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, 2020

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, New Jersey 08109
(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	☐
		Smaller reporting company	☐
Non-accelerated filer	☐	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 July 24,2020 there were 18,894,908 shares of the Registrant’s Common Stock outstanding.

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

	June 27, 2020 (unaudited)	September 28, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 169,961	$ 192,395
Marketable securities held to maturity	58,268	51,091
Accounts receivable, net	116,488	140,938
Inventories	120,564	116,165
Prepaid expenses and other	13,660	5,768
Total current assets	478,941	506,357
Property, plant and equipment, at cost		
Land	2,494	2,494
Buildings	26,582	26,582
Plant machinery and equipment	331,481	315,360
Marketing equipment	253,533	240,681
Transportation equipment	9,905	9,725
Office equipment	34,935	31,217
Improvements	42,291	40,626
Construction in progress	16,199	10,039
Total Property, plant and equipment, at cost	717,420	676,724
Less accumulated depreciation and amortization	452,707	423,276
Property, plant and equipment, net	264,713	253,448
Long-term assets		
Goodwill	123,033	102,511
Other intangible assets, net	81,117	54,922
Marketable securities held to maturity	28,863	79,360
Marketable securities available for sale	13,232	19,903
Operating lease right-of-use assets	64,615	-
Other	2,772	2,838

Total long-term assets		313,632		259,534
Total Assets	$	1,057,286	$	1,019,339
Liabilities and Stockholders' Equity				
Current Liabilities				
Current finance lease liabilities	$	329	$	339
Accounts payable		68,829		72,029
Accrued insurance liability		12,131		10,457
Accrued liabilities		6,951		7,808
Current operating lease liabilities		13,913		-
Accrued compensation expense		14,814		21,154
Dividends payable		10,873		9,447
Total current liabilities		127,840		121,234
Noncurrent finance lease liabilities		456		718
Noncurrent operating lease liabilities		56,570		-
Deferred income taxes		61,348		61,920
Other long-term liabilities		472		1,716
Stockholders' Equity				
Preferred stock, $1 par value; authorized 10,000,000 shares; none issued		-		-
Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding 18,888,000 and 18,895,000 respectively		46,560		45,744
Accumulated other comprehensive loss		(16,058)		(12,988)
Retained Earnings		780,098		800,995
Total stockholders' equity		810,600		833,751
Total Liabilities and Stockholders' Equity	$	1,057,286	$	1,019,339

The accompanying notes are an integral part of these statements.

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

	Three months ended				Nine months ended			
		June 27, 2020		June 29, 2019		June 27, 2020		June 29, 2019
Net Sales	$	214,563	$	326,701	$	769,502	$	874,615
Cost of goods sold		177,367		225,352		585,002		617,155
Gross Profit		37,196		101,349		184,500		257,460
Operating expenses								
Marketing		21,952		26,398		68,532		69,792
Distribution		21,272		24,447		69,648		70,521
Administrative		8,374		10,668		28,166		29,909
Plant shutdown impairment costs		5,072		-		5,072		-
Other general (income) expense		(54)		794		(183)		1,343
Total operating expenses		56,616		62,307		171,235		171,565
Operating (loss) income		(19,420)		39,042		13,265		85,895
Other income (expense)								
Investment income		1,300		1,953		2,673		5,775
Interest expense & other		(7)		1,972		(60)		1,920
(Loss) earnings before income taxes		(18,127)		42,967		15,878		93,590
Income taxes		(5,480)		12,095		4,157		24,838
NET (LOSS) EARNINGS	$	(12,647)	$	30,872	$	11,721	$	68,752
(Loss) earnings per diluted share	$	(0.67)	$	1.63	$	0.62	$	3.64
Weighted average number of diluted shares		18,888		18,947		19,036		18,912
(Loss) earnings per basic share	$	(0.67)	$	1.64	$	0.62	$	3.66

Weighted average number of basic shares	18,888	18,823	18,902	18,794

The accompanying notes are an integral part of these statements.

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

	Three months ended		Nine months ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net (Loss) Earnings	$ (12,647)	$ 30,872	$ 11,721	$ 68,752
Foreign currency translation adjustments	41	496	(3,070)	(469)
Total Other Comprehensive Income (loss)	41	496	(3,070)	(469)
Comprehensive (Loss) Income	$ (12,606)	$ 31,368	$ 8,651	$ 68,283

The accompanying notes are an integral part of these statements.

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

	Common Stock		Accumulated Other Comprehensive	Retained	
	Shares	Amount	Loss	Earnings	Total
Balance at September 28, 2019	18,895	$ 45,744	$ (12,988)	$ 800,995	$ 833,751
Issuance of common stock upon exercise of stock options	5	468	-	-	468
Foreign currency translation adjustment	-	-	810	-	810
Dividends declared	-	-	-	(10,867)	(10,867)
Share-based compensation	-	1,299	-	-	1,299
Net earnings	-	-	-	17,059	17,059
Balance at December 28, 2019	18,900	47,511	(12,178)	807,187	842,520
Issuance of common stock upon exercise of stock options	47	5,049	-	-	5,049
Issuance of common stock for employee stock purchase plan	6	783	-	-	783
Foreign currency translation adjustment	-	-	(3,921)	-	(3,921)
Issuance of common stock under deferred stock plan	1	90	-	-	90
Dividends declared	-	-	-	(10,878)	(10,878)
Share-based compensation	-	1,088	-	-	1,088
Repurchase of common stock	(66)	(8,972)	-	-	(8,972)
Net earnings	-	-	-	7,309	7,309
Balance at March 28, 2020	18,888	45,549	(16,099)	803,618	833,068
Foreign currency translation adjustment	-	-	41	-	41
Dividends declared	-	-	-	(10,873)	(10,873)
Share-based compensation	-	1,011	-	-	1,011
Net loss	-	-	-	(12,647)	(12,647)
Balance at June 27, 2020	18,888	$ 46,560	$ (16,058)	$ 780,098	$ 810,600

