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 December 30, 2023

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.)

350 Fellowship Road, Mt. Laurel, New Jersey 08054
(Address of principal executive offices)

Telephone (856) 665-9533

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, no par value	JJSF	The NASDAQ Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

☒ 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	☒	Accelerated filer	☐
Non-accelerated filer	☐	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 ☒ No

As of February 2, 2024 there were 19,379,847 shares of the Registrant's Common Stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

	December 30, 2023 (unaudited)	September 30, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 50,020	$ 49,581
Accounts receivable, net	166,156	198,129
Inventories	172,724	171,539
Prepaid expenses and other	8,379	10,963
Total current assets	397,279	430,212
Property, plant and equipment, at cost		
Land	3,684	3,684
Buildings	45,538	45,538
Plant machinery and equipment	468,620	445,299
Marketing equipment	304,160	296,482
Transportation equipment	15,085	14,367
Office equipment	47,966	47,393
Improvements	51,423	51,319
Construction in progress	42,838	56,116
Total Property, plant and equipment, at cost	979,314	960,198
Less accumulated depreciation and amortization	588,241	574,295
Property, plant and equipment, net	391,073	385,903
Other assets		
Goodwill	185,070	185,070
Other intangible assets, net	181,913	183,529
Operating lease right-of-use assets	133,715	88,868
Other	3,507	3,654
Total other assets	504,205	461,121
Total Assets	$ 1,292,557	$ 1,277,236
Liabilities and Stockholders' Equity		
Current liabilities		
Current finance lease liabilities	$ 159	$ 201
Accounts payable	85,293	90,758
Accrued insurance liability	16,460	15,743
Accrued liabilities	13,144	14,214
Current operating lease liabilities	17,934	16,478
Accrued compensation expense	18,090	23,341
Dividends payable	14,235	14,209
Total current liabilities	165,315	174,944
Long-term debt	7,000	27,000
Noncurrent finance lease liabilities	549	600
Noncurrent operating lease liabilities	121,626	77,631
Deferred income taxes	81,085	81,310
Other long-term liabilities	4,521	4,233
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 19,367,000 and 19,332,000 respectively	120,517	114,556
Accumulated other comprehensive loss	(8,231)	(10,166)
Retained Earnings	800,175	807,128
Total stockholders' equity	912,461	911,518
Total Liabilities and Stockholders' Equity	$ 1,292,557	$ 1,277,236

The accompanying notes are an integral part of these statements.

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

	Three months ended	
	December 30, 2023	December 24, 2022
Net sales	$ 348,308	$ 351,343
Cost of goods sold	253,723	260,488
Gross profit	94,585	90,855
Operating expenses		
Marketing	27,472	23,699
Distribution	40,303	42,049
Administrative	18,199	16,391
Other general (income)	(1,072)	(612)
Total operating expenses	84,902	81,527
Operating Income	9,683	9,328
Other income (expense)		
Investment income	798	685
Interest expense	(560)	(1,049)
Earnings before income taxes	9,921	8,964
Income tax expense	2,639	2,331
NET EARNINGS	$ 7,282	$ 6,633
Earnings per diluted share	$ 0.37	$ 0.34
Weighted average number of diluted shares	19,423	19,274
Earnings per basic share	$ 0.38	$ 0.35
Weighted average number of basic shares	19,344	19,222

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	
	December 30, 2023	**December 24, 2022**
Net Earnings	$ 7,282	$ 6,633
Foreign currency translation adjustments	1,935	871
Total Other Comprehensive Income (Loss)	1,935	871
Comprehensive Income	$ 9,217	$ 7,504

The accompanying notes are an integral part of these statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited) (in thousands)

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount			
Balance as September 30, 2023	19,332	$ 114,556	$ (10,166)	$ 807,128	$ 911,518
Common Stock issued in connection with employee and director plans, net of tax withheld	35	4,481	-	-	4,481
Foreign currency translation adjustment	-	-	1,935	-	1,935
Dividends declared	-	-	-	(14,235)	(14,235)
Share-based compensation	-	1,480	-	-	1,480
Net earnings	-	-	-	7,282	7,282
Balance at December 30, 2023	19,367	$ 120,517	$ (8,231)	$ 800,175	$ 912,461

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount			
Balance as September 24, 2022	19,219	$ 94,026	$ (13,713)	$ 782,856	$ 863,169
Common Stock issued in connection with employee and director plans, net of tax withheld	10	1,285	-	-	1,285
Foreign currency translation adjustment	-	-	871	-	871
Dividends declared	-	-	-	(13,461)	(13,461)
Share-based compensation	-	1,239	-	-	1,239
Net earnings	-	-	-	6,633	6,633
Balance at December 24, 2022	19,229	$ 96,550	$ (12,842)	$ 776,028	$ 859,736

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)

	Three months ended	
	December 30, 2023	**December 24, 2022**
Operating activities:		
Net earnings	$ 7,282	$ 6,633
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation of fixed assets	15,176	13,476
Amortization of intangibles and deferred costs	1,616	1,705
Gains from disposals of property & equipment	(23)	(711)
Share-based compensation	1,480	1,239
Deferred income taxes	(192)	(526)
Loss on marketable securities	-	37
Other	157	(18)
Changes in assets and liabilities, net of effects from purchase of companies		
Decrease in accounts receivable	32,407	21,171
(Increase) in inventories	(971)	(2,284)
Decrease in prepaid expenses	2,625	2,343
(Decrease) in accounts payable and accrued liabilities	(10,604)	(21,655)
Net cash provided by operating activities	48,953	21,410
Investing activities:		
Purchases of property, plant and equipment	(19,930)	(30,910)
Proceeds from redemption and sales of marketable securities	-	3,300
Proceeds from disposal of property and equipment	82	729
Net cash used in investing activities	(19,848)	(26,881)
Financing activities:		
Proceeds from issuance of stock	4,481	1,285
Borrowings under credit facility	15,000	72,000
Repayment of borrowings under credit facility	(35,000)	(35,000)
Payments on finance lease obligations	(85)	(39)
Payment of cash dividends	(14,209)	(13,453)
Net cash provided by (used in) financing activities	(29,813)	24,793
Effect of exchange rates on cash and cash equivalents	1,147	363
Net increase in cash and cash equivalents	439	19,685
Cash and cash equivalents at beginning of period	49,581	35,181
Cash and cash equivalents at end of period	$ 50,020	$ 54,866

The accompanying notes are an integral part of these statements.

Note 1 Basis of Presentation

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, 2023.

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 Company's financial position and the results of operations and cash flows.

