



MUNCH.

S-S-SIP.



AH-H-H.

M-M-M-M.



A close-up photograph of a person's hand cupping their ear. The background is a vibrant, abstract pattern of blue, green, and yellow. The text is overlaid on the image in a white, stylized font.

IT'S THE SATISFIED SOUND
OF SNACKERS EVERYWHERE
DELIGHTING THEIR SENSES
WITH THE J&J SNACK FOODS
FAMILY OF BRANDS.

HEAR THAT?

2003 IN REVIEW

PROFILE

J&J Snack Foods Corp. is a manufacturer, marketer and distributor of an expanding variety of nutritional, popularly priced, branded niche snack foods and beverages for the food service and retail supermarket industries. The Company is listed on the NASDAQ exchange as “JJSF”, and serves both national and international markets.

Our growing portfolio of products includes soft pretzels; frozen beverages; frozen juice bars and desserts; churros, a cinnamon pastry; funnel cakes; cookies and bakery goods; and other snack foods and drinks. Consumers can enjoy these nutritional and tasty products in a variety of settings where people work, play, travel and shop.

The Company's growth is the result of a strategy that emphasizes active development of new and innovative products, penetration into existing market channels and expansion of established products into new markets. Our four business groups, Food Service, Frozen Beverages, Retail Supermarket and The Restaurant Group, were part of our 32nd consecutive year of record sales in fiscal 2003 and are poised for continued growth this coming year.

As we prepare for the future, J&J Snack Foods Corp. plans to continue expanding its unique, niche product offerings, by capitalizing on new opportunities wherever they may be found.



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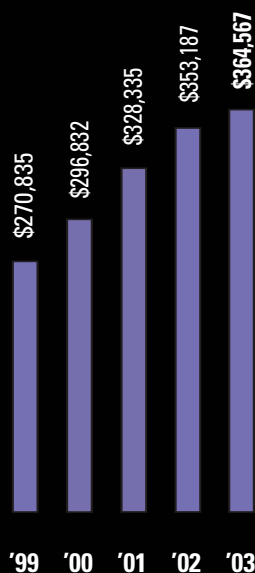
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FINANCIAL HIGHLIGHTS

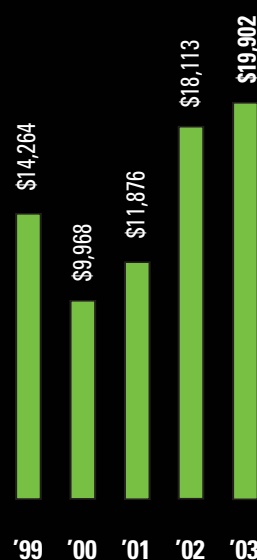
Fiscal year ended in September

	2003	2002	2001	2000	1999
(In thousands except per share data)					
Net Sales*	\$ 364,567	\$ 353,187	\$ 328,335	\$ 296,832	\$ 270,835
Net Earnings	\$ 19,902	\$ 18,113	\$ 11,876	\$ 9,968	\$ 14,264
Total Assets	\$ 236,683	\$ 220,036	\$ 224,481	\$ 220,039	\$ 213,680
Long-Term Debt	\$ —	\$ —	\$ 28,368	\$ 42,481	\$ 34,660
Stockholders' Equity	\$ 182,564	\$ 168,709	\$ 146,143	\$ 133,274	\$ 131,169
Common Share Data					
Earnings Per Diluted Share	\$ 2.20	\$ 1.99	\$ 1.36	\$ 1.10	\$ 1.50
Earnings Per Basic Share	\$ 2.26	\$ 2.07	\$ 1.40	\$ 1.13	\$ 1.58
Book Value Per Share	\$ 20.85	\$ 18.95	\$ 16.92	\$ 15.64	\$ 14.57
Common Shares Outstanding					
At Year End	8,757	8,903	8,636	8,522	9,000