	Common Stock		Accumulated Other Comprehensive	Retained	
	Shares	Amount	Loss	Earnings	Total

Balance at September 29, 2018	18,754	$ 27,340	$ (11,994)	$ 743,745	$ 759,091
Issuance of common stock upon exercise of stock options	20	1,704	-	-	1,704
Foreign currency translation adjustment	-	-	(1,359)	-	(1,359)
Reclass from accumulated other comprehensive gain	-	-	(85)	85	-
Dividends declared	-	-	-	(9,389)	(9,389)
Share-based compensation	-	972	-	-	972
Net earnings	-	-	-	17,526	17,526
Balance at December 29, 2018	18,774	30,016	(13,438)	751,967	768,545
Issuance of common stock upon exercise of stock options	34	3,451	-	-	3,451
Issuance of common stock for employee stock purchase plan	6	772	-	-	772
Foreign currency translation adjustment	-	-	394	-	394
Issuance of common stock under deferred stock plan	1	90	-	-	90
Dividends declared	-	-	-	(9,405)	(9,405)
Share-based compensation	-	914	-	-	914
Repurchase of common stock	-	-	-	-	-
Net earnings	-	-	-	20,354	20,354
Balance at March 30, 2019	18,815	35,243	(13,044)	762,916	785,115
Issuance of common stock upon exercise of stock options	15	1,499	-	-	1,499
Foreign currency translation adjustment	-	-	496	-	496
Dividends declared	-	-	-	(9,413)	(9,413)
Share-based compensation	-	1,098	-	-	1,098
Repurchase of common stock	-	-	-	-	-
Net earnings	-	-	-	30,872	30,872
Balance at June 29, 2019	18,830	$ 37,840	$ (12,548)	$ 784,375	$ 809,667

The accompanying notes are an integral part of these statements.

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

	Nine months ended	
	June 27, 2020	June 29, 2019
Operating activities:		
Net earnings	$ 11,721	$ 68,752
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of property, plant and equipment	37,353	33,374
Amortization of intangibles and deferred costs	2,516	2,586
Share-based compensation	3,421	3,006
Deferred income taxes	(426)	690
Loss on marketable securities	1,746	410
Plant shutdown impairment costs	5,072	-
Other	(309)	350
Changes in assets and liabilities net of effects from purchase of companies		
Decrease (increase) in accounts receivable	24,634	(14,289)
Increase in inventories	(3,751)	(6,257)
(Increase) decrease in prepaid expenses	(7,879)	957
(Decrease) increase in accounts payable and accrued liabilities	(7,478)	11,584
Net cash provided by operating activities	66,620	101,163
Investing activities:		
Payment for purchases of companies, net of cash acquired	(57,197)	(1,155)
Purchases of property, plant and equipment	(47,637)	(42,136)
Purchases of marketable securities	(6,103)	(24,056)
Proceeds from redemption and sales of marketable securities	54,125	29,721
Proceeds from disposal of property, plant and equipment	2,852	1,463
Other	(72)	(212)
Net cash used in investing activities	(54,032)	(36,375)
Financing activities:		
Payments to repurchase common stock	(8,972)	-
Proceeds from issuance of stock	6,300	7,426
Payments on capitalized lease obligations	(272)	(33)
Payment of cash dividend	(31,193)	(27,230)
Net cash used in financing activities	(34,137)	(19,837)

Effect of exchange rate on cash and cash equivalents	(885)	(333)
Net (decrease) increase in cash and cash equivalents	(22,434)	44,618
Cash and cash equivalents at beginning of period	192,395	111,479
Cash and cash equivalents at end of period	$ 169,961	$ 156,097

The accompanying notes are an integral part of these statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended September 28, 2019.

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 and nine months ended June 27, 2020 and June 29, 2019 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen juice bars and ices are generally higher in the third and fourth quarters due to warmer weather. Additionally, approximately 2/3 of our sales are to venues and locations that have shut down or sharply curtailed their foodservice operations as a result of COVID-19 resulting in a negative impact on our business beginning in March 2020 which we anticipate will continue to have a negative impact on our business for an undetermined length of time.

Certain prior year financial statement amounts have been reclassified to be consistent with the presentation for the current year.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 28, 2019.

Note 2

Revenue Recognition

<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 $15.9 million at June 27, 2020 and $14.8 million at September 28, 2019.

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:

	(in thousands)			
	Three months ended		Nine months ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Beginning Balance	$ 1,235	$ 1,655	$ 1,334	$ 1,865
Additions to contract liability	1,362	1,271	4,111	4,299
Amounts recognized as revenue	(1,311)	(1,499)	(4,159)	(4,737)
Ending Balance	$ 1,286	$ 1,427	$ 1,286	$ 1,427

Disaggregation of Revenue

See Note 9 for disaggregation of our net sales by class of similar product and type of customer.

Allowance for Doubtful Receivables

We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors. The allowance for doubtful receivables was $1,340,000 and $572,000 at June 27, 2020 and September 28, 2019, respectively. Our allowance has increased based on our assessment of collectability considering the impact of COVID-19 on some of our customers.

Note 3 Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights, customer relationships and non-compete agreements arising from acquisitions are amortized by the straight-line method over periods ranging from 2 to 20 years. Depreciation expense was $12,543,000 and $11,484,000 for the three months ended June 27, 2020 and June 29, 2019, respectively and $37,353,000 and $33,374,000 for the nine months ended June 27, 2020 and June 29, 2019, respectively. $1,854,000 of equipment, at cost net of accumulated depreciation, was impaired in our foodservice segment as a result of the pending shutdown of our Midwest manufacturing plant.