The results of operations for the three months ended December 30, 2023 and December 24, 2022 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen novelties are generally higher in the fiscal 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 audited consolidated financial statements and the notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

Note 2 Revenue Recognition

We recognize revenue in accordance with ASC 606, "Revenue from Contracts with Customers."

<u>When Performance Obligations Are Satisfied</u>

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

The singular performance obligation of our customer contracts for product and machine sales is determined by each individual purchase order and the respective products ordered, with revenue being recognized at a point-in-time when the obligation under the terms of the agreement is satisfied and product control is transferred to our customer. Specifically, control transfers to our customers when the product is delivered to, installed or picked up by our customers based upon applicable shipping terms, as our customers can direct the use and obtain substantially all of the remaining benefits from the product at this point in time. The performance obligations in our customer contracts for product are generally satisfied within 30 days.

The singular performance obligation of our customer contracts for time and material repair and maintenance equipment service is the performance of the repair and maintenance with revenue being recognized at a point-in-time when the repair and maintenance is completed.

The singular performance obligation of our customer repair and maintenance equipment service contracts is the performance of the repair and maintenance with revenue being recognized over the time the service is expected to be performed. Our customers are billed for service contracts in advance of performance and therefore we have contract liability on our balance sheet.

Significant Payment Terms

In general, within our customer contracts, the purchase order identifies the product, quantity, price, pick-up allowances, payment terms and final delivery terms. Although some payment terms may be more extended, presently the majority of our payment terms are 30 days. As a result, we have used the available practical expedient and, consequently, do not adjust our revenues for the effects of a significant financing component.

Shipping

All amounts billed to customers related to shipping and handling are classified as revenues; therefore, we recognize revenue for shipping and handling fees at the time the products are shipped or when services are performed. The cost of shipping products to the customer is recognized at the time the products are shipped to the customer and our policy is to classify them as Distribution expenses.

Variable Consideration

In addition to fixed contract consideration, our contracts include some form of variable consideration, including sales discounts, trade promotions and certain other sales and consumer incentives, including rebates and coupon redemptions. In general, variable consideration is treated as a reduction in revenue when the related revenue is recognized. Depending on the specific type of variable consideration, we use the most likely amount method to determine the variable consideration. We believe there will be no significant changes to our estimates of variable consideration when any related uncertainties are resolved with our customers. We review and update our estimates and related accruals of variable consideration each period based on historical experience. Our recorded liability for allowances, end-user pricing adjustments and trade spending was approximately $17.8 million at December 30, 2023 and $18.9 million at September 30, 2023.

Warranties & Returns

We provide all customers with a standard or assurance type warranty. Either stated or implied, we provide assurance the related products will comply with all agreed-upon specifications and other warranties provided under the law. No services beyond an assurance warranty are provided to our customers.

We do not grant a general right of return. However, customers may return defective or non-conforming products. Customer remedies may include either a cash refund or an exchange of the product. We do not estimate a right of return and related refund liability as returns of our products are rare.

Contract Balances

Our customers are billed for service contracts in advance of performance and therefore we have contract liability on our balance sheet as follows:

	Three months ended	
	December 30, 2023	December 24, 2022
	(in thousands)	
Beginning Balance	$ 5,306	$ 4,926
Additions to contract liability	1,400	1,390
Amounts recognized as revenue	(1,771)	(1,549)
Ending Balance	$ 4,935	$ 4,767

Disaggregation of Revenue

See Note 10 for disaggregation of our net sales by class of similar product and type of customer.

Allowance for Estimated Credit Losses

The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses. The allowance for estimated credit losses considers a number of factors including the age of receivable balances, the history of losses, expectations of future credit losses, and the customers’ ability to pay off obligations. The allowance for estimated credit losses was $3.3 million and $3.2 million on December 30, 2023 and September 30, 2023, respectively.

Note 3 Depreciation and Amortization Expense

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, franchise agreements, technology 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 $15.2 million and $13.5 million for the three months ended December 30, 2023 and December 24, 2022, respectively.

Note 4 Earnings per Share

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 and restricted stock units (“RSU”)’s) or other contracts to issue common stock were exercised and converted into common stock. Our calculation of EPS is as follows:

	Three months ended December 30, 2023		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$ 7,282	19,344	$ 0.38
Effect of Dilutive Securities			
RSU's and Options	-	79	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$ 7,282	19,423	$ 0.37

188,077 anti-dilutive shares have been excluded in the computation of EPS for the three months ended December 30, 2023.

	Three months ended December 24, 2022		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$ 6,633	19,222	$ 0.35
Effect of Dilutive Securities			
RSU's and Options	-	52	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$ 6,633	19,274	$ 0.34

394,077 anti-dilutive shares have been excluded in the computation of EPS for the three months ended December 24, 2022.

Note 5 Share-Based Compensation and Post-Retirement Benefits

At December 30, 2023, the Company has three stock-based employee compensation plans. Share-based compensation expense was recognized as follows:

	Three months ended	
	December 30, 2023	December 24, 2022
	(in thousands)	
Stock options	$ 363	$ 620
Stock purchase plan	99	227
Stock issued to outside directors	40	-
Service share units issued to employees	382	181
Performance share units issued to employees	275	72
Total share-based compensation	$ 1,159	$ 1,100
The above compensation is net of tax benefits	$ 321	$ 139

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model.

Expected volatility is based on the historical volatility of the price of our common shares over the past 51 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.

The Company did not grant any stock options during the three months ended December 30, 2023, or during the three months ended December 24, 2022.

During the three months ended December 30, 2023, the Company issued 9,751 service share units (“RSU”)’s. Each RSU entitles the awardee to one share of common stock upon vesting. During the three months ended December 24, 2022, the Company issued 9,900 service share units (“RSU”)’s. The fair value of the RSU’s was determined based upon the closing price of the Company’s common stock on the date of grant.

During the three months ended December 30, 2023, the Company also issued 9,743 performance share units (“PSU”)’s. During the three months ended December 24, 2022, the Company issued 18,641 performance share units (“PSU”)’s. Each PSU may result in the issuance of up to two shares of common stock upon vesting, dependent upon the level of achievement of the applicable Performance Goal. The fair value of the PSU’s was determined based upon the closing price of the Company’s common stock on the date of grant. Additionally, the Company applies a quarterly probability assessment in computing this non-cash compensation expense, and any change in estimate is reflected as a cumulative adjustment to expense in the quarter of the change.

Note 6 Income Taxes

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.

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 $0.3 million on both December 30, 2023 and September 30, 2023, 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 December 30, 2023 and September 30, 2023, the Company has $0.3 million of accrued interest and penalties, respectively.

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. Virtually all the returns noted above are open for examination for three to four years.