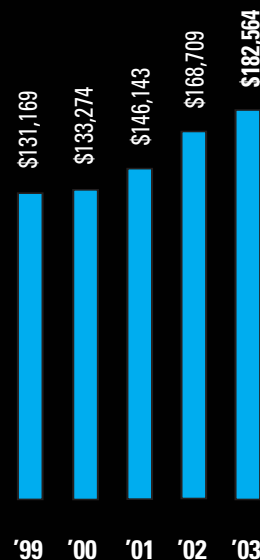
NET SALES*
(IN THOUSANDS)



NET EARNINGS
(IN THOUSANDS)



STOCKHOLDERS' EQUITY
(IN THOUSANDS)



*Net sales from 1999 to 2001 have been reduced as a result of our adoption of EITF 01-9, "Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor's Products." These reclassifications had no impact on reported net earnings or earnings per share.

PRESIDENT'S LETTER

To Our Shareholders and Friends:



"Truth, justice and the American way." Oops... no, that was last year's closing statement of my President's Letter. I need something else, slightly different, as we put the finishing touches on another good year. As I recently gazed reflectively while enjoying the natural beauty of a pastoral country setting, the sights and sounds of nature overwhelmed my senses. Almost like I could **touch** the beauty, **smell** its fragrance, **taste** its goodness and **hear** the serenity. And then I realized just how much the sensory qualities of our products contribute to their enjoyment, and in turn, the success of our company.

J&J Snack Foods Corp. has just completed its 32nd consecutive year of growth. How do we do it? Our insatiable appetite for success helps us to sniff out opportunities wherever they can be found. Operational discipline and good execution helps make them fit. Our dedication to serving the public remains steadfast. And, none of this would be possible without a truly **sense-ational** team working with me.

Sales and earnings set records in 2003



I am delighted to report to our shareholders our year-end results. In 2003, we set sales and earnings records again! And, earnings per share were the highest in our corporate history.

In brief:

- Net sales grew by 3% to a record \$365 million
- Net earnings climbed 10% to \$19.9 million
- Earnings per share rose 11% to \$2.20
- Book value increased to \$20.85



Strong performance by our Food Service business group, led by continued growth of our core and newer soft pretzel products, paved the way. Total Food Service sales were up 8% for the year, boosted by our award-winning PRETZEL FILLERS and GOURMET TWISTS that grew at an even faster rate. Other products also contributed to our successful year. Our ICEE business group, given the circumstances of weather and store closings affecting a major customer, performed well overall. And, although Retail Supermarket sales declined this year due to the discontinuance of frozen novelty products introduced last year and poor weather conditions, it is noteworthy that our retail soft pretzel category grew.

Tuning into sensory perception



Unlike some larger food companies, our company is unique and our products fall into specialty niche categories. In our beginning in 1971, we saw and sensed something of product lines that were undeveloped and under-marketed. This initially included soft pretzels. Our business grew, and later churros, frozen juice bars and desserts, ICEE and frozen carbonated beverages, funnel cakes and cookies were added to the mix to further delight the senses.



We continue to utilize the same strategy and basic philosophy that has served us well over the years.

By making quality niche products, being the low cost producer and maintaining strong sales and distribution channels, we were able to overcome a tough economic environment made even tougher by cost increases.

We are satisfied with our recent performance but can clearly see further success. As we begin our 33rd year in business, we remain committed to maintaining the standards already in place, and will focus on furthering our quest for continued growth and excellence. We look forward to another *sense-ational* year in 2004!

Sincerely,

Gerald B. Shreiber

President and Chairman

December 1, 2003



SOFT PRETZELS

Take a good look and you'll clearly see why J&J Snack Foods Corp. remains the world's premier and largest manufacturer of soft pretzels. As demand continues to grow, seven of our manufacturing facilities are busy producing the millions upon millions of soft pretzels needed to satisfy consumers across the U.S. and around the world.

All eyes are on expanding food service sales

In fiscal 2003, food service soft pretzel sales grew an impressive 15%, primarily driven by surging sales of our gourmet style soft pretzels. These delectable snacks can be eaten on-the-go or as a meal replacement, and are sold at an expanding number of locations including convenience stores, home-delivery services, mass merchandisers, snack bars and other traditional food service outlets.