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

	Three Months Ended June 27, 2020		
	Loss (Numerator)	**Shares (Denominator)**	**Per Share Amount**
	(in thousands, except per share amounts)		
Basic EPS			
Net Loss available to common stockholders	$ (12,647)	18,888	$ (0.67)
Effect of Dilutive Securities			
Options	-	-	-
Diluted EPS			
Net Loss available to common stockholders plus assumed conversions	$ (12,647)	18,888	$ (0.67)

845,977 anti-dilutive shares have been excluded in the computation of EPS for the three months ended June 27, 2020.

	Nine Months Ended June 27, 2020		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$ 11,721	18,902	$ 0.62
Effect of Dilutive Securities			
Options	-	134	-
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$ 11,721	19,036	$ 0.62

169,246 anti-dilutive shares have been excluded in the computation of EPS for the nine months ended June 27, 2020

	Three Months Ended June 29, 2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$ 30,872	18,823	$ 1.64
Effect of Dilutive Securities			
Options	-	124	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$ 30,872	18,947	$ 1.63

163,670 anti-dilutive shares have been excluded in the computation of EPS for the nine months ended June 29, 2019

	Nine Months Ended June 29, 2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$ 68,752	18,794	$ 3.66
Effect of Dilutive Securities			
Options	-	118	(0.02)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$ 68,752	18,912	$ 3.64

163,670 anti-dilutive shares have been excluded in the computation of EPS for the nine months ended June 29, 2019

Note 5 At June 27, 2020, the Company has three stock-based employee compensation plans. Share-based compensation expense was recognized as follows:

	Three months ended		Nine months ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Stock Options	$ 890	$ 663	$ 2,267	$ 1,741
Stock purchase plan	57	187	328	324
Stock issued to an outside director	17	17	50	50
Total share-based compensation	$ 964	$ 867	$ 2,645	$ 2,115
The above compensation is net of tax benefits	$ 70	$ 254	$ 822	$ 937

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2020 nine months: expected volatility of 17.4%; risk-free interest rate of 0.3%; dividend rate of 1.8% and expected lives of 51 months.

During the fiscal year 2020 nine month period, the Company granted 161,682 stock options. The weighted-average grant date fair value of these options was $14.40.

During the fiscal year 2019 nine month period, the Company granted 165,170 stock options. The weighted-average grant date fair value of these options was $26.29.

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.

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

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 $360,000 and $414,000 on June 27, 2020 and September 28, 2019, respectively, all of which would impact our effective tax rate over time, if recognized. We recognize interest and penalties related to uncertain tax positions as a part of the provision for income taxes. As of June 27, 2020, and September 28, 2019, respectively, the Company has $263,000 and $279,000 of accrued interest and penalties.

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

Net earnings in last year's nine months benefitted by a reduction of approximately $900,000 in tax as the provision for the one time repatriation tax as a result of the Tax Cuts and Job Act of 2017 was reduced as the amount recorded the year prior was an estimate. Excluding the reduction in the provision for the one-time repatriation tax, our effective tax rate was 27.5% in last year's nine months.

Note 7 In February 2016, the FASB issued guidance on lease accounting which requires that an entity recognize most leases on its balance sheet. The guidance retains a dual lease accounting model for purposes of income statement recognition, continuing the distinction between what are currently known as "capital" and "operating" leases for lessees. We adopted the guidance on September 29, 2019 using this alternate transition method, but we did not record a cumulative-effect adjustment from initially applying the standard. 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. We have completed the implementation of a lease accounting system to enable the preparation of financial information and have implemented relevant accounting policies and internal controls surrounding the lease accounting process. As a result of adoption, we recognized a right-of-use asset and lease liability of $71 million and $72 million, respectively. The right-of-use asset balance reflects the reclassification of deferred rent and prepaid rent against the initial asset. The adoption did not impact our results of operations or cash flows. See additional lease disclosures in Note 14.

In June 2016, the FASB issued guidance to update the methodology used to measure current expected credit losses (CECL). This guidance applies to financial assets measured at amortized cost, including loans, held-to-maturity debt securities, net investments in leases, and trade accounts receivable as well as certain off-balance sheet credit exposures, such as loan commitments. This guidance replaces the current incurred loss impairment methodology with a methodology to reflect CECL and requires consideration of a broader range of reasonable and supportable information to explain credit loss estimates. The guidance must be adopted using a modified retrospective transition method through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. This guidance will be effective beginning in the first quarter of our fiscal year 2021. Early adoption is permitted. We are currently evaluating the impact this guidance will have on our financial statements and related disclosures.

Note 8 Inventories consist of the following:

	June 27, 2020	September 28, 2019
	(unaudited)	
	(in thousands)	
Finished goods	$ 51,456	$ 53,225
Raw materials	24,679	22,146
Packaging materials	10,525	9,703
Equipment parts and other	33,904	31,091
Total Inventories	$ 120,564	$ 116,165

$2.0 million of inventory was written down in the quarter as we consider it to be unsaleable.

Note 9 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 above which is available to our Chief Operating Decision Makers.

Our three 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 group are soft pretzels, frozen juice treats and desserts, churros, dough enrobed handheld products and baked goods. Our customers in the food service industry include snack bars and food stands in chain, department and discount stores; malls and shopping centers; fast food outlets; stadiums and sports arenas; leisure and theme parks; convenience stores; movie theatres; warehouse club stores; schools, colleges and other institutions. Within the food service industry, our products are purchased by the consumer primarily for consumption at the point-of-sale.