Our effective tax rate for the three months ended December 30, 2023 was 27%. Our effective tax rate was 26% in last fiscal year’s quarter.

Note 7 New Accounting Pronouncements and Policies

In December 2022, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848", to provide optional guidance to temporarily ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Preceding the issuance of ASU 2020-04, which established ASC 848, the United Kingdom's Financial Conduct Authority ("FCA") announced that it would no longer need to persuade or compel banks to submit to LIBOR after December 31, 2021. In response, the FASB established December 31, 2022 as the expiration date for ASC 848. In March 2021, the FCA announced the intended cessation date of the overnight 1-, 3-, 6-, and 12-month USD LIBOR would be June 30, 2023. Because the current relief in Topic 848 may not cover a period of time during which a significant number of modifications may take place, this update deferred the sunset date in Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. This guidance is not expected to have a material impact on our consolidated financial statements and disclosures.

In September 2022, the FASB issued ASU No. 2022-04 "Liabilities – Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations". This guidance requires annual and interim disclosures for entities that use supplier finance programs in connection with the purchase of goods and services. These amendments are effective for fiscal years beginning after December 15, 2022, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. The Company adopted this guidance during the three months ended December 30, 2023. The adoption of this guidance did not have a material impact on our consolidated financial statements and disclosures.

In November 2023, the FASB issued ASU No. 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." This guidance requires all public entities to provide enhanced disclosures about significant segment expenses. The amendments in this ASU are to be applied retrospectively and are effective for fiscal years beginning after December 15, 2023 and for interim periods within fiscal years beginning after December 15, 2024. We are currently assessing the impact of the guidance on our consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU No. 2023-09 "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." This guidance enhances the transparency around income tax information through improvements to income tax disclosures, primarily related to the effective rate reconciliation and income taxes paid, to improve the overall effectiveness of income tax disclosures. The amendments in the ASU are effective for fiscal years beginning after December 15, 2024, with early adoption permitted. We are currently assessing the impact of the guidance on our consolidated financial statements and disclosures.

Note 8 Long-term Debt

In December 2021, the Company entered into an amended and restated loan agreement (the "Credit Agreement") with our existing banks which provided for up to a $50 million revolving credit facility repayable in December 2026.

Interest accrues, at the Company's election at (i) the BSBY Rate (as defined in the Credit Agreement), plus an applicable margin, based upon the Consolidated Net Leverage Ratio, as defined in the Credit Agreement, or (ii) the Alternate Base Rate (a rate based on the higher of (a) the prime rate announced from time-to-time by the Administrative Agent, (b) the Federal Reserve System's federal funds rate, plus 0.50% or (c) the Daily BSBY Rate, plus an applicable margin). The Alternate Base Rate is defined in the Credit Agreement.

The Credit Agreement requires the Company to comply with various affirmative and negative covenants, including without limitation (i) covenants to maintain a minimum specified interest coverage ratio and maximum specified net leverage ratio, and (ii) subject to certain exceptions, covenants that prevent or restrict the Company's ability to pay dividends, engage in certain mergers or acquisitions, make certain investments or loans, incur future indebtedness, alter its capital structure or line of business, prepay subordinated indebtedness, engage in certain transactions with affiliates, or amend its organizational documents. As of December 30, 2023, the Company is in compliance with all financial covenants terms of the Credit Agreement.

On June 21, 2022, the Company entered into an amendment to the Credit Agreement, the "Amended Credit Agreement" which provided for an incremental increase of $175 million in available borrowings. The Amended Credit Agreement also includes an option to increase the size of the revolving credit facility by up to an amount not to exceed in the aggregate the greater of $225 million or, $50 million plus the Consolidated EBITDA of the Borrowers, subject to the satisfaction of certain terms and conditions.

As of December 30, 2023, $7.0 million was outstanding under the Amended Credit Agreement with a weighted average interest rate of 6.33%. These borrowings have been classified as Long-Term Debt on the Company's Balance Sheet. As of December 30, 2023, the amount available under the Amended Credit Agreement was $208.2 million, after giving effect to the outstanding letters of credit. As of September 30, 2023, $27.0 million was outstanding under the Amended Credit Agreement. As of September 30, 2023, the amount available under the Amended Agreement was $188.2 million, after giving effect to the outstanding letters of credit.

Note 9 Inventory

Inventories consist of the following:

	December 30, 2023 (unaudited)	September 30, 2023
	(in thousands)	
Finished goods	$ 88,030	$ 86,472
Raw materials	29,263	30,537
Packaging materials	12,479	12,484
Equipment parts and other	42,952	42,046
Total Inventories	$ 172,724	$ 171,539

Note 10 Segment Information

We principally sell our products to the food service and retail supermarket industries. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business because of different distribution and capital requirements. We maintain separate and discrete financial information for the three operating segments mentioned below which is available to our Chief Operating Decision Maker.

Our reportable segments are Food Service, Retail Supermarkets and Frozen Beverages. All inter-segment net sales and expenses have been eliminated in computing net sales and operating income. These segments are described below.

Food Service

The primary products sold by the Food Service segment are soft pretzels, frozen novelties, churros, 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 and casual dining restaurants; 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 or for take-away.

Retail Supermarkets

The primary products sold to the retail supermarket channel are soft pretzel products – including SUPERPRETZEL and AUNTIE ANNE'S, frozen novelties including LUIGI'S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, WHOLE FRUIT frozen fruit bars and sorbet, DOGSTERS ice cream style treats for dogs, PHILLY SWIRL cups and sticks, ICEE Squeeze-Up Tubes and handheld products. 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 foodservice industry primarily under the names ICEE, SLUSH PUPPIE and PARROT ICE in the United States, Mexico and Canada. We also provide repair and maintenance services to customers for customer-owned equipment.