Our delicious PRETZEL FILLERS, hand-twisted soft pretzels with scrumptious fillings and toppings, have provided a whole new way to view soft pretzels! Enjoy any of our four appealing flavors: Twisted Pizza, Hollerin' Jalapeño, Sweet Dream Cream Cheese and Cinnamon Apple Harvest. PRETZEL FILLERS are available in various sizes as well as individually wrapped.

Hungry consumers have also set their sights on GOURMET TWISTS. These old-world, hearth-baked soft pretzels are offered in either Original Twist or Sweet Doughlicious. Packaged with savory toppings including butter, cinnamon-sugar and salt, they provide variety and simple preparation. The food service picture has changed forever!

Our flagship brand — SUPERPRETZEL Soft Pretzels — provides the lion's share of food service soft pretzel sales. They remain *America's Favorite Soft Pretzel*, and are available at tens-of-thousands of high-traffic locations across the country such as malls and shopping centers; stadiums and sports arenas; amusement, leisure and theme parks; chain, convenience and warehouse club stores; schools and colleges; business and industry cafeterias and fast food outlets.

We're the apple of the School Food Service Director's eye

We remain dedicated to helping schools provide good nutrition and fun for America's schoolchildren. Our SUPERPRETZEL product line satisfies bread requirements for the U.S.D.A. approved National School Lunch/Breakfast Program — making it a tasty addition to school lunch and breakfast menus. Available in themed and shaped varieties such as shamrocks, pumpkins, hearts and stars, School Food Service Directors know that holiday and special menus will be seen as a hit with students.

Still lookin' good at the supermarket

SUPERPRETZEL brand sales in retail supermarkets — which includes soft pretzels, SOFT PRETZEL BITES and SOFTSTIX Cheese Filled Soft Pretzel Sticks co-branded with KRAFT* — again showed an increase for the year, thanks to a 14% sales spike for our SUPERPRETZEL SOFTSTIX. The brand continues to lead the retail category with a commanding market share and a presence in more than 29,000 supermarkets nationwide.

SUPERPRETZEL PRETZELFILS — a vision of the future

Watch closely, we've just reinvented at-home snacking. At the end of our fiscal year, we began test marketing SUPERPRETZEL PRETZELFILS — the newest member of the SUPERPRETZEL family. Flavored dough is combined with delicious fillings and toppings to create an entirely new snacking sensation. Eaten as a snack, mini-meal or hors d'oeuvre, consumers can choose from three delicious flavors: pizza, pepperjack and onion veggie cream cheese. Our innovations just keep on coming!

Our Restaurant Group, which operates BAVARIAN PRETZEL BAKERY and PRETZEL GOURMET retail stores in the Mid-Atlantic region, continues to serve as a valuable resource for market research and new product evaluation.