Retail Supermarkets

The primary products sold to the retail supermarket channel are soft pretzel products – including SUPERPRETZEL, frozen juice treats and desserts including LUIGI’S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, WHOLE FRUIT frozen fruit bars and sorbet, PHILLY SWIRL cups and sticks, ICEE Squeeze-Up Tubes and dough enrobed handheld products including PATIO burritos. Within the retail supermarket channel, our frozen and prepackaged products are purchased by the consumer for consumption at home.

Frozen Beverages

We sell frozen beverages and related products to the food service industry primarily under the names ICEE, SLUSH PUPPIE and PARROT ICE in the United States, Mexico and Canada. We also provide repair and maintenance service to customers for customers’ owned equipment.

The Chief Operating Decision Maker for Food Service and Retail Supermarkets and the Chief Operating Decision Maker for Frozen Beverages monthly review detailed operating income statements and sales reports in order to assess performance and allocate resources to each individual segment. Sales and operating income are key variables monitored by the Chief Operating Decision Makers and management when determining each segment's and the company's financial condition and operating performance. In addition, the Chief Operating Decision Makers review and evaluate depreciation, capital spending and assets of each segment on a quarterly basis to monitor cash flow and asset needs of each segment. Due to a change in management and the reporting of our MARYB's biscuit operations, which had sales and operating income of $25,316,000 and $1,584,000, respectively, in our 2019 fiscal year, we have reclassified the operations from our Food Service segment to our Retail Supermarket segment, which is reflected in both periods reported. Information regarding the operations in these three reportable segments is as follows:

	Three months ended		Nine months ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Sales to External Customers:				
Food Service				
Soft pretzels	$ 21,384	$ 55,867	$ 116,985	$ 154,670
Frozen juices and ices	8,688	13,862	25,222	30,336
Churros	7,321	18,888	38,466	49,793
Handhelds	7,448	8,550	22,084	25,339
Bakery	69,237	90,084	255,016	268,735
Other	2,543	6,105	13,628	19,576
Total Food Service	$ 116,621	$ 193,356	$ 471,401	$ 548,449
Retail Supermarket				
Soft pretzels	$ 12,716	$ 7,294	$ 34,874	$ 28,309
Frozen juices and ices	33,322	26,515	59,279	52,179
Biscuits	8,151	5,215	21,759	19,437
Handhelds	3,257	3,063	9,135	8,110
Coupon redemption	(807)	(962)	(2,216)	(2,163)
Other	863	642	1,668	1,341
Total Retail Supermarket	$ 57,502	$ 41,767	$ 124,499	$ 107,213
Frozen Beverages				
Beverages	$ 16,456	$ 56,937	$ 83,606	$ 121,976
Repair and maintenance service	17,259	22,514	61,524	62,291
Machines revenue	6,363	11,810	27,254	33,875
Other	362	317	1,218	811
Total Frozen Beverages	$ 40,440	$ 91,578	$ 173,602	$ 218,953
Consolidated Sales	$ 214,563	$ 326,701	$ 769,502	$ 874,615
Depreciation and Amortization:				
Food Service	$ 7,050	$ 6,973	$ 21,208	$ 19,911
Retail Supermarket	468	335	1,156	990
Frozen Beverages	5,864	5,015	17,505	15,059
Total Depreciation and Amortization	$ 13,382	$ 12,323	$ 39,869	$ 35,960
Operating (Loss)Income:				
Food Service	$ (18,242)	$ 21,030	$ 7,743	$ 57,909
Retail Supermarket	7,910	3,775	14,464	9,025
Frozen Beverages	(9,088)	14,237	(8,942)	18,961
Total Operating (Loss) Income	$ (19,420)	$ 39,042	$ 13,265	$ 85,895
Capital Expenditures:				
Food Service	$ 7,865	$ 8,665	$ 26,599	$ 23,346
Retail Supermarket	390	597	1,625	1,730
Frozen Beverages	2,397	6,523	19,413	17,060
Total Capital Expenditures	$ 10,652	$ 15,785	$ 47,637	$ 42,136
Assets:				
Food Service	$ 729,331	$ 751,641	$ 729,331	$ 751,641
Retail Supermarket	33,766	24,825	33,766	24,825
Frozen Beverages	294,189	219,224	294,189	219,224
Total Assets	$ 1,057,286	$ 995,690	$ 1,057,286	$ 995,690

Note 10 Our three reporting units, which are also 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 Beverage segments as of June 27, 2020 and September 28, 2019 are as follows:

	June 27, 2020		September 28, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
FOOD SERVICE				
Indefinite lived intangible assets				
Trade names	$ 10,408	$ -	$ 10,408	$ -
Amortized intangible assets				
Non compete agreements	670	603	858	665
Customer relationships	19,737	11,247	19,900	9,954
License and rights	1,690	1,291	1,690	1,227
TOTAL FOOD SERVICE	$ 32,505	$ 13,141	$ 32,856	$ 11,846
RETAIL SUPERMARKETS				
Indefinite lived intangible assets				
Trade names	$ 12,750	$ -	$ 12,750	$ -
Amortized Intangible Assets				
Trade names	676	487	676	389
Customer relationships	7,907	4,942	7,979	4,421
TOTAL RETAIL SUPERMARKETS	$ 21,333	$ 5,429	$ 21,405	$ 4,810
FROZEN BEVERAGES				
Indefinite lived intangible assets				
Trade names	$ 9,315	$ -	$ 9,315	$ -
Distribution rights	34,900	-	6,900	-
Amortized intangible assets				
Customer relationships	1,439	222	737	102
Licenses and rights	1,400	983	1,400	933
TOTAL FROZEN BEVERAGES	$ 47,054	$ 1,205	$ 18,352	$ 1,035
CONSOLIDATED	$ 100,892	$ 19,775	$ 72,613	$ 17,691

Fully amortized intangible assets have been removed from the June 27, 2020 amounts. Intangible assets of $21,769,000 were added in the frozen beverages segment from the acquisition of ICEE Distributors in the quarter ended December 28, 2019 and $6,933,000 from the acquisition of BAMA ICEE in the quarter ended March 28, 2020.