The Chief Operating Decision Maker for Food Service, Retail Supermarkets and Frozen Beverages reviews monthly detailed operating income statements and sales reports in order to assess performance and allocate resources to each individual segment. Sales and operating income are key variables monitored by the Chief Operating Decision Maker and management when determining each segment's and the company's financial condition and operating performance. In addition, the Chief Operating Decision Maker reviews and evaluates depreciation, capital spending and assets of each segment on a quarterly basis to monitor cash flow and asset needs of each segment. Information regarding the operations in these three reportable segments is as follows:

	Three months ended	
	December 30, 2023	**December 24, 2022**
	(in thousands)	
Sales to External Customers:		
Food Service		
Soft pretzels	$ 50,128	$ 52,223
Frozen novelties	21,050	21,765
Churros	28,061	25,757
Handhelds	22,047	23,572
Bakery	101,982	108,948
Other	5,341	6,032
Total Food Service	$ 228,609	$ 238,297
Retail Supermarket		
Soft pretzels	$ 18,447	$ 14,485
Frozen novelties	12,861	17,969
Biscuits	7,032	7,913
Handhelds	5,510	2,892
Coupon redemption	(332)	(176)
Other	241	(10)
Total Retail Supermarket	$ 43,759	$ 43,073
Frozen Beverages		
Beverages	$ 41,950	$ 38,659
Repair and maintenance service	24,559	23,827
Machines revenue	8,889	7,011
Other	542	476
Total Frozen Beverages	$ 75,940	$ 69,973
Consolidated Sales	$ 348,308	$ 351,343
Depreciation and Amortization:		
Food Service	$ 10,673	$ 9,458
Retail Supermarket	527	391
Frozen Beverages	5,592	5,332
Total Depreciation and Amortization	$ 16,792	$ 15,181
Operating Income :		
Food Service	$ 6,016	$ 6,387
Retail Supermarket	452	1,111
Frozen Beverages	3,215	1,830
Total Operating Income	$ 9,683	$ 9,328
Capital Expenditures:		
Food Service	$ 11,865	$ 24,862
Retail Supermarket	2	1,374
Frozen Beverages	8,063	4,674
Total Capital Expenditures	$ 19,930	$ 30,910
Assets:		
Food Service	$ 930,533	$ 907,736
Retail Supermarket	36,219	16,941
Frozen Beverages	325,805	302,871
Total Assets	$ 1,292,557	$ 1,227,548

Note 11 Goodwill and Intangible Assets

Intangible Assets

Our reportable segments are Food Service, Retail Supermarkets and Frozen Beverages.

The carrying amounts of acquired intangible assets for the Food Service, Retail Supermarkets and Frozen Beverages segments as of December 30, 2023 and September 30, 2023 are as follows:

	December 30, 2023		September 30, 2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
FOOD SERVICE				
Indefinite lived intangible assets				
Trade names	$ 84,194	$ -	$ 84,194	$ -
Amortized intangible assets				
Non compete agreements	-	-	-	-
Franchise agreements	8,500	1,275	8,500	1,063
Customer relationships	22,900	10,653	22,900	10,080
Technology	23,110	3,452	23,110	2,879
License and rights	1,690	1,587	1,690	1,565
TOTAL FOOD SERVICE	$ 140,394	$ 16,967	$ 140,394	$ 15,587
RETAIL SUPERMARKETS				
Indefinite lived intangible assets				
Trade names	$ 11,938	$ -	$ 11,938	$ -
Amortized Intangible Assets				
Trade names	-	-	-	-
Customer relationships	7,687	7,439	7,687	7,256
TOTAL RETAIL SUPERMARKETS	$ 19,625	$ 7,439	$ 19,625	$ 7,256
FROZEN BEVERAGES				
Indefinite lived intangible assets				
Trade names	$ 9,315	$ -	$ 9,315	$ -
Distribution rights	36,100	-	36,100	-
Amortized intangible assets				
Customer relationships	1,439	725	1,439	689
Licenses and rights	1,400	1,229	1,400	1,212
TOTAL FROZEN BEVERAGES	$ 48,254	$ 1,954	$ 48,254	$ 1,901
CONSOLIDATED	$ 208,273	$ 26,360	$ 208,273	$ 24,744

Amortizing intangible assets are being amortized by the straight-line method over periods ranging from 2 to 20 years and amortization expense is reflected throughout operating expenses. Aggregate amortization expense of intangible assets for the three months ended December 30, 2023 and December 24, 2022 was $1.6 million and $1.7 million, respectively.

Estimated amortization expense for the next five fiscal years is approximately $4.7 million in 2024 (excluding the three months ended December 30, 2023), $5.6 million in 2025 and 2026, $4.6 million in 2027, and $4.2 million in 2028.

The weighted amortization period of the intangible assets, in total, is 10.4 years. The weighted amortization period by intangible asset class is 10 years for Technology, 10 years for Customer relationships, 20 years for Licenses & rights, and 10 years for Franchise agreements.

Goodwill

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

	Food Service	Retail Supermarket	Frozen Beverages	Total
		(in thousands)		
December 30, 2023	$ 124,426	$ 4,146	$ 56,498	$ 185,070
September 30, 2023	$ 124,426	$ 4,146	$ 56,498	$ 185,070

Note 12 Investments

We have classified our investment securities as marketable securities held to maturity and available for sale. The FASB defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the FASB has established three levels of inputs that may be used to measure fair value:

Level 1 Observable input such as quoted prices in active markets for identical assets or liabilities;

Level 2 Observable inputs, other than Level 1 inputs in active markets, that are observable either directly or indirectly; and

Level 3 Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

Marketable securities held to maturity and available for sale consist primarily of investments in mutual funds, preferred stock and corporate bonds. The fair values of mutual funds are based on quoted market prices in active markets and are classified within Level 1 of the fair value hierarchy. The fair values of preferred stock and corporate bonds are based on quoted prices for identical or similar instruments in markets that are not active. As a result, preferred stock and corporate bonds are classified within Level 2 of the fair value hierarchy.

As of December 30, 2023, and September 30, 2023, the Company held no held to maturity investment securities or marketable securities available for sale.

As of December 30, 2023, and September 30, 2023, the Company did not hold any mutual fund investments. However, during the three months ended December 24, 2022, the mutual funds held sought current income with an emphasis on maintaining low volatility and overall moderate duration. As of December 30, 2023, and September 30, 2023, the Company did not hold any mutual fund investments. However, during the three months ended December 24, 2022, the Company held investments in Fixed-to-Floating Perpetual Preferred Stock which generated fixed income to call dates in 2025 and then income was based on a spread above LIBOR if the securities were not called. As of December 30, 2023, and September 30, 2023, the Company held no held to maturity investment securities. However, during the three months ended December 24, 2022, the Company was invested in corporate bonds which generated fixed income to maturity dates in 2023.

There were no proceeds from the redemption and sale of marketable securities in the three months ended December 30, 2023, and $3.3 million in the three months ended December 24, 2022. No gains or losses were recorded in the three months ended December 30, 2023, and losses of $37,000 were recorded in the three months ended December 24, 2022, which included unrealized losses on marketable securities of $39,000. We use the specific identification method to determine the cost of securities sold.

Note 13 Accumulated Other Comprehensive Income (Loss)

Changes to the components of accumulated other comprehensive loss are as follows:

	Three months ended December 30, 2023
	Foreign Currency Translation Adjustments (in thousands)
Beginning balance	$ (10,166)
Other comprehensive income (loss)	1,935
Ending balance	$ (8,231)

	Three months ended December 24, 2022
	Foreign Currency Translation Adjustments (in thousands)
Beginning balance	$ (13,713)
Other comprehensive income (loss)	871
Ending balance	$ (12,842)

Note 14 Leases

General Lease Description

We have operating leases with initial noncancelable lease terms in excess of one year covering the rental of various facilities and equipment. Certain of these leases contain renewal options and some provide options to purchase during the lease term. Our operating leases include leases for real estate for some of our office and manufacturing facilities as well as manufacturing and non-manufacturing equipment used in our business. The remaining lease terms for these operating leases range from 1 month to 20 years.

We have finance leases with initial noncancelable lease terms in excess of one year covering the rental of various equipment. These leases are generally for manufacturing and non-manufacturing equipment used in our business. The remaining lease terms for these finance leases range from 1 year to 5 years.

Significant Assumptions and Judgments

Contract Contains a Lease

In evaluating our contracts to determine whether a contract is or contains a lease, we considered the following:

- Whether explicitly or implicitly identified assets have been deployed in the contract; and
- Whether we obtain substantially all of the economic benefits from the use of that underlying asset, and we can direct how and for what purpose the asset is used during the term of the contract.

Allocation of Consideration

In determining how to allocate consideration between lease and non-lease components in a contract that was deemed to contain a lease, we used judgment and consistent application of assumptions to reasonably allocate the consideration.

Options to Extend or Terminate Leases

We have leases which contain options to extend or terminate the leases. On a lease-by-lease basis, we have determined if the extension should be considered reasonably certain to be exercised and thus a right-of-use asset and a lease liability should be recorded.

Discount Rate

The discount rate for leases, if not explicitly stated in the lease, is the incremental borrowing rate, which is the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment.

We used the discount rate to calculate the present value of the lease liability at the date of adoption. In the development of the discount rate, we considered our incremental borrowing rate as provided by our lender which was based on cash collateral and credit risk specific to us, and our lease portfolio characteristics.

As of December 30, 2023, the weighted-average discount rate of our operating and finance leases was 5.1% and 3.9%, respectively. As of September 30, 2023, the weighted-average discount rate of our operating and finance leases was 4.4% and 3.9%, respectively.

Practical Expedients and Accounting Policy Elections

We elected the package of practical expedients that permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs and made an accounting policy election to exclude short-term leases with an initial term of 12 months or less from our Consolidated Balance Sheets.

Amounts Recognized in the Financial Statements

The components of lease expense were as follows:

	Three months ended December 30, 2023	Three months ended December 24, 2022
Operating lease cost in Cost of goods sold and Operating Expenses	$ 5,894	$ 3,972
Finance lease cost:		
Amortization of assets in Cost of goods sold and Operating Expenses	$ 53	$ 34
Interest on lease liabilities in Interest expense & other	8	2
Total finance lease cost	$ 61	$ 36
Short-term lease cost in Cost of goods sold and Operating Expenses	-	-
Total net lease cost	$ 5,955	$ 4,008

Supplemental balance sheet information related to leases is as follows:

	December 30, 2023	September 30, 2023
Operating Leases		
Operating lease right-of-use assets	$ 133,715	$ 88,868
Current operating lease liabilities	$ 17,934	$ 16,478
Noncurrent operating lease liabilities	121,626	77,631
Total operating lease liabilities	$ 139,560	$ 94,109
Finance Leases		
Finance lease right-of-use assets in Property, plant and equipment, net	$ 776	$ 789
Current finance lease liabilities	$ 159	$ 201
Noncurrent finance lease liabilities	549	600
Total finance lease liabilities	$ 708	$ 801

Supplemental cash flow information related to leases is as follows:

	Three months ended December 30, 2023	Three months ended December 24, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 5,972	$ 3,918
Operating cash flows from finance leases	$ 8	$ 2
Financing cash flows from finance leases	$ 85	$ 39
Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets	$ 49,854	$ 2,676
Supplemental noncash information on lease liabilities removed due to purchase of leased asset	$ -	$ -

As of December 30, 2023, the maturities of lease liabilities were as follows:

	Operating Leases	Finance Leases
Nine months ending September 28, 2024	$ 17,951	$ 174
2025	21,240	189
2026	18,026	154
2027	17,076	153
2028	13,877	104
Thereafter	109,981	12
Total minimum payments	198,151	786
Less amount representing interest	(58,591)	(78)
Present value of lease obligations	$ 139,560	$ 708

As of December 30, 2023 the weighted-average remaining term of our operating and finance leases was 12.8 years and 4.0 years, respectively.

As of September 30, 2023 the weighted-average remaining term of our operating and finance leases was 10.3 years and 4.2 years, respectively.

Note 15 Related Parties

We have related party expenses for distribution and shipping related costs with NFI Industries, Inc. and its affiliated entities ("NFI"). Our director, Sidney R. Brown, is CEO and an owner of NFI Industries, Inc. In the three months ended December 30, 2023 and December 24, 2022, the Company paid NFI $14.5 million and $14.3 million, respectively. Of the amounts paid to NFI, the amount related to transportation management services performed by NFI was $0.3 million in the three months ended December 30, 2023 and $0.1 million in the three months ended December 24, 2022. Of the amounts paid to NFI, the amount related to labor management services performed by NFI was $1.3 million in the three months ended December 30, 2023. No labor management services were performed by NFI in the three months ended December 24, 2022. The remainder of the costs related to amounts that were passed through to the third-party distribution and shipping vendors that are being managed on the Company's behalf by NFI. As of December 30, 2023 and September 30, 2023, our consolidated balance sheet included related party trade payables of approximately $3.2 million and $3.4 million, respectively.

In June 2023, the Company began leasing a regional distribution center in Terrell, Texas that was constructed by, and is owned by, a subsidiary of NFI. The distribution center will be operated by NFI for the Company, pursuant to a Service Labor Management Agreement . Under the Service Labor Management Agreement, NFI will provide logistics and warehouse management services. NFI will continue to perform transportation -related management services for the Company as well. At the lease commencement date, $28.7 million was recorded as an operating right-of-use asset, $0.2 million was recorded as a current operating lease liability, and $28.5 million was recorded as a non-current operating lease liability. As of December 30, 2023, $28.1 million was recorded as an operating right-of-use asset, $0.5 million was recorded as a current operating lease liability, and $28.4 million was recorded as a non-current operating lease liability. As of September 30, 2023, $28.4 million was recorded as an operating right-of-use asset, $0.5 million was recorded as a current operating lease liability, and $28.5 million was recorded as a non-current operating lease liability. Lease payments totaling $0.5 million were made to NFI during the fiscal quarter ended December 30, 2023.

In October 2023, the Company began leasing a regional distribution center in Woolwich Township, New Jersey. The distribution center will be operated by NFI for the Company, pursuant to the Service Labor Management Agreement noted in the paragraph above.

All agreements with NFI include terms that are consistent with those that we believe would have been negotiated at an arm's length with an independent party.

Note 16 Subsequent Events

Events occurring after December 30, 2023, and through the date that these consolidated financial statements were issued, were evaluated to ensure that any subsequent events that met the criteria for recognition have been included, and are as follows:

In February 2024, the Company began leasing a regional distribution center in Glendale, Arizona. At the lease commencement date, $21.1 million was recorded as an operating right-of-use asset, $0.5 million was recorded as a current operating lease liability, and $20.6 million was recorded as a non-current operating lease liability. The distribution center will be operated by NFI for the Company, pursuant to the Service Labor Management Agreement noted in Note 15.

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

Statements made in this Form 10-Q that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to us, based on our current beliefs as well as assumptions made by us and information currently available to us. Forward-looking statements generally will be accompanied by words such as "anticipate," "if," "may," "believe," "plan,", "goals," "estimate," "expect," "project," "continue," "forecast," "intend," "may," "could," "should," "will," and other similar expressions. Statements addressing our future operating performance and statements addressing events and developments that we expect or anticipate will occur are also considered as forward-looking statements. This includes, without limitation, our statements and expectations regarding any current or future recovery in our industry, the success of new product innovations, and the future impact of our investments in additional production capacity and logistics and warehousing operations. Such forward-looking statements are inherently uncertain, and readers must recognize that actual results may differ materially from the expectations of management. We intend that such forward-looking statements be subject to the safe harbor provisions of the Securities Act and the Exchange Act.

We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties, and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. We disclaim any obligation subsequently to revise, update, add or to otherwise correct, any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

Objective

This Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide a reader of our financial statements with a narrative form from the perspective of our management regarding our financial condition and results of operations, liquidity and certain other factors that may affect our future results. The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and within the Company's Annual Report on Form 10-K filed for the fiscal year ended September 30, 2023.

Business Overview

The Company manufactures snack foods and distributes frozen beverages which it markets nationally to the foodservice and retail supermarket industries. The Company's principal snack food products are soft pretzels, frozen novelties, churros and bakery products. We believe we are the largest manufacturer of soft pretzels in the United States. Other snack food products include donuts, cookies, funnel cake and handheld products. The Company's principal frozen beverage products are the ICEE brand frozen carbonated beverage and the SLUSH PUPPIE brand frozen non-carbonated beverage. The Company's Food Service and Frozen Beverage sales are made principally to foodservice customers including snack bar and food stand locations in leading chain, department, discount, warehouse club and convenience stores; malls and shopping centers; fast food and casual dining restaurants; stadiums and sports arenas; leisure and theme parks; movie theaters; independent retailers; and schools, colleges and other institutions. The Company's retail supermarket customers are primarily supermarket chains.

RESULTS OF OPERATIONS – Three months ended December 30, 2023

The following discussion provides a review of results for the three months ended December 30, 2023 as compared with the three months ended December 24, 2022.

Summary of Results	Three months ended		
	December 30, 2023	December 24, 2022	% Change
	(in thousands)		
Net Sales	$ 348,308	$ 351,343	(0.9)%
Cost of goods sold	253,723	260,488	(2.6)%
Gross Profit	94,585	90,855	4.1%
Operating expenses			
Marketing	27,472	23,699	15.9%
Distribution	40,303	42,049	(4.2)%
Administrative	18,199	16,391	11.0%
Other general expense (income)	(1,072)	(612)	75.2%
Total Operating Expenses	84,902	81,527	4.1%
Operating Income	9,683	9,328	3.8%
Other income (expense)			
Investment income	798	685	16.5%
Interest (expense)	(560)	(1,049)	(46.6)%
Earnings before income taxes	9,921	8,964	10.7%
Income tax expense	2,639	2,331	13.2%
NET EARNINGS	$ 7,282	$ 6,633	9.8%

Comparisons as a Percentage of Net Sales	Three months ended		
	December 30, 2023	December 24, 2022	Basis Pt Chg
Gross profit	27.2%	25.9%	130
Marketing	7.9%	6.7%	120
Distribution	11.6%	12.0%	(40)
Administrative	5.2%	4.7%	50
Operating income	2.8%	2.7%	10
Earnings before income taxes	2.8%	2.6%	20
Net earnings	2.1%	1.9%	20

Net Sales

Net sales decreased $3.0 million, or 0.9%, to $348.3 million for the three months ended December 30, 2023. Declines in consumer traffic and consumption at many of our customers impacted our sales in the current fiscal quarter, compared with prior year. Revenue declines were seen in our Food Service segment, which were partially offset by increases seen in our Retail Supermarket and Frozen Beverages segments.

Gross Profit

Gross Profit increased by $3.7 million, or 4.1%, to $94.6 million for the three months ended December 30, 2023. As a percentage of sales, gross profit increased from 25.9% to 27.2%. This increase reflected the improved product mix, aligned pricing, productivity improvements, as well as the stabilization of inflationary pressures across the majority of our business. The cost of key ingredients including flour, oils, dairy and eggs have declined, though double-digit inflationary increases were seen in sugar/sweeteners, mixes, chocolates and meats.

Operating Expenses

Operating Expenses increased $3.4 million, or 4.1%, to $84.9 million for the three months ended December 30, 2023. As a percentage of sales, operating expenses increased from 23.2% to 24.4%. As a percentage of sales, distribution expenses decreased from 12.0% to 11.6%, with the decrease largely driven by an improved inflationary environment and the benefits of our strategic initiatives to improve logistics management and increase efficiency across our distribution network and supply chain. As a percentage of sales, marketing expenses increased from 6.7% to 7.9%, with the increase driven by the added promotional and marketing spend to support our core brands and new product launches, as well as higher trade show costs. As a percentage of sales, general and administrative expenses increased from 4.7% to 5.2% with the increase attributable to the investment in incremental resources, as well as costs incurred in the hosting of the Company's National Sales meeting for the first time since the COVID-19 pandemic.

Other Income and Expense

Investment income increased $0.7 million to $0.8 million for the three months ended December 30, 2023. The increase was primary due to the improving interest rate environment. Interest expense decreased by $0.5 million for the three months ended December 30, 2023 due to the significant decrease in the Company's average outstanding borrowings on the Amended Credit Agreement for the three months ended December 30, 2023, as compared to the prior year period.

Income Tax Expense

Income tax expense increased by $0.3 million, or 13.2%, to $2.6 million for the three months ended December 30, 2023. The effective tax rate was 26.6% for the three months ended December 30, 2023 as compared with 26.0% in the prior year period.