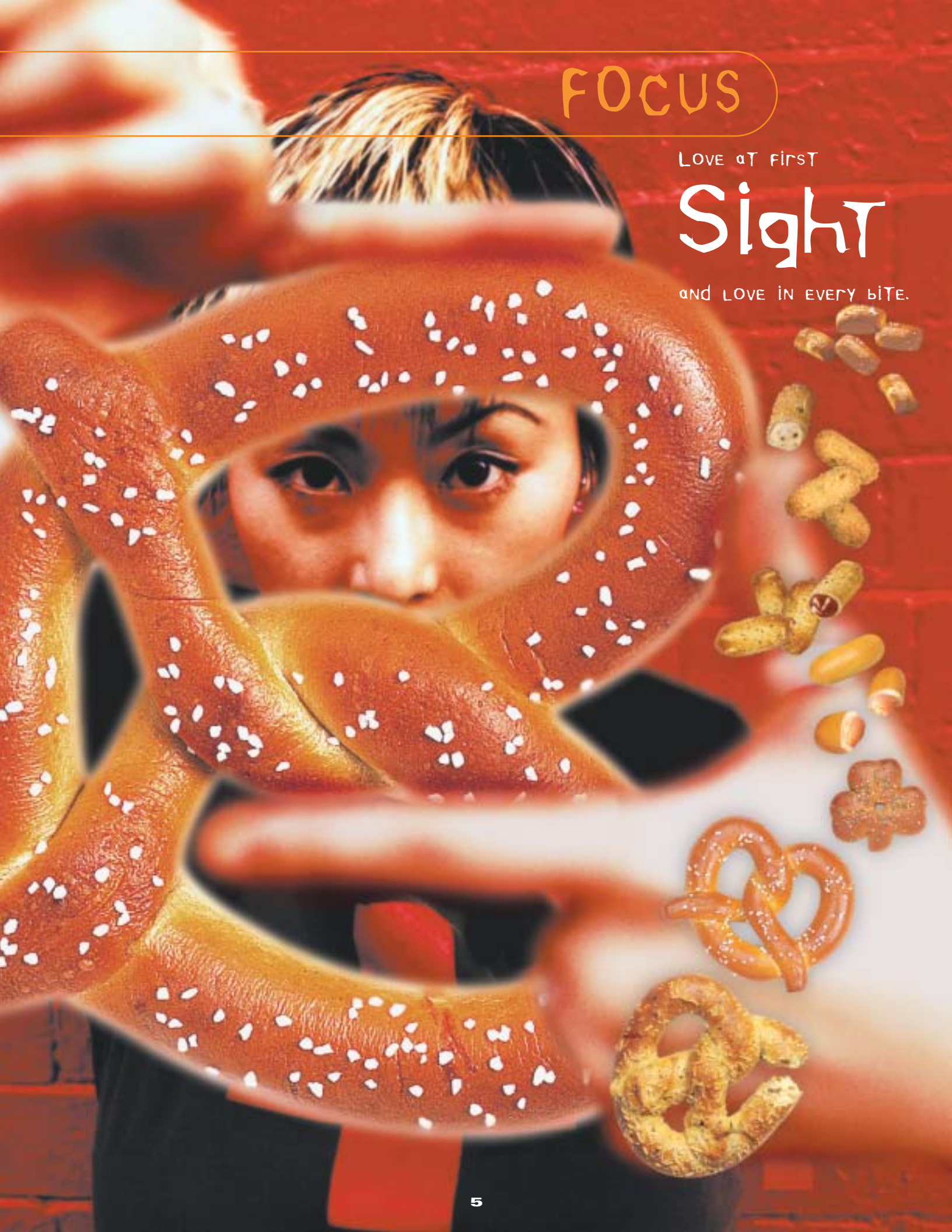
*KRAFT and the KRAFT logo are registered trademarks owned and licensed by Kraft Food Holdings, Inc.

FOCUS

LOVE AT FIRST

Sight

AND LOVE IN EVERY BITE.



FROZEN BEVERAGES

On a hot summer day or anytime, there is no better way to cool off than with a delicious, frosty beverage from J&J Snack Foods. Use a straw or use a spoon, but by all means, experience this chilling sensation.

The ICEE Company — our frozen beverage division — sets the standard for excellence and remains the world's largest distributor of frozen beverages. However, sales dipped slightly in fiscal 2003 primarily due to the unusually wet summer and continued store closings at a major account.

Connect with an ICEE anywhere

Feel like ICEE is everywhere you are? You're right! Refreshing ICEE branded beverages are sold in more than 30,000 food service outlets throughout the United States, Canada and Mexico, many of which also sell our SUPERPRETZEL brand and other tasty and nutritional J&J products. ARCTIC BLAST and other signature brands are also available in some geographic locations. Served from our proprietary dispensing equipment, these semi-frozen treats are an exciting and delicious alternative to traditional juices and soft drinks for thirsty consumers in need of a cool-down.

We are transitioning to the ICEE brand in nearly 7,000 Burger King* locations, modifying the look of existing dispensing units to provide additional brand exposure. Our long-term marketing agreement with The Coca-Cola Company continues to thrive as The ICEE Company provides ongoing managed services to dispensing machines in these Burger King locations while The Coca-Cola Company provides the syrup. A very cool combination indeed!