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 June 27, 2020 and June 29, 2019 was $831,000 and $836,000, respectively. Aggregate amortization expense of intangible assets for the nine months ended June 27, 2020 and June 29, 2019 was $2,507,000 and $2,521,000, respectively.

Estimated amortization expense for the next five fiscal years is approximately $3,100,000 in 2020, $2,500,000 in 2021, $2,300,000 in 2022, $2,300,000 in 2023 and $2,000,000 in 2024. The weighted amortization period of the intangible assets is 10.7 years.

Goodwill

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

	Food Service	Retail Supermarket	Frozen Beverages	Total
		(in thousands)		
Balance at June 27, 2020	$ 61,189	$ 4,146	$ 57,698	$ 123,033
Balance at September 28, 2019	$ 61,189	$ 4,146	$ 37,176	$ 102,511

Goodwill of $16,973,000 was added in the frozen beverages segment from the acquisition of ICEE Distributors in the quarter ended December 28, 2019 and $3,549,000 from the acquisition of BAMA ICEE in the quarter ended March 28, 2020. `

Note 11 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, corporate bonds and certificates of deposit are based on quoted prices for identical or similar instruments in markets that are not active. As a result, preferred stock, corporate bonds and certificates of deposit are classified within Level 2 of the fair value hierarchy.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at June 27, 2020 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
	(in thousands)			
Corporate Bonds	$ 86,171	$ 1,416	$ 75	$ 87,512
Certificates of Deposit	960	3	-	963
Total marketable securities held to maturity	$ 87,131	$ 1,419	$ 75	$ 88,475

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at June 27, 2020 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
	(in thousands)			
Mutual Funds	$ 3,588	$ -	$ 786	$ 2,802
Preferred Stock	11,596	90	1,256	10,430
Total marketable securities available for sale	$ 15,184	$ 90	$ 2,042	$ 13,232

The mutual funds seek current income with an emphasis on maintaining low volatility and overall moderate duration. The Fixed-to-Floating Perpetual Preferred Stock generate fixed income to call dates in 2020 and 2025 and then income is based on a spread above LIBOR if the securities are not called. The mutual funds and Fixed-to-Floating Perpetual Preferred Stock do not have contractual maturities; however, we classify them as long term assets as it is our intent to hold them for a period of over one year, although we may sell some or all of them depending on presently unanticipated needs for liquidity or market conditions. The corporate bonds generate fixed income to maturity dates in 2020 through 2023, with $75 million maturing within 2 years. Our expectation is that we will hold the corporate bonds to their maturity dates and redeem them at our amortized cost.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at September 28, 2019 are summarized as follows:

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Market Value	
			(in thousands)					
Corporate Bonds	$	127,571	$	1,204	$	36	$	128,739
Certificates of Deposit		2,880		6		-		2,886
Total marketable securities held to maturity	$	130,451	$	1,210	$	36	$	131,625

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at September 28, 2019 are summarized as follows:

	Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Market Value	
			(in thousands)					
Mutual Funds	$	5,549	$	-	$	495	$	5,054
Preferred Stock		14,598		266		15		14,849
Total marketable securities available for sale	$	20,147	$	266	$	510	$	19,903

The amortized cost and fair value of the Company's held to maturity securities by contractual maturity at June 27, 2020 and September 28, 2019 are summarized as follows:

	June 27, 2020				**September 28, 2019**			
	Amortized Cost		**Fair Market Value**		**Amortized Cost**		**Fair Market Value**	
			(in thousands)					
Due in one year or less	$	58,268	$	58,920	$	51,091	$	51,325
Due after one year through five years		28,863		29,555		79,360		80,300
Due after five years through ten years		-		-		-		-
Total held to maturity securities	$	87,131	$	88,475	$	130,451	$	131,625
Less current portion		58,268		58,920		51,091		51,325
Long term held to maturity securities	$	28,863	$	29,555	$	79,360	$	80,300

Proceeds from the redemption and sale of marketable securities were $23,187,000 and $54,125,000 in the three and nine months ended June 27, 2020 and were $6,584,000 and $29,721,000 in the three and nine months ended June 29, 2019, respectively. Losses of $1,746,000 and $410,000 were recorded in the nine months ended June 27, 2020 and June 29, 2019, respectively and losses of $126,000 were recorded in the three months ended June 29, 2019 and gains of $324,000 were recorded in the three months ended June 27, 2020. Unrealized losses of $118,000 and $385,000 were recorded in the three and nine months ended June 29, 2019, respectively and unrealized losses of $1,708,000 were recorded in the nine months ended June 27, 2020 and unrealized gains of $285,000 were recorded in the three months ended June 27, 2020. We use the specific identification method to determine the cost of securities sold.

Note 12 Changes to the components of accumulated other comprehensive loss are as follows:

	Three Months Ended June 27, 2020 (unaudited) (in thousands) Foreign Currency Translation Adjustments	Nine Months Ended June 27, 2020 (unaudited) (in thousands) Foreign Currency Translation Adjustments
Beginning Balance	$ (16,099)	$ (12,988)
Other comprehensive income (loss) before reclassifications	41	(3,070)
Ending Balance	$ (16,058)	$ (16,058)

	Three Months Ended June 29, 2019 (unaudited) (in thousands)			**Nine Months Ended June 29, 2019 (unaudited) (in thousands)**		
	Foreign Currency Translation Adjustments	**Unrealized Holding Gain on Marketable Securities**	**Total**	**Foreign Currency Translation Adjustments**	**Unrealized Holding Gain on Marketable Securities**	**Total**
Beginning Balance	$ (13,044)	$ -	$ (13,044)	$ (12,079)	$ 85	$ (11,994)
Other comprehensive income (loss) before reclassifications	496	-	496	(469)	-	(469)
Amounts reclassified from accumulated other comprehensive income	-	-	-	-	(85)	(85)
Ending Balance	$ (12,548)	$ -	$ (12,548)	$ (12,548)	$ -	$ (12,548)

Note 13 On October 1, 2019, we acquired the assets of ICEE Distributors LLC, based in Bossier City, Louisiana. ICEE Distributors does business in Arkansas, Louisiana and Texas with annual sales of approximately $13 million. Sales and operating income of ICEE Distributors were $3.2 million and $1.1 million for the three months and were $8.0 million and $2.0 million for the nine months ended June 27, 2020.

