

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 27, 1998

or

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

Commission File Number: 0-14616

J & J SNACK FOODS CORP.

(Exact name of registrant as specified in its charter)

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

22-1935537
(I.R.S. Employer
Identification No.)

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

Telephone (609) 665-9533

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

Yes

No

As of July 15, 1998, there were 9,028,120 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

ASSETS	June 27, 1998 (Unaudited)	September 27, 1997
Current assets		
Cash and cash equivalents	\$ 2,740,000	\$ 1,401,000
Accounts receivable	31,367,000	25,458,000
Inventories	16,462,000	13,535,000
Prepaid expenses and deposits	1,470,000	853,000
	52,039,000	41,247,000
Property, plant and equipment, at cost		
Land	839,000	819,000
Buildings	5,432,000	5,340,000
Plant machinery and equipment	61,236,000	51,891,000
Marketing equipment	127,735,000	90,988,000
Transportation equipment	2,205,000	1,856,000
Office equipment	5,233,000	4,792,000
Improvements	8,287,000	7,837,000
Construction in progress	984,000	825,000
	211,951,000	164,348,000
Less accumulated depreciation and amortization	108,726,000	97,126,000
	103,225,000	67,222,000
Other assets		
Goodwill, trademarks and rights, less accumulated amortization	39,032,000	21,459,000
Long term investment securities available for sale	-	495,000
Long term investment securities held to maturity	3,148,000	3,340,000
Sundry	6,970,000	3,064,000
	49,150,000	28,358,000
	\$204,414,000	\$136,827,000

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - Continued

LIABILITIES AND STOCKHOLDERS' EQUITY	June 27, 1998 (Unaudited)	September 27, 1997
Current liabilities		
Current maturities of long- term debt	\$ 8,312,000	\$ 16,000
Accounts payable	22,825,000	13,315,000

Accrued liabilities	9,213,000	8,652,000
	40,350,000	21,983,000
Long-term debt, less current maturities	34,472,000	5,028,000
Revolving credit line	12,000,000	-
Deferred income	500,000	532,000
Deferred income taxes	3,385,000	3,380,000
Stockholders' equity		
Capital stock		
Preferred, \$1 par value; authorized, 5,000,000 shares; none issued	-	-
Common, no par value; authorized, 25,000,000 shares; issued and outstanding, 9,016,000 and 8,850,000, respectively	38,863,000	36,908,000
Foreign currency translation adjustment	(1,568,000)	(1,409,000)
Retained earnings	76,412,000	70,405,000
	113,707,000	105,904,000
	\$204,414,000	\$136,827,000

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended		Nine months ended	
	June 27, 1998	June 28, 1997	June 27, 1998	June 28, 1997
Net Sales	\$73,276,000	\$63,448,000	\$184,335,000	\$157,354,000
Cost of goods sold	34,750,000	32,404,000	91,303,000	80,771,000
Gross profit	38,526,000	31,044,000	93,032,000	76,583,000
Operating expenses				
Marketing	21,496,000	17,764,000	55,536,000	47,826,000
Distribution	6,807,000	5,263,000	17,799,000	14,380,000
Administrative	2,257,000	2,619,000	7,273,000	6,797,000
Amortization of intangibles and deferred costs	730,000	451,000	1,939,000	1,233,000
	31,290,000	26,097,000	82,547,000	70,236,000
Operating income	7,236,000	4,947,000	10,485,000	6,347,000
Other income (deductions)				
Investment income	87,000	94,000	384,000	490,000
Interest expense	(948,000)	(111,000)	(2,153,000)	(326,000)
Sundry	1,111,000	83,000	819,000	116,000
Earnings before income taxes	7,486,000	5,013,000	9,535,000	6,627,000
Income taxes	2,770,000	1,855,000	3,528,000	2,452,000
NET EARNINGS	\$ 4,716,000	\$ 3,158,000	\$ 6,007,000	\$ 4,175,000
Earnings per diluted share	\$.50	\$.35	\$.64	\$.47

Weighted average number of diluted shares	9,455,000	9,005,000	9,315,000	8,920,000
Earnings per basic share	\$.52	\$.36	\$.67	\$.48
Weighted average number of basic shares	8,994,000	8,776,000	8,918,000	8,763,000

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended	
	June 27, 1998	June 28, 1997
Cash flows from operating activities:		
Net earnings	\$ 6,007,000	\$ 4,175,000
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	16,101,000	12,532,000
Amortization of intangibles and deferred costs	2,318,000	1,454,000
Other adjustments	217,000	-
Changes in assets and liabilities, net of effects from purchase of companies		
Increase in accounts receivable	(3,114,000)	(10,209,000)
Decrease (increase) in inventories	406,000	(1,803,000)
(Increase) decrease in prepaid expenses	(314,000)	264,000
Increase in accounts payable and accrued liabilities	6,273,000	6,394,000
Net cash provided by operating activities	27,894,000	12,807,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(23,271,000)	(14,147,000)
Payments for purchase of companies, net of cash acquired and debt assumed	(12,200,000)	(18,873,000)
Proceeds from investments held to maturity	175,000	6,116,000
Proceeds from investments available for sale	495,000	1,710,000
Other	498,000	(18,000)
Net cash used in investing activities	(34,303,000)	(25,212,000)
Cash flows from financing activities:		
Proceeds from borrowings	53,120,000	1,500,000
Proceeds from issuance of common stock	1,955,000	396,000
Payments of long-term debt	(47,327,000)	(6,000)
Net cash used in financing activities	7,748,000	1,890,000
Net increase (decrease) in cash and cash equivalents	1,339,000	(10,515,000)
Cash and cash equivalents at beginning of period	1,401,000	10,547,000
Cash and cash equivalents at end of period	\$ 2,740,000	\$ 32,000

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.

The results of operations for the three months and nine

months ended June 27, 1998 and June 28, 1997 are not necessarily indicative of results for the full year. Sales of the Company's retail stores are generally higher in the first quarter due to the holiday shopping season. Sales of the Company's frozen carbonated beverages and Italian ice products are generally higher in the third and fourth quarters due to seasonal factors.

While the Company believes 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 year ended September 27, 1997.

Note 2 The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which eliminates primary and fully diluted earnings per share and requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted earnings per share take into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock. Earnings per share calculations for 1997 have been restated to reflect the adoption of SFAS No. 128.

The Company's calculation of earnings per share in accordance with SFAS No. 128, "Earnings Per Share," is as follows:

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	Three Months Ended June 27, 1998		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
Basic EPS			
Net Income available to common stockholders	\$4,716,000	8,994,000	\$.52
Effect of Dilutive Securities Options	-	461,000	(.02)
Diluted EPS			
Net Income available to common stockholders plus assumed conversions	\$4,716,000	9,455,000	\$.50

	Nine Months Ended June 27, 1998		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
Basic EPS			
Net Income available to common stockholders	\$6,007,000	8,918,000	\$.67
Effect of Dilutive Securities Options	-	397,000	(.03)
Diluted EPS			
Net Income available to common stockholders plus assumed conversions	\$6,007,000	9,315,000	\$.64

	Three Months Ended June 28, 1997		
	Income	Shares	Per Share

	(Numerator)	(Denominator)	Amount
Basic EPS			
Net Income available to common stockholders	\$3,158,000	8,776,000	\$.36
Effect of Dilutive Securities			
Options	-	229,000	(.01)
Diluted EPS			
Net Income available to common stockholders plus assumed conversions	\$3,158,000	9,005,000	\$.35

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	Nine Months Ended June 28, 1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Net Income available to common stockholders	\$4,175,000	8,763,000	\$.48
Effect of Dilutive Securities			
Options	-	157,000	(.01)
Diluted EPS			
Net Income available to common stockholders plus assumed conversions	\$4,175,000	8,920,000	\$.47

Note 3 Inventories consist of the following:

	June 27, 1998	September 27, 1997
Finished goods	\$ 9,131,000	\$ 7,108,000
Raw materials	1,902,000	1,789,000
Packaging materials	2,247,000	2,262,000
Equipment parts & other	3,182,000	2,376,000
	\$16,462,000	\$13,535,000

Note 4 The amortized cost, unrealized gains and losses, and fair market values of the Company's long-term investment securities held to maturity at June 27, 1998 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Held to Maturity Securities				
Corporate Debt Securities	\$ 953,000	\$36,000	\$ -	\$ 989,000
Municipal Government Securities	1,695,000	24,000	-	1,719,000
Other	500,000	-	-	500,000
	\$3,148,000	\$60,000	\$ -	\$3,208,000

The amortized cost, unrealized gains and losses, and fair market values of the Company's long-term investment securities available for sale and held to maturity at September 27, 1997 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Available for sale				
Corporate debt securities	\$ 495,000	\$ -	\$ -	\$ 495,000
Held to maturity securities				
Corporate debt securities	\$ 970,000	\$19,000	\$ -	\$ 989,000

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Municipal government securities	1,870,000	3,000	(8,000)	1,865,000
Other debt securities	500,000	-	-	500,000
	\$3,340,000	\$22,000	\$ (8,000)	\$3,354,000

Note 5 To fund the acquisition of National ICEE Corporation in December 1997, and to retire most of its debt, the Company incurred the following debt:

\$40,000,000 unsecured term note, at an interest rate of 6.61% fixed through swap agreements, with 60 monthly principal payments of \$666,667 plus interest beginning January 8, 1998. At June 27, 1998, \$8,000,000 of the note was classified under current maturities of long-term debt. At June 27, 1998, the balance on the note was \$36,000,000.

\$10,000,000 borrowing under a \$30,000,000 unsecured general purpose bank line of credit. Interest payments on the balance borrowed under the line are made monthly. The interest rate on the outstanding borrowings under the line was 6.16% at June 27, 1998. At June 27, 1998, \$12,000,000 in borrowings was classified as a long-term liability.

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

Liquidity and Capital Resources

The Company's cash expected to be provided by future operations and its available lines of credit are its primary sources of short-term liquidity. The Company believes that these sources, along with its borrowing capacity, are sufficient to fund future growth and expansion.

In the nine months ended June 27, 1998, the devaluation of the Mexican peso caused a reduction of \$159,000 in stockholders' equity because of the revaluation of the net assets of the Company's Mexican frozen carbonated beverage subsidiary.

In December 1997, the Company acquired the common stock of National ICEE Corporation, a marketer and distributor of frozen carbonated beverages under the tradename ICEE, with approximate annual sales of \$40,000,000. As a result of the acquisition, the Company now has the rights to market and distribute frozen carbonated beverages under the name ICEE to all of the continental United States, except for portions of eleven states.

The purchase price paid to the former shareholders of National ICEE Corporation was \$9,000,000 in the form of cash. Additionally, the Company assumed approximately \$44,000,000 of debt, of which approximately \$42,000,000 was retired at closing. The source of cash utilized to retire the debt and to fund the purchase price was a \$40,000,000 unsecured term loan and an unsecured revolving line of credit with the Company's existing banks.

In January 1997, the Company acquired the assets of Mama Tish's International Foods for the assumption of some of its liabilities. Mama Tish is a manufacturer and distributor of Italian ices, sorbets and other frozen juice products with annual sales of approximately \$15 million.

In November 1996, the Company acquired all of the common stock of Pretzels, Inc. for cash. Trading as Texas Twist, Pretzels, Inc. is a soft pretzel manufacturer selling to both the food service and retail

supermarket industries with annual sales of approximately \$1.4 million.

In October 1996, the Company acquired the assets of Bakers Best Snack Foods Corp. for cash. Bakers Best is a manufacturer of soft pretzels selling to both the food service and retail supermarket industries with annual sales of approximately \$4 million.

Available to the Company are unsecured general purpose bank lines of credit totaling \$30,000,000. Borrowings under the lines at June 27, 1998 were \$12,000,000.

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Results of Operations

Net sales increased \$9,828,000 or 15% to \$73,276,000 for the three months and \$26,981,000 or 17% to \$184,335,000 for the nine months ended June 27, 1998 compared to the nine months ended June 28, 1997. Excluding sales of acquired businesses, net sales decreased approximately \$400,000 or less than 1% for the three months and increased approximately \$5,200,000 or 3% for the nine months.

Sales to food service customers decreased \$1,651,000 or 6% in the third quarter to \$28,289,000 and were essentially unchanged for the nine months. Excluding sales of acquired businesses, sales to food service customers decreased \$1,651,000 or 6% for the quarter and decreased \$1,132,000 or 1% for the nine months. Soft pretzel sales to the food service market increased 8% to \$15,371,000 in the third quarter and 4% to \$45,184,000 in the nine months. Increased sales of soft pretzels to one customer in the third quarter accounted for approximately 40% of the third quarter sales increase and 30% of the nine month sales increase. Excluding sales of acquired businesses, food service soft pretzel sales increased \$1,188,000 or 8% in the third quarter and increased \$1,467,000 or 3% in the nine month period. Italian ice and frozen juice treat and dessert sales decreased 29% to \$8,099,000 in the three months and 15% to \$17,493,000 in the nine months. Decreased sales to three customers during the three months accounted for essentially all of the third quarter and nine month sales decrease, respectively. Excluding sales of an acquired business, the sales decrease was \$3,264,000 or 29% in the third quarter and \$3,828,000 or 19% in the nine month period. Churro sales to food service customers increased 7% to \$3,017,000 in the third quarter and 7% to \$8,212,000 in the nine months.

Sales of products to retail supermarkets decreased \$660,000 or 6% to \$10,445,000 in the third quarter and 6% to \$26,999,000 in the nine months. Excluding sales of acquired businesses, sales to retail supermarkets were down 6% in the quarter and 8% for the nine months. Soft pretzel sales for the third quarter were down 3% and for the nine months were down 13% from last year to \$4,766,000 and \$16,423,000, respectively. SOFTSTIX sales increased \$206,000 or 61% to \$543,000 in the third quarter and \$111,000 or 7% in the nine months. Sales of the flagship SUPERPRETZEL brand soft pretzels, excluding SOFTSTIX and CINNAMON RAISIN, decreased 2% in the third quarter and 5% for the nine months. Sales of Italian ice decreased \$615,000 or 10% to \$5,264,000 in the third quarter and increased \$223,000 or 2% to \$9,272,000 in the nine months. Sales were impacted by limited production output during the expansion and modernization of the Company's Italian ice and frozen dessert plant in Scranton, PA. Excluding sales of an acquired business, Italian ice sales were down 2% for the nine months.

Frozen carbonated beverage and related product sales increased \$11,876,000 or 85% to \$25,915,000 in the third quarter and \$23,823,000 or 76% to \$55,165,000 in the nine months. Beverage and beverage cup and lid sales alone

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increased 87% in the third quarter and 72% in the nine months to \$23,341,000 and \$48,655,000, respectively. Excluding sales resulting from the acquisition of National Icee Corporation in December 1997, frozen carbonated beverage and related product sales increased \$1,719,000 or 12% in the third quarter from last year and \$3,800,000 or 12% in the nine months.

Bakery sales increased \$97,000 or 2% to \$5,644,000 in the third quarter and \$4,218,000 or 35% to \$16,389,000 in the first nine months due to increased product sales to one customer.

Sales of our Bavarian Pretzel Bakery increased 6% to \$2,983,000 in the third quarter and 9% to \$836,000 in the nine month period. Excluding sales of an acquired business, sales were up 6% in the nine months.

Gross profit as a percentage of sales increased to 53% and 50% in the third quarter and nine months, respectively, from 49% in the corresponding periods last period. The gross profit percentage increases are primarily attributable to higher gross profit percentages of the acquired National Icee Corporation business and lower flour costs offset by higher manufacturing costs of approximately \$1,000,000 incurred during the startup of operations in the third quarter at the Company's expanded Italian ice and frozen dessert plant in Scranton, PA.

Total operating expenses increased \$5,193,000 in the third quarter and as a percentage of sales increased to 43% from 41% in last year's same quarter. For the nine months, operating expenses increased \$12,311,000 and as a percentage of sales were 45% in both years' periods. Marketing expenses increased to 29% of sales in this year's third quarter from 28% last year and were 30% of sales in the nine month period this year and last. Distribution expenses increased to 9% of sales in this year's third quarter from 8% of sales last year and to 10% of sales in this year's nine month period from 9% in the year ago period. The increases in marketing and distribution expenses as a percentage of sales were due to higher operating expenses of the acquired National Icee Corporation business. Administration expenses decreased to 3% of sales in the third quarter from 4% in all other periods due primarily to higher sales levels.

Operating income increased \$2,289,000 or 46% to \$7,236,000 in the third quarter and \$4,138,000 or 65% to \$10,485,000 in the nine months.

Investment income decreased 7% in the third quarter and 22% in the nine months due to sharply lower levels of investable funds which were used to pay for acquisitions. Interest expense increased \$837,000 and \$1,827,000 in the quarter and nine months, respectively, due to the assumption and subsequent refinancing of the debt of National Icee Corporation.

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Sundry income increased by \$1,028,000 in the third quarter and \$703,000 in the nine months due to the successful settlement of certain litigation. For the nine month period, sundry income was offset by \$419,000 in write offs and reserves for the closing down of unprofitable retail stores of our Bavarian Pretzel Bakery.

The effective income tax rate has been estimated at 37% in all periods reported.

Net earnings increased \$1,558,000 or 49% in the current three month period to \$4,716,000 and \$1,832,000 or 44% in the current nine month period to \$6,007,000. Excluding the impact of National Icee Corporation, net earnings would have been approximately \$4,200,000, or 33% higher than last year in the third quarter and \$6,500,000 or 56% higher than last year for the nine month period.

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- a) Exhibits - None
- b) Reports on Form 8-K - There were no reports on Form 8-K for the three months ended June 27, 1998.

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: August 7, 1998

/s/ Gerald B. Shreiber
Gerald B. Shreiber
President

Dated: August 7, 1998

/s/ Dennis G. Moore
Dennis G. Moore
Senior Vice President and
Chief Financial Officer

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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: August 7, 1998

Gerald B. Shreiber
President

Dated: August 7, 1998

Dennis G. Moore
Senior Vice President and
Chief Financial Officer

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