Our customers feel the love

The ICEE Company's success is owed in no small part to the "Service Excellence" provided by our nationwide network of branches and trained technicians that reports to our centralized, state-of-the-art Customer Service Center. We perform ongoing managed service for existing

customers as well as other beverage and related food equipment providers. As always, we remain dedicated to maintaining our equipment in peak condition at all times and are sensitive to our trade customers' needs. To that end, this fiscal year we began the rollout of hand-held computers to speed up communication from the field and reduce manual processing of service information. The majority of the project should be implemented in fiscal 2004.

Staying in touch by way of promotions

Promotional opportunities continued to play an important role throughout fiscal 2003. Value-added on-the-cup offers; consumer sweepstakes and contests; feature film, video/DVD and video game tie-ins; turnkey holiday-themed and flavor promotions; and account-specific themed promotions are just some of the ways the ICEE brand stays in front of consumers. Tie-ins with SUPERPRETZEL, GOURMET TWISTS, MRS. GOODCOOKIE and other J&J products were also featured at several national accounts, promoting *sense-ational* snack combinations.

Uncarbonated ways to chill out

Feel like a frosty treat without carbonation? The ICEE Company offers three frozen beverage alternatives. In the fourth quarter, we introduced ICEE SLUSH to schools and lower volume locations. For schools, it is made with real fruit juice to meet specific nutritional requirements. JAVA FREEZE, a coffee-flavored beverage, remains popular with the college crowd. And, CALIFORNIA NATURAL — served with or without alcohol — enhances the spectator experience at sporting events and entertainment venues.

So when you need to chill out and the ordinary just won't do, satisfy your senses with a frozen treat from J&J.



*Burger King is a registered trademark of Burger King Corporation.

CHILLIN'

EXPERIENCE THE ICEE

TOUCH

AND FEEL THE ARCTIC BLAST.



FROZEN JUICE BARS & DESSERTS

Need a cool, refreshing treat? You're not alone. Increased consumption of our MINUTE MAID* and BARQ'S** branded products, combined with the efforts of our LUIGI'S, CHILL, ICEE, FROSTAR, SHAPE UPS and MAMA TISH'S brands, helped us turn in a tasty 4% increase in food service sales in fiscal 2003. A palatable result — despite Mother Nature's wrath, which impacted sales of our frozen juice bars and dessert brands last summer, mostly in leisure and theme venues.

Relishing our award-winning partnership

Our ongoing alliance with The Coca-Cola Company gives J&J Snack Foods Corp. the exclusive rights to manufacture, sell and distribute licensed frozen juice bars and desserts under the Coca-Cola*** brands of MINUTE MAID and BARQ'S. Consumer recognition and trust of these brands, combined with our robust distribution channels, provide a solid foundation for success.

Our mouth-watering Coca-Cola branded products include MINUTE MAID Juice Bars, MINUTE MAID Soft Frozen Lemonade, MINUTE MAID Fruit & Cream Swirl and a new product with an old-fashioned feel — BARQ'S Frozen Root Beer & Vanilla Ice Cream Float. This luscious frozen treat is already causing quite a stir, garnering a pair of prestigious industry publication awards: "Stagnito's Best New Product Award" and "Best New Product Award" from Convenience Store News. Delicious news indeed! And, in warehouse club stores, food service frozen dessert sales were boosted when BARQ'S Frozen Root Beer & Vanilla Ice Cream Float and MINUTE MAID Juice Bars were successfully welcomed into the club.

Canadians are now enjoying our taste-tempting frozen desserts, as our ongoing efforts to expand in this geographic market have landed MINUTE MAID Soft Frozen Lemonade into club stores and convenience stores north of the border.