On February 4, 2020, we acquired the assets of BAMA ICEE, based in Birmingham, Alabama does business in Alabama and Georgia with annual sales of approximately $3.5 million. Sales and operating income of BAMA ICEE were $636,000 and $205,000 for the three months and were $1.0 million and $281,000 for the nine months ended June 27, 2020.

The preliminary purchase price allocations for the acquisitions are as follows:

	(in thousands)		
	ICEE Distributors	**BAMA ICEE**	**Total**
Accounts Receivable, net	$ 722	$ 71	$ 793
Inventories	866	77	943
Property, plant & equipment, net	4,851	1,722	6,573
Customer Relationships	569	133	702

Distribution rights	21,200	6,800	28,000
Goodwill	16,973	3,549	20,522
Accounts Payable	(210)	(125)	(335)
Purchase Price	$ 44,970	$ 12,227	$ 57,197

The goodwill recognized is attributable to the assembled workforce of ICEE Distributors and certain other strategic intangible assets that do not meet the requirements for recognition separate and apart from goodwill.

Acquisition costs of $76,000 are included in other general expense for the nine months ended June 27, 2020.

Our unaudited proforma results, giving effect to this acquisition and assuming an acquisition date of September 29, 2018, would have been:

(in thousands)

	Three months ended		Nine months ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net Sales	$ 214,763	$ 331,839	$ 770,302	$ 885,584
Net Earnings	$ (12,648)	$ 32,143	$ 11,719	$ 70,057

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 13 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 6 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 June 27, 2020, the weighted-average discount rate of our operating and finance leases was 3.3% and 3.1%, 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 June 27, 2020 (in thousands)		Nine Months Ended June 27, 2020 (in thousands)
Operating lease cost in Cost of goods sold and Operating Expenses	$	4,639	$	12,983
Finance lease cost:				
Amortization of assets in Cost of goods sold and Operating Expenses		84		253
Interest on lease liabilities in Interest expense & other		7		23
Total finance lease cost		91		276
Short-term lease cost in Cost of goods sold and Operating Expenses		-		
Total net lease cost	$	4,730	$	13,259

Supplemental balance sheet information related to leases is as follows:

		June 27, 2020 (in thousands)
Operating Leases		
Operating lease right-of-use assets	$	64,615
Current operating lease liabilities	$	13,913
Noncurrent operating lease liabilities		56,570
Total operating lease liabilities	$	70,483
Finance Leases		
Finance lease right-of-use assets in Property, plant and equipment, net	$	789
Current finance lease liabilities	$	329
Noncurrent finance lease liabilities		456
Total finance lease liabilities	$	785

$3,218,000 of operating lease right of use assets was impaired in our foodservice segment as a result of the pending shutdown of our midwest manufacturing plant. The amount of the impairment was calculated using cash flow projections.

Supplemental cash flow information related to leases is as follows:

		Three Months Ended June 27, 2020 (in thousands)		Nine Months Ended June 27, 2020 (in thousands)
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$	4,684	$	13,054
Operating cash flows from finance leases	$	84	$	253
Financing cash flows from finance leases	$	7	$	23
	$	-		
Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets	$	3,105	$	3,105
Supplemental noncash information on lease liabilities removed due to purchase of leased asset	$	-	$	-

As of June 27, 2020, the maturities of lease liabilities were as follows:

(in thousands)

		Operating Leases		Finance Leases
Three months ending September 26, 2020	$	4,264	$	115
2021		15,509		349
2022		13,236		156
2023		11,373		91
2024		8,971		95
Thereafter		26,502		27
Total minimum payments	$	79,856	$	833
Less amount representing interest		(9,373)		(48)
Present value of lease obligations	$	70,483	$	785

As of June 27, 2020, the weighted-average remaining term of our operating and finance leases was 7.3 years and 4.0 years, respectively.

As previously disclosed in our 2019 Annual Report on Form 10-K and under the previous lease accounting standard (Topic 840), as of September 28, 2019, future minimum lease payments under noncancelable leases with initial lease terms in excess of one year were as follows:

	(in thousands)	
	Operating Leases	Capital Leases
2020	$ 14,814	$ 339
2021	12,686	349
2022	10,491	156
2023	8,971	91
2024	6,988	95
Thereafter	25,588	27
Total minimum payments	$ 79,538	$ 1,057

Note 15 – Subsequent Event

Net Sales for the first 4 weeks of our fourth quarter ending September 27, 2020 were down approximately 25% from a year ago. Although we cannot project whether our sales will continue to be down at the same rate for the balance of the quarter, this would be a considerable improvement in our business and we would expect our results of operations to be significantly better in our fourth quarter compared to our third quarter if sales continue at this rate, although our operating results would be materially less than last year. Approximately 2/3 of our sales are to venues and locations that have shut down or sharply curtailed their foodservice operations so we anticipate COVID-19 will continue to have a negative impact on our business. As we have $270 million of cash and marketable securities on our balance sheet, we do not expect to have any liquidity issues, nor do we anticipate a material amount of our assets would be impaired.