Net Earnings

Net earnings increased by $0.6 million, or 9.8%, to $7.3 million for the three months ended December 30, 2023, due to 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.

Business Segment Discussion

We operate in three segments: Food Service, Retail Supermarket, and Frozen Beverages. The following table is a summary of sales and operating income, which is how we measure segment profit.

	Three months ended		
	December 30, 2023	**December 24, 2022**	**% Change**
	(in thousands)		
Net Sales			
Food Service	$ 228,609	$ 238,297	(4.1)%
Retail Supermarket	43,759	43,073	1.6%
Frozen Beverages	75,940	69,973	8.5%
Total Sales	$ 348,308	$ 351,343	(0.9)%

	Three months ended		
	December 30, 2023	**December 24, 2022**	**% Change**
	(in thousands)		
Operating Income			
Food Service	$ 6,016	$ 6,387	(5.8)%
Retail Supermarket	452	1,111	(59.3)%
Frozen Beverages	3,215	1,830	75.7%
Total Operating Income	$ 9,683	$ 9,328	3.8%

Food Service Segment Results

	Three months ended		
	December 30, 2023	December 24, 2022	% Change
	(in thousands)		
Food Service Sales to External Customers			
Soft pretzels	$ 50,128	$ 52,223	(4.0)%
Frozen novelties	21,050	21,765	(3.3)%
Churros	28,061	25,757	8.9%
Handhelds	22,047	23,572	(6.5)%
Bakery	101,982	108,948	(6.4)%
Other	5,341	6,032	(11.5)%
Total Food Service	$ 228,609	$ 238,297	(4.1)%
Food Service Operating Income	$ 6,016	$ 6,387	(5.8)%

Sales to food service customers decreased $9.7 million, or 4.1%, to $228.6 million for the three months ended December 30, 2023. Soft pretzels sales to food service customers decreased 4.0% to $50.1 million, with the decrease largely attributable to volume decreases driven by consumer pressures. Frozen novelties sales decreased 3.3% to $21.1 million with a slight increase in Dippin' Dots sales more than offset by some volume decreases seen within the category. Churro sales increased 8.9% to $28.1 million with the increase largely driven by the volume increases seen within the category. Sales of bakery products decreased by 6.4% to $102.0 million, with the decrease primarily driven by reduced purchases from grocery in-store bakeries which faced a more challenging consumer environment. Sales of handhelds decreased 6.5% to $22.0 million, with the decrease entirely attributable to pricing declines related to the contractual pricing true-up of costing on certain raw material ingredients, and somewhat offset by volume increases seen on our core handhelds.

Sales of new products in the first twelve months since their introduction were approximately $3.6 million in the three months ended December 30, 2023. Price increases had a minimal impact on Food Service sales in the quarter, with the decreases in segment sales primarily due to some volume declines seen in certain product categories as noted above.

Operating income in our Food Service segment decreased $0.4 million to $6.0 million, for the three months ended December 30, 2023, which reflected the impact of the lower comparative sales in the quarter and the incremental costs incurred with the opening of a regional distribution center.

Retail Supermarket Segment Results

	Three months ended		
	December 30, 2023	December 24, 2022	% Change
	(in thousands)		
Retail Supermarket Sales to External Customers			
Soft pretzels	$ 18,447	$ 14,485	27.4%
Frozen novelties	12,861	17,969	(28.4)%
Biscuits	7,032	7,913	(11.1)%
Handhelds	5,510	2,892	90.5%
Coupon redemption	(332)	(176)	88.6%
Other	241	(10)	2510.0%
Total Retail Supermarket	$ 43,759	$ 43,073	1.6%
Retail Supermarket Operating Income	$ 452	$ 1,111	(59.3)%

Sales of products to retail customers increased $0.7 million, or 1.6%, to $43.8 million for the three months ended December 30, 2023. Soft pretzel sales increased 27.4% to $18.4 million with the increase primarily driven by the incremental distribution of our core soft pretzel brands. Frozen novelties sales decreased 28.4% to $12.9 million with the decrease primarily tied to volume decrease seen amongst the majority of our retail frozen novelty brands. Biscuit sales decreased 11.1% to $7.0 million, and handheld sales increased 90.5% to $5.5 million, with the increase in handheld sales primarily attributable to growth with a major retail customer. Sales of new products in retail supermarkets were minimal in the quarter. Price increases had a minimal impact on retail supermarket sales in the quarter.

Operating income in our Retail Supermarkets segment decreased $0.7 million in the quarter to $0.5 million with the decrease primary driven by a shift in product mix and the incremental costs incurred with the opening of a regional distribution center.

Frozen Beverages Segment Results

	Three months ended		
	December 30, 2023	December 24, 2022	% Change
	(in thousands)		
Frozen Beverages			
Beverages	$ 41,950	$ 38,659	8.5%
Repair and maintenance service	24,559	23,827	3.1%
Machines revenue	8,889	7,011	26.8%
Other	542	476	13.9%
Total Frozen Beverages	$ 75,940	$ 69,973	8.5%
Frozen Beverages Operating Income	$ 3,215	$ 1,830	75.7%

Frozen beverage and related product sales increased $6.0 million, or 8.5%, in the three months ended December 30, 2023. Beverage sales increased 8.5% to $42.0 million. Gallon sales were down approximately 1% for the three months ended December 30, 2023, Service revenue increased 3.1% to $24.6 million reflecting strong maintenance call volumes. Machine revenue (primarily sales of frozen beverage machines) increased 26.8% to $8.9 million driven by strong growth from new clients and convenience customers.

Operating income in our Frozen Beverage segment increased $1.4 million in the quarter to $3.2 million as strong sales drove leverage across the business.

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 is sufficient to satisfy our cash requirements over the next twelve months and beyond, as well as to fund future growth and expansion.

	Three months ended	
	December 30, 2023	December 24, 2022
	(in thousands)	
Cash flows from operating activities		
Net earnings	$ 7,282	$ 6,633
Non-cash items in net income:		
Depreciation of fixed assets	15,176	13,476
Amortization of intangibles and deferred costs	1,616	1,705
Gains from disposals of property & equipment	(23)	(711)
Share-based compensation	1,480	1,239
Deferred income taxes	(192)	(526)
Loss on marketable securities	-	37
Other	157	(18)
Changes in assets and liabilities, net of effects from purchase of companies	23,457	(425)
Net cash provided by operating activities	$ 48,953	$ 21,410

- The increase in depreciation of fixed assets over prior year period was largely due to prior year purchases of property, plant, and equipment.

