J&J SNACK FOODS CORP
Form 10-Q
August 02, 2018

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 June 30, 2018

or

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

Commission File Number: 0-14616

J & J SNACK FOODS CORP.

(Exact name of registrant as specified in its charter)

New Jersey 22-1935537

(State or other jurisdiction of 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

X Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	(X)	Accelerated filer	( )
Non-accelerated filer	( ) (Do not check if a smaller reporting company)		
		Smaller reporting company	( )
		Emerging growth company	( )

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes X No

As July 26, 2018 there were 18,716,140 shares of the Registrant's Common Stock outstanding.

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

	June 30, 2018 (unaudited)	September 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 95,628	$ 90,962
Marketable securities held to maturity	30,271	59,113
Accounts receivable, net	131,776	124,553
Inventories	116,194	103,268
Prepaid expenses and other	6,857	3,936
Total current assets	380,726	381,832
Property, plant and equipment, at cost		
Land	2,494	2,482
Buildings	26,582	26,741
Plant machinery and equipment	279,077	257,172
Marketing equipment	285,689	278,860
Transportation equipment	8,648	8,449
Office equipment	27,948	25,302
Improvements	38,657	38,003
Construction in progress	13,174	16,880
Total Property, plant and equipment, at cost	682,269	653,889
Less accumulated depreciation and amortization	445,001	426,308
Property, plant and equipment, net	237,268	227,581
Other assets		
Goodwill	102,511	102,511
Other intangible assets, net	58,646	61,272
Marketable securities held to maturity	103,548	60,908
Marketable securities available for sale	28,908	30,260
Other	2,625	2,864
Total other assets	296,238	257,815
Total Assets	$ 914,232	$ 867,228
Liabilities and Stockholders' Equity		
Current Liabilities		
Current obligations under capital leases	$ 336	$ 340
Accounts payable	79,489	72,729
Accrued insurance liability	11,929	10,558
Accrued liabilities	7,770	7,753
Accrued compensation expense	15,147	19,826

Dividends payable	8,415	7,838
Total current liabilities	123,086	119,044
Long-term obligations under capital leases	833	904
Deferred income taxes	50,228	62,705
Other long-term liabilities	2,010	2,253
Stockholders' Equity		
Preferred stock, $1 par value; authorized 10,000,000 shares; none issued	-	-
Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding 18,697,000 and 18,705,000 respectively	23,047	17,382
Accumulated other comprehensive loss	(13,770)	(8,875)
Retained Earnings	728,798	673,815
Total stockholders' equity	738,075	682,322
Total Liabilities and Stockholders' Equity	$ 914,232	$ 867,228

The accompanying notes are an integral part of these statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited) (in thousands, except per share amounts)

	Three months ended		Nine months ended	
	June 30, 2018	June 24, 2017	June 30, 2018	June 24, 2017
Net Sales	$306,239	$295,415	$837,550	$767,498
Cost of goods sold(1)	211,764	200,651	592,518	534,022
Gross Profit	94,475	94,764	245,032	233,476
Operating expenses				
Marketing (2)	25,589	25,571	69,672	67,435
Distribution (3)	24,325	21,865	67,901	58,537
Administrative (4)	9,654	9,588	28,014	26,404
Other general expense (income)	38	(60)	(193)	(138)
Total operating expenses	59,606	56,964	165,394	152,238
Operating Income	34,869	37,800	79,638	81,238
Other income (expense)				
Investment income	1,705	1,422	4,687	3,824
Interest expense & other	(209)	(80)	267	(651)
Earnings before income taxes	36,365	39,142	84,592	84,411
Income taxes	10,236	13,838	4,381	29,580
NET EARNINGS	$26,129	$25,304	$80,211	$54,831
Earnings per diluted share	$1.39	$1.34	$4.27	$2.91
Weighted average number of diluted shares	18,822	18,846	18,801	18,818
Earnings per basic share	$1.40	$1.35	$4.29	$2.93

Weighted average number of basic shares	18,698	18,727	18,683	18,708

(1) Includes share-based compensation expense of $225 and $642 for the three months and nine months ended June 30, 2018, respectively and $192 and $529 for the three months and nine months ended June 24, 2017.

(2) Includes share-based compensation expense of $349 and $998 for the three months and nine months ended June 30, 2018, respectively and $277 and $763 for the three months and nine months ended June 24, 2017.

(3) Includes share-based compensation expense of $20 and $56 for the three months and nine months ended June 30, 2018,, respectively and $19 and $52 for the three months and nine months ended June 24, 2017.

(4) Includes share-based compensation expense of $412 and $1,178 for the three months and nine months ended June 30, 2018, respectively and $323 and $896 for the three months and nine months ended June 24, 2017.

The accompanying notes are an integral part of these statements.

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

	Three months ended		Nine months ended	
	June 30, 2018	June 24, 2017	June 30, 2018	June 24, 2017
Net Earnings	$26,129	$25,304	$80,211	$54,831
Foreign currency translation adjustments	(2,359)	1,095	(4,348)	1,885
Unrealized holding (loss) gain on marketable securities	(253)	204	(547)	699
Total Other Comprehensive (Loss) Income	(2,612)	1,299	(4,895)	2,584
Comprehensive Income	$23,517	$26,603	$75,316	$57,415

The accompanying notes are an integral part of these statements.

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

	Nine months ended	
	June 30, 2018	June 24, 2017
Operating activities:		
Net earnings	$80,211	$54,831
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	31,929	28,060
Amortization of intangibles and deferred costs	2,639	3,336
Share-based compensation	2,874	2,240
Deferred income taxes	(12,502)	(347)
Loss(gain)on sale and redemption of marketable securities	32	(13)
Other	(3)	712
Changes in assets and liabilities net of effects from purchase of companies		
Increase in accounts receivable	(7,530)	(23,385)
Increase in inventories	(13,020)	(12,154)
(Increase)decrease in prepaid expenses	(2,949)	10,035
Increase in accounts payable and accrued liabilities	3,606	20,023
Net cash provided by operating activities	85,287	83,338
Investing activities:		
Payment for purchases of companies, net of cash acquired	-	(42,058)
Purchases of property, plant and equipment	(43,344)	(57,151)
Purchases of marketable securities	(65,227)	(27,269)
Proceeds from redemption and sales of marketable securities	51,417	14,681
Proceeds from disposal of property, plant and equipment	1,895	1,385
Other	171	(404)
Net cash used in investing activities	(55,088)	(110,816)
Financing activities:		
Payments to repurchase common stock	(2,794)	(3,374)
Proceeds from issuance of stock	5,561	4,745
Payments on capitalized lease obligations	(278)	(273)
Payment of cash dividend	(24,652)	(22,992)
Net cash used in financing activities	(22,163)	(21,894)
Effect of exchange rate on cash and cash equivalents	(3,370)	1,334
Net increase (decrease) in cash and cash equivalents	4,666	(48,038)
Cash and cash equivalents at beginning of period	90,962	140,652
Cash and cash equivalents at end of period	$95,628	$92,614

The accompanying notes are an integral part of these statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2017.

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.

The results of operations for the nine months ended June 30, 2018 and June 24, 2017 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen juices and ices are generally higher in the third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

Note 2 We recognize revenue from our products when the products are shipped to our customers. Repair and maintenance equipment service revenue is recorded when it is performed provided the customer terms are that the customer is to be charged on a time and material basis or on a straight-line basis over the term of the contract when the customer has signed a service contract. Revenue is recognized only where persuasive evidence of an arrangement exists, our price is fixed or determinable and collectability is reasonably assured. We record offsets to revenue for allowances, end-user pricing adjustments, trade spending, coupon redemption costs and returned product. Customers generally do not have the right to return product unless it is damaged or defective. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors. The allowance for doubtful receivables was $420,000 and $359,000 at June 30, 2018 and September 30, 2017, respectively.

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Note 3 Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights, customer relationships and non-compete agreements arising from acquisitions are amortized by the straight-line method over periods ranging from 2 to 20 years. Depreciation expense was $10,569,000 and $9,629,000 for the three months ended June 30, 2018 and June 24, 2017, respectively, and $31,929,000 and $28,060,000 for the nine months ended June 30, 2018 and June 24, 2017, respectively.

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

	Three Months Ended June 30, 2018		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$26,129	18,698	$ 1.40
Effect of Dilutive Securities			
Options	-	124	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$26,129	18,822	$ 1.39

1,000 anti-dilutive shares have been excluded in the computation of EPS for the three months ended June 30, 2018.

	Nine Months Ended June 30, 2018		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			

Net Earnings available to common stockholders	$80,211	18,683	$ 4.29
Effect of Dilutive Securities			
Options	-	118	(0.02)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$80,211	18,801	$ 4.27

1,000 anti-dilutive shares have been excluded in the computation of EPS for the nine months ended June 30, 2018.

	Three Months Ended June 24, 2017		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$25,304	18,727	$ 1.35
Effect of Dilutive Securities			
Options	-	119	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$25,304	18,846	$ 1.34

500 anti-dilutive shares have been excluded in the computation of EPS for the three months ended June 24, 2017.

	Nine Months Ended June 24, 2017		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$54,831	18,708	$ 2.93
Effect of Dilutive Securities			
Options	-	110	(0.02)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$54,831	18,818	$ 2.91

158,494 anti-dilutive shares have been excluded in the computation of EPS for the nine months ended June 24, 2017

Note 5 At June 30, 2018, the Company has three stock-based employee compensation plans. Share-based compensation expense (benefit) was recognized as follows:

	Three months ended		Nine months ended	
	June 30, 2018	June 24, 2017	June 30, 2018	June 24, 2017
Stock Options	$473	$(20)	$1,559	$(165)
Stock purchase plan	89	65	355	300
Stock issued to an outside director	16	14	48	42
Restricted stock issued to an employee	1	1	3	3
Total share-based compensation	$579	$60	$1,965	$180
The above compensation is net of tax benefits	$427	$751	$909	$2,060

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 2018 first nine months: expected volatility of 16.8%; risk-free interest rate of 2.6%; dividend rate of 1.3% and expected lives of 5 years.

During the fiscal year 2018 nine month period, the Company granted 159,878 stock options. The weighted-average grant date fair value of these options was $23.67.

During the fiscal year 2017 nine month period, the Company granted 159,294 stock options. The weighted-average grant date fair value of these options was $18.85.

Expected volatility is based on the historical volatility of the price of our common shares over the past 50 months for 5 year options and 10 years for 10 year options. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

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

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

The total amount of gross unrecognized tax benefits is $389,000 and $374,000 on June 30, 2018 and September 30, 2017, respectively, all of which would impact our effective tax rate over time, if recognized. We recognize interest and penalties related to uncertain tax positions as a part of the provision for income taxes. As of June 30, 2018, and September 30, 2017, respectively, the Company has $254,000 and $239,000 of accrued interest and penalties.

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

Net earnings for the nine months ended June 30, 2018 benefited from a $20.9 million, or $1.11 per diluted share, gain on the remeasurement of deferred tax liabilities and a $7.4 million, or $0.40 per diluted share, reduction in income taxes related primarily to the lower corporate tax rate enacted under the Tax Cuts and Jobs Act in December 2017. Net earnings for the nine months were impacted by a $1.2 million, or $.06 per diluted share, provision for the one time repatriation tax required under the new tax law. For the three months ended June 30, 2018, net earnings benefited by a $3.5 million, or $.18 per diluted share, reduction in income taxes primarily related to the lower corporate tax rate. Excluding the deferred tax gain and the one-time repatriation tax, our effective tax rate decreased to 28.1% from 35.4% in the prior year quarter and to 28.4% from 35.0% in prior year nine months reflecting the reduction in the federal statutory rate to 21% from 35% on January 1, 2018. Last year's nine months' effective tax rate benefited from an unusually high tax benefit on share based compensation of $2,060,000 which compares to this year's nine month's tax benefit of $909,000. We are presently estimating an effective tax rate of 28-29% for the last quarter of our fiscal year 2018 and 26-27% for our fiscal year 2019.

On December 22, 2017, the SEC issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118") directing taxpayers to consider the impact of the U.S. legislation as "provisional" when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. In accordance with SAB 118, the estimated income tax net benefit of $3.5 million for the three months and $27.1 million for the nine months represents our best estimate based on interpretation of the U.S. legislation as we are still accumulating data to finalize the underlying calculations, or in certain cases, the U.S. Treasury is expected to issue further guidance on the application of certain provisions of the U.S. legislation. In accordance with SAB 118, the additional estimated income tax net benefit of $3.5 million for the three months and $27.1 million for the nine months are considered provisional and will be finalized before December 22, 2018.

Note 7	In May 2014 and in subsequent updates, the FASB issued guidance on revenue recognition which requires that we recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which we expect to be entitled in exchange for those goods or services. We have performed a review of the requirements of the new revenue standard and are in the process of reviewing customer contracts and applying the five-step model of this new guidance to each contract category we have identified and will compare the results to our current accounting practices. We plan to adopt this guidance on the first day of our fiscal 2019 year. We will apply the modified retrospective transition method, which would result in an adjustment to retained earnings for the cumulative effect, if any, of applying the standard to contracts in process as of the adoption date. Under this method, we would not restate the prior financial statements presented. Therefore, this guidance would require additional disclosures of the amount by which each financial statement line item is affected in the fiscal year 2019 reporting period. Our analysis indicates that the impact of this guidance on our consolidated financial statements will not be material.

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

In February 2016, the FASB issued guidance on lease accounting which requires that an entity recognize most leases on its balance sheet. The guidance retains a dual lease accounting model for purposes of income statement recognition, continuing the distinction between what are currently known as "capital" and "operating" leases for lessees. This guidance is effective for our fiscal year ended September 2020. While we continue to evaluate the effect of adopting this guidance on our consolidated financial statements and related disclosures, we expect our operating leases will be subject to the new standard. We will recognize right-of-use assets and operating lease liabilities on our consolidated balance sheets upon adoption, which will increase our total assets and liabilities. We anticipate that the impact of this guidance on our financial statements will be material.

Note 8 Inventories consist of the following:

June
30,