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

Liquidity and Capital Resources

Our current cash and cash equivalents balances, investments and cash expected to be provided by future operations are our primary sources of liquidity. We believe that these sources, along with our borrowing capacity, are sufficient to fund future growth and expansion. See Note 11 to these financial statements for a discussion of our investment securities.

The Company’s Board of Directors declared a regular quarterly cash dividend of $.575 per share of its common stock payable on July 7, 2020, to shareholders of record as of the close of business on June 15, 2020.

In the three months ended March 28, 2020, we purchased and retired 65,648 shares of our common stock at a cost of $8,972,292. We did not purchase any other shares of our common stock in this fiscal year nor did we purchase any shares of our common stock in fiscal year 2019. On August 4, 2017 the Company’s Board of Directors authorized the purchase and retirement of 500,000 shares of the Company’s common stock; 318,858 shares remain to be purchased under this authorization.

In the three months ended June 27, 2020 and June 29, 2019, fluctuations in the valuation of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused an decrease of $41,000 in accumulated other comprehensive loss in the 2020 third quarter and a decrease of $496,000 in accumulated other comprehensive loss in the 2019 third quarter. In the nine-month period, fluctuations in the valuation of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused an increase of $3,070,000 in accumulated other comprehensive loss in the 2020 nine-month period and an increase of $469,000 in accumulated other comprehensive loss in the 2019 nine month period.

Our general-purpose bank credit line which expires in November 2021 provides for up to a $50,000,000 revolving credit facility. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. There were no outstanding balances under this facility at June 27, 2020.

RESULTS OF OPERATIONS

Net sales decreased $112,138,000 or 34% to $214,563,000 for the three months and decreased $105,113,000 or 12% to $769,502,000 for the nine months ended June 27, 2020 compared to the three and nine months ended June 29, 2019, respectively. Excluding sales from the acquisition of ICEE Distributors in October 2019 and BAMA ICEE in February 2020, sales decreased 35% for the quarter and decreased about 13% for the nine months.

Sales for the last 5 weeks of the third quarter (our fiscal June) improved to being down approximately 24% from a year ago as parts of the economy that impact our operations began to open up. Approximately 2/3 of the Company’s sales are to venues and locations that have shut down or sharply curtailed their foodservice operations, and therefore we anticipate COVID-19 will continue to have a negative impact on our business. As we have $270 million of cash and marketable securities on our balance sheet, up from $267 million at March 28, 2020, we do not expect to have any liquidity issues, nor do we anticipate a material amount of our assets would be impaired.

FOOD SERVICE

Sales to food service customers decreased $76,735,000 or 40% in the third quarter to $116,621,000 and decreased $77,048,000 or 14% to $471,401,000 for the nine months. Soft pretzel sales to the food service market decreased 62% to $21,384,000 in the three months and 24% to $116,985,000 in the nine months. Frozen juices and ices sales decreased 37% to $8,688,000 in the three months and decreased 17% to $25,222,000 in the nine months. Churro sales to food service customers were down 61% in the quarter to $7,321,000 and were down 23% to $38,466,000 in the nine months. Sales of bakery products decreased $20,847,000 or 23% in the third quarter and decreased $13,719,000 or 5% to $255,016,000 for the nine months. Sales of handhelds decreased $1,102,000 or 13% in the quarter and $3,255,000 or 13% in the nine months. Sales of funnel cake decreased 57%, or $3,181,000, to $2,435,000 in the quarter and $5,311,000, or 29%, to $12,997,000 in the nine months. Sales are down across all product lines as many of the venues and locations where our products are sold have been shut down for some or all of the third quarter due to COVID-19.

Sales of new products in the first twelve months since their introduction were approximately $600,000 in this quarter and $4.7 million in the nine months.

We had an operating loss in the quarter in our Food Service segment of $18,242,000 compared to operating income of $21,030,000 last year and operating income decreased to $7,743,000 from $57,909,000 in the nine months primarily because of lower production and sales volume due to COVID-19. This year’s three months operating loss and nine months operating income were impacted by plant shutdown impairment costs of $5.1 million for the pending shutdown of one of our manufacturing plants. We expect to reduce manufacturing overhead and distribution costs by about $7-8 million annually as a result of this plant closure. This year’s quarter and nine months also included approximately $5 million of costs for employee safety and increased COVID-19 compensation.

RETAIL SUPERMARKETS

Sales of products to retail supermarkets increased $15,735,000 or 38% to $57,502,000 in the third quarter and increased $17,286,000 or 16% in the nine months. Soft pretzel sales for the third quarter were up 74% to $12,716,000 and up 23% to $34,874,000 for the nine months. Sales of frozen juices and ices increased $6,807,000 or 26% to $33,322,000 in the third quarter and increased $7,100,000 or 14% in the nine months. Handheld sales to retail supermarket customers increased 6% to $3,257,000 in the quarter and 13% to $9,135,000 in the nine months. Biscuit sales for the third quarter were up 56% to $8,151,000 and 12% to $21,759,000 for the nine months. Sales were generally higher for all product lines as sales in the year ago periods were impacted by lost volume and placements due the price increases implemented in last year’s first quarter and because of increased sales to supermarkets generally since mid-March 2020 due to COVID-19.

Sales of new products in the third quarter were approximately $500,000 and were approximately $1.0 million for the nine months.

Operating income in our Retail Supermarkets segment was $7,910,000 in this year’s third quarter compared to $3,775,000 in last year’s quarter, a 110% increase and increased to $14,464,000 in this year’s nine months compared to $9,025,000 in last year’s nine months primarily due to higher volume.