A ravenous appetite for pleasing kids and adults

J&J Snack Foods Corp. is proud to be a Patron Member of the American School Food Service Association and pledges to remain committed to offering nutritious products to schoolchildren. With more than 90 million servings this year, our MINUTE MAID Juice Bars, which carry the Child Nutrition (CN) label and satisfy fruit requirements for the National School Lunch/Breakfast Program, remain the #1 menued frozen juice bar in America's schools. SHAPE UPS Frozen Juice Cups, juice-based frozen desserts with holiday themed lids, provide School Food Service Directors with lip-smackin' options for menu planning.

Still the #1 taste in the freezercase

Retail supermarket sales of frozen juice bars and desserts — which includes the LUIGI'S, MINUTE MAID, BARQ'S and ICEE brands — experienced a decline this fiscal year due in part to lost distribution of products introduced last year and a damp, dreary summer which impacted all frozen novelty category sales. Although sales of LUIGI'S Real Italian Ice were flat for the year, the brand still sits atop the supermarket freezercase as the #1 selling Italian ice and is very well positioned for future growth.

BARQ'S Frozen Root Beer & Vanilla Ice Cream Float was successfully introduced in test markets in fiscal 2003, and expansion plans are in place for this old-fashioned favorite in the coming year.

*MINUTE MAID is a registered trademark of The Coca-Cola Company.

**BARQ'S is a registered trademark of Barq's Inc.

***Coca-Cola is a registered trademark of The Coca-Cola Company.

Crave

BaTHE YOUR TONGUE IN

TASTE

AND ENJOY LIP SMACKIN' FUN.



MORE SNACKS

Nothing stirs the senses quite like the sweet aroma of warm, fresh snacks. Delicious cookies, crispy churros, fragrant funnel cakes and other quality bakery products comprise this ever-growing niche category for J&J Snack Foods Corp.

Ah-h-h-h-h, the sweet smell of success!

In the food service sector, MRS. GOODCOOKIE, CAMDEN CREEK and other branded cookies serve up equally delicious whether distributed as frozen cookie dough, pre-baked or pre-packaged cookies. And for a more custom sensation, CAMDEN CREEK private label fund raising frozen cookie dough has proven to be a winner, along with packaged, fun character cookie sales to schools and sales of MRS. GOODCOOKIE frozen cookie dough. All were key contributors to the 4% rise in dollars and scents in 2003.

Our other taste-tempting bakery products include non-branded frozen cookie dough, commercial specialty baking items, contract private label products and organically certified baked goods. The 5% sales spurt we experienced is primarily the result of growth in our contract private label business. Additionally, our fresh bakery products which include bagels, donuts, muffins and more sold to Wawa Inc., a convenience food retailer, posted increases to food service sales as well. Soon, you may catch the aromatic whiff of many of our fresh-baked goodies in even more places as we explore our existing distribution channels for further opportunities.

Sensing continued growth for TIO PEPE'S

What was once a regional delicacy only in the Southwest, TIO PEPE'S Churros — crispy, doughnut-like snacks — continue to spread their cinnamon scent across the country and into international markets. In fiscal 2003, food service sales of regular and fruit filled churros beat out the previous year's sales by a nose. Both varieties are delicious and nutritious, while fruit filled churros satisfy both bread and fruit requirements for the U.S.D.A. National School Lunch/Breakfast Program. International sales of churros also grew in the Asia-Pacific region.

Funnel cakes — still full of fun

Available under THE FUNNEL CAKE FACTORY brand name, our fragrant funnel cakes are sold either as frozen, pre-cooked, pre-shaped cakes that simply need to be warmed, or as a make-your-own dry mix. Funnel cakes are meant for family fun, so it's no surprise that the rain-drenched summer — which adversely affected attendance and eating habits at theme and leisure parks as well as other outdoor venues, the primary distribution channel for funnel cakes — led to a marginal decline in sales for fiscal 2003. But if history is any indication, funnel cake sales should rebound quite nicely.

Despite certain adversities and challenges we experienced this past year, we refused to let them dampen our spirits. We **saw** opportunities. We **felt** confident. We **tasted** victory. We **smelled** success. Triumphant once again, J&J Snack Foods Corp. