| | $ 3,252 | $ 3,196 |
| Assets: | | |
| Food Service | $149,318 | $128,690 |
| Retail Supermarket | - | - |
| Restaurant Group | 2,292 | 2,815 |
| Frozen Beverages | 81,868 | 82,474 |
| | $233,478 | $213,979 |

Note 9 We follow SFAS No. 142 "Goodwill and Intangible Assets." SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, we no longer amortize goodwill.

Our four reporting units, which are also reportable segments, are Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages. Each of the segments have goodwill and indefinite lived intangible assets.

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The carrying amount of acquired intangible assets for the Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage segments as of December 27, 2003 are as follows:

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| | | (in thousands) | |
| FOOD SERVICE | | | |
| Amortized intangible assets | | | |
| Licenses and rights | $2,066 | $981 | $1,085 |
| RETAIL SUPERMARKETS | | | |
| Amortized intangible assets | | | |
| Licenses and rights | $ - | $ - | $ - |
| THE RESTAURANT GROUP | | | |
| Amortized intangible assets | | | |
| Licenses and rights | $ 20 | $ 20 | $ - |
| FROZEN BEVERAGES | | | |
| Amortized intangible assets | | | |
| Licenses and rights | $ 201 | $132 | $ 69 |

Licenses and rights are being amortized by the straight-line method over periods ranging from 4 to 20 years and amortization expense is reflected throughout operating expenses. There were no changes in the gross carrying amount of intangible assets for the three months ended December 27, 2003. Aggregate amortization expense of intangible assets for the 3 months ended December 27, 2003 and December 28, 2002 was $78,000 and $78,000, respectively.

Estimated amortization expense for the next five fiscal years is approximately $300,000 in 2004, $200,000 in 2005 and $140,000 in 2006, 2007 and 2008.

Goodwill

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



| | Food Service | Retail Supermarket | Restaurant Group | Frozen Beverages | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Balance at December 27, 2003 | $14,241 | $ - | $438 | $31,850 | $46,529 |

The $679,000 increase in the goodwill in the frozen beverage segment was the result of an acquisition made in the quarter.

Note 10 Subsequent Event

On January 5, 2004, we acquired the assets of Country Home Bakers, Inc. for approximately $13 million in cash. Country Home Bakers, Inc., with its manufacturing facility in Atlanta, GA, manufactures and distributes bakery products to the food service and supermarket industries. Its product line includes cookies, biscuits, and frozen doughs sold under the names READI-BAKE, COUNTRY HOME and private labels sold through supermarket in-store bakeries. Total annual sales are estimated to be approximately $55 million.

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

Liquidity and Capital Resources

Our current cash and marketable securities balances and cash expected to be provided by future operations are our primary sources of liquidity. We believe that these sources, along with our borrowing capacity, are sufficient to fund future growth and expansion.

In the quarters ended December 27, 2003 and December 28, 2002 fluctuations in the valuation of the Mexican peso caused a decrease of $67,000 and an decrease of $29,000 in stockholders' equity, respectively, because of the translation of the net assets of the Company's Mexican frozen beverage subsidiary.

On January 5, 2004, we acquired the assets of Country Home Bakers, Inc. for approximately $13 million in cash. Country Home Bakers, Inc., with its manufacturing facility in Atlanta, GA, manufactures and distributes bakery products to the food service and supermarket industries. Its product line includes cookies, biscuits, and frozen doughs sold under the names READI-BAKE, COUNTRY HOME and private labels sold through supermarket in-store bakeries. Total annual sales are estimated to be approximately $55 million.

Our general-purpose bank credit line provides for up to a $50,000,000 revolving credit facility. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. There were no outstanding balances under this facility at December 27, 2003.

Results of Operations

Net sales increased $2,701,000 or 3% to $79,945,000 for the three months ended December 27, 2003 compared to the three months ended December 28, 2002.

FOOD SERVICE

Sales to food service customers increased $4,135,000 or 9% in the first quarter to $47,941,000. Soft pretzel sales increased $1,576,000 or 9% from last year to $18,884,000 in this year's quarter due primarily to increased sales of PRETZEL FILLERS to one customer. Italian ice and frozen juice treat and dessert sales increased 9% to $5,652,000 in the three months primarily due to increased sales to school food service. Churro sales to food service customers increased 2% to $3,183,000 in the quarter. Sales of bakery



products increased 11% to $19,080,000 from $17,152,000 last year due to increased sales across our customer base.

RETAIL SUPERMARKETS

Sales of products to retail supermarkets increased $538,000 or 9% in the first quarter. Soft pretzel sales for the first quarter were up 13% to $4,207,000 due mainly to sales of our recently introduced PRETZELFILS. Sales of frozen juices and ices increased $147,000 or 6% to $2,490,000 in the quarter due to lower trade spending; case sales of frozen juices and ices were down approximately 12% in the quarter.

THE RESTAURANT GROUP

Sales of our Restaurant Group decreased 17% to $2,568,000 in the first quarter. The sales decrease was caused primarily by decreased mall traffic and the closing of unprofitable stores.

FROZEN BEVERAGES

Frozen beverage and related product sales decreased $1,450,000 or 6% to $23,159,000 in the first quarter. Excluding the sale of equipment to one customer in last year's quarter, sales would have been down about 1/2 of 1% of sales. Beverage sales alone decreased 2% to $17,411,000 for the quarter. Lower sales to one customer accounted for the entire decrease in beverage sales. Service revenue increased $883,000 or 27% from the first quarter of fiscal year 2003 to $4,115,000 in this year's first quarter.

CONSOLIDATED

Gross profit as a percentage of sales increased two percentage points to 31% from 29% from last year. The increase was caused primarily by a lower level of allowances in our retail supermarket business and reduced depreciation of our frozen beverage dispensing machines.

Total operating expenses increased $1,604,000 in the first quarter and as a percentage of sales increased to 27% from 26% in last year's same quarter. Marketing expenses were 14% of sales in both year's first quarter. Distribution expenses increased to 9% of sales from 8% last year. The increase was caused by higher fuel and trucking costs and shifts in product mix. Administrative expenses increased about 1/3 of 1% as a percentage of sales to 5% this year due to attorney costs.

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Operating income increased 54% to $2,779,000 this year from $1,810,000 a year ago.

The effective income tax rate has been estimated at 36% this year.

Net earnings increased 52% to $1,825,000 in this year's first quarter compared to net earnings of $1,201,000 in the year ago period.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth, in item 7a. "Quantitative and Qualitative Disclosures About Market Risk," in its 2003 annual report on Form 10-K filed with the SEC.

Item 4. Controls and Procedures

Quarterly evaluation of the Company's Disclosure and Internal Controls. The Company evaluated (i) the effectiveness of the design and operation of its disclosure controls and procedures (the "Disclosure Controls") as of the end of the period covered by this Form 10-Q and (ii) any changes in internal controls over financial reporting that occurred during the first quarter of its fiscal year. This evaluation ("Controls Evaluation") was done under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Limitations on the Effectiveness of Controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost effective control system, misstatements due to



error or fraud may occur and not be detected. The Company conducts periodic evaluations of its internal controls to enhance, where necessary, its procedures and controls.

Conclusions. Based upon the Controls Evaluation, the CEO and CFO have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that management is timely alerted to material information relating to the Company during the period when its periodic reports are being prepared. In accord with the U.S. Securities and Exchange Commission's requirements, the CEO and CFO conducted an evaluation of the Company's internal control over financial reporting (the "Internal Controls") to determine whether there have been any changes in Internal Controls that occurred during the quarter which have materially affected or which are reasonable likely to materially affect Internal Controls. Based on this evaluation, there have been no such changes in Internal Controls during the quarter covered by this report.

## PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

| | |
|---|---|
| 31.1 & 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 99.5 | Certification Pursuant to the 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

b) Reports on Form 8-K - Reports on Form 8-K were filed on November 5, 2003 and December 23, 2003.

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SIGNATURES

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

J & J SNACK FOODS CORP.

Dated: September 9, 2004 /s/ Gerald B. Shreiber
Gerald B. Shreiber
President

Dated: September 9, 2004 /s/ Dennis G. Moore
Dennis G. Moore
Senior Vice President and
Chief Financial Officer

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