FROZEN BEVERAGES

Total frozen beverage segment sales decreased 56% in the three months to $40,440,000 and 21% to $173,602,000 for the nine months. Beverage sales were down 71% to $16,456,000 in the quarter and down 31% to $83,606,000 in the nine months. Excluding sales from the acquisition of ICEE Distributors in October 2019 and BAMA ICEE in February 2020, total frozen beverage segment sales decreased 60% in the quarter and were down 25% for the nine months and beverage sales decreased 78% for the quarter and 39% for the nine months. Gallon sales were down 72% in the quarter and down 36% in the nine months exclusive of ICEE Distributors’ gallons. Service revenue decreased 23% to $17,259,000 in the third quarter and was down 1% at $61,524,000 in the nine months. Machines revenue (primarily sales of frozen beverage machines) were $6,363,000, a decrease of $5,447,000 in the quarter and $27,254,000, a decrease of $6,621,000, in the nine months, with the decrease due to two significant install projects during the prior fiscal year, as well as the slowdown due to COVID-19. Sales are down across all product lines as many of the venues and locations where our products are sold have been shut down for some or all of the third quarter due to COVID-19.

Our Frozen Beverage segment had an operating loss of $9,088,000 compared to operating income of $14,237,000 in last year’s quarter and an operating loss of $8,942,000 for the nine months compared to operating income of $18,961,000 last year primarily as a result of lower sales volume due to COVID-19. This year’s operating income was also impacted by relocation costs of our ICEE’s headquarters of 2.5 million in the nine months.

CONSOLIDATED

Gross profit as a percentage of sales was 17.34% in the third quarter and 31.02% last year. Gross profit as a percentage of sales was 23.98% in the nine month period this year and 29.44% last year. Gross profit percentage decreased for both periods because of lower volume in our food service and frozen beverages segments, higher costs related to production disruptions due to volume mix changes, expenses related to employee safety and increased COVID-19 compensation and reserves of approximately $1.5 million for inventory.

Total operating expenses decreased $5,691,000 in the third quarter and as a percentage of sales increased to 26.4% from 19.1% last year. For the nine months, operating expenses decreased $330,000 and as a percentage of sales increased to 22.3% from 19.6% last year. Operating expenses for both periods this year included $5.1 million of plant shutdown impairment costs for the pending shutdown of one of our manufacturing plants. Marketing expenses increased to 10.2% of sales in this year’s quarter from 8.1% last year and were 8.9% in the nine months compared to 8.0% of sales in last year’s nine months. Distribution expenses were 9.9% of sales in the third quarter and 7.5% of sales in last year’s quarter and were 9.1% in this year’s nine months compared to 8.1% in last year’s nine months. Administrative expenses were 3.9% of sales in the third quarter compared to 3.3% of sales last year in the third quarter and were 3.7% in this year’s nine months compared to 3.4% of sales in last year’s nine months. The percentage increases mentioned above were because of the drop in sales (lower denominators) and our inability to reduce expenses in line with the decrease in sales because of fixed costs that do not fluctuate with sales.

We had an operating loss of $19,420,000 in the three months and operating income of $13,265,000 in the nine months this year compared to operating income of $39,042,000 and $85,895,000 in last years' three and nine months, respectively.

Investment income decreased to $1,300,000 from $1,953,000 in last year's quarter due primarily to lower interest rates. Investment income decreased to $2,673,000 from $5,775,000 in the nine month period due to lower interest rates and because of an increase in unrealized losses to $1,708,000 this year from $385,000 last year.

We had a net loss of $12,647,000 in the current three month period compared to net earnings of $30,872,000 last year and net earnings decreased $57,031,000, or 83%, to $11,721,000 for the nine month period this year compared to $68,752,000 for the nine month period last year.

Net earnings in last year's nine months benefitted by a reduction of approximately $900,000 in tax as the provision for the one time repatriation tax as a result of the Tax Cuts and Job Act of 2017 was reduced as the amount recorded the year prior was an estimate. Excluding the reduction in the provision for the one time repatriation tax, our effective tax rate was 27.5% in last year's nine months. Our effective tax rate was 26.2% in this year's nine months.

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.

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 2017 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 June 27, 2020, 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 June 27, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit No.

31.1 & 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

99.5 & 99.6 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 June 27, 2020, formatted in iXBRL (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 contained in Exhibit 101.1)

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: July 31, 2020

By: /s/ Gerald B. Shreiber
Gerald B. Shreiber
Chairman of the Board,
Chief Executive

Officer and Director
(Principal Executive Officer)

Dated: July 31, 2020

/s/ Dennis G. Moore
Dennis G. Moore, Senior Vice
President, Chief Financial
Officer and Director
(Principal Financial Officer)
(Principal Accounting Officer)

Exhibit 31.1

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

I, Dennis G. Moore, certify that:

1. I have reviewed this 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 controls and procedures for 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 and procedures for 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 third fiscal quarter 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: July 31, 2020

By: /s/ Dennis G. Moore
Dennis G. Moore, Senior Vice
President, Chief Financial
Officer and Director
(Principal Financial Officer)
(Principal Accounting Officer)

Exhibit 31.2

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

I, Gerald B. Shreiber, certify that:

1. I have reviewed this 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 controls and procedures for 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 and procedures for 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 third fiscal quarter 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: July 31, 2020

By: /s/ Gerald B. Shreiber
Gerald B. Shreiber
Chairman of the Board,
Chief Executive
Officer and Director
(Principal Executive Officer)

Exhibit 99.5

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 with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended June 27, 2020 (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: July 31, 2020

By: /s/ Dennis G. Moore
Dennis G. Moore, Senior Vice
President, Chief Financial
Officer and Director
(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.

Exhibit 99.6

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 with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended June 27, 2020 (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: July 31, 2020

By: /s/ Gerald B. Shreiber
Gerald B. Shreiber
Chairman of the Board,
Chief Executive
Officer and Director
(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.