- Cash flows associated with changes in assets and liabilities were a net inflow in the three months ended December 30, 2023, and were driven primarily by a decrease in accounts receivable of $32.4 million offset slightly by a decrease in accounts payable and accrued liabilities of $10.6 million. In the prior year period, the slight net outflow was primarily attributable to largely offsetting decreases in accounts receivable of $21.2 million and in accounts payable and accrued liabilities of $21.7 million.

	Three months ended	
	December 30, 2023	December 24, 2022
	(in thousands)	
Cash flows from investing activities		
Purchases of property, plant and equipment	(19,930)	(30,910)
Proceeds from redemption and sales of marketable securities	-	3,300
Proceeds from disposal of property and equipment	82	729
Net cash used in investing activities	$ (19,848)	$ (26,881)

- Purchases of property, plant and equipment include spending for production growth, in addition to acquiring new equipment, infrastructure replacements, and upgrades to maintain competitive standing and position us for future opportunities. The decrease over prior year period was primarily due to the higher rate of strategic spending in the prior year period for new lines at various plants aimed at increasing capacity.

- The decrease in proceeds from redemption and sales of marketable securities from prior year period was due to a strategic decision in prior years to no longer re-invest redeemed proceeds into marketable securities given the low interest rate environment that existed in those years.

	Three months ended	
	December 30, 2023	December 24, 2022
	(in thousands)	
Cash flows from financing activities		
Proceeds from issuance of stock	4,481	1,285
Borrowings under credit facility	15,000	72,000
Repayment of borrowings under credit facility	(35,000)	(35,000)
Payments on finance lease obligations	(85)	(39)
Payment of cash dividends	(14,209)	(13,453)
Net cash provided by (used in) financing activities	$ (29,813)	$ 24,793

- Borrowings under credit facility and repayment of borrowings under credit facility relate to the Company's cash draws and repayments made to primarily fund working capital needs. The decrease in borrowings from prior year was due to the Company's increase in cash provided by operations, which lowered its borrowing needs in the three months ended December 30, 2023.

- The increase in payment of cash dividends from prior year period was due to the raising of our quarterly dividend during fiscal 2023.

Liquidity

As of December 30, 2023, we had $50.0 million of Cash and Cash Equivalents.

In December 2021, the Company entered into an amended and restated loan agreement (the "Credit Agreement") with our existing banks which provided for up to a $50 million revolving credit facility repayable in December 2026.

On June 21, 2022, the Company entered into an amendment to the Credit Agreement, the "Amended Credit Agreement" which provided for an incremental increase of $175 million in available borrowings. The Amended Credit Agreement also includes an option to increase the size of the revolving credit facility by up to an amount not to exceed in the aggregate the greater of $225 million or, $50 million plus the Consolidated EBITDA of the Borrowers, subject to the satisfaction of certain terms and conditions.

Interest accrues, at the Company's election at (i) the BSBY Rate (as defined in the Credit Agreement), plus an applicable margin, based upon the Consolidated Net Leverage Ratio, as defined in the Credit Agreement, or (ii) the Alternate Base Rate (a rate based on the higher of (a) the prime rate announced from time-to-time by the Administrative Agent, (b) the Federal Reserve System's federal funds rate, plus 0.50% or (c) the Daily BSBY Rate, plus an applicable margin). The Alternate Base Rate is defined in the Credit Agreement.

The Credit Agreement requires the Company to comply with various affirmative and negative covenants, including without limitation (i) covenants to maintain a minimum specified interest coverage ratio and maximum specified net leverage ratio, and (ii) subject to certain exceptions, covenants that prevent or restrict the Company's ability to pay dividends, engage in certain mergers or acquisitions, make certain investments or loans, incur future indebtedness, alter its capital structure or line of business, prepay subordinated indebtedness, engage in certain transactions with affiliates, or amend its organizational documents. As of December 30, 2023, the Company is in compliance with all financial covenants of the Credit Agreement.

As of December 30, 2023, we had $7.0 million of outstanding borrowings drawn on the Amended Credit Agreement. As of December 30, 2023, we had $208.2 million of additional borrowing capacity, after giving effect to the $9.8 million of letters of credit outstanding.

Critical Accounting Policies, Judgments and Estimates

There have been no material changes to our critical accounting policies, judgments and estimates from the information provided in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies, Judgments and Estimates, in our Annual Report on Form 10-K for the year ended September 30, 2023, as filed with the SEC on November 28, 2023.

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 2023 annual report on Form 10-K filed with the SEC.

Item 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of December 30, 2023, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting during the quarter ended December 30, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject, from time to time, to certain legal proceedings and claims that arise from our business. As of the date of this Quarterly Report on Form 10-Q, the Company does not expect that any such proceedings will have a material adverse effect on the Company's financial position or results of operations.

Item 1A. Risk Factors

For information on risk factors, please refer to "Risk Factors" in Part I, Item 1A of the Company's Form 10-K for the fiscal year ended September 30, 2023. The risks identified in that report have not changed in any material respect.

Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds

In October 2023, we withheld 129 shares to cover taxes associated with the vesting of certain restricted stock units held by officers and employees. In November 2023, we withheld 1,721 shares to cover taxes associated with the vesting of certain restricted stock units held by officers and employees.

Item 6. Exhibits

Exhibit No.	
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to the 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to the 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following financial information from J&J Snack Foods Corp.'s Quarterly Report on Form 10-Q for the quarter ended December 30, 2023, formatted in XBRL (Inline extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements
104	Cover Page Interactive Data File (formatted as Inline XBRL and containing in Exhibit 101)

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: February 7, 2024

/s/ Dan Fachner
Dan Fachner
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Dated: February 7, 2024

/s/ Ken A. Plunk
Ken A. Plunk, Senior Vice
President and Chief Financial
Officer
(Principal Financial Officer)
(Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Dan Fachner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of J & J Snack Foods Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 7, 2024

/s/ Dan Fachner
Dan Fachner
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Ken A. Plunk, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of J & J Snack Foods Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: February 7, 2024

/s/ Ken A. Plunk
Ken A. Plunk, Senior Vice
President and Chief Financial
Officer
(Principal Financial Officer)
(Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), each of the undersigned officers of J & J Snack Foods Corp. (the “Company”), does hereby certify, to the best of their knowledge, with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended December 30, 2023 (the “Report”) that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 7, 2024

/s/ Dan Fachner
Dan Fachner
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code), each of the undersigned officers of J & J Snack Foods Corp. (the “Company”), does hereby certify, to the best of their knowledge, with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended December 30, 2023 (the “Report”) that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 7, 2024

/s/ Ken A. Plunk
Ken A. Plunk, Senior Vice
President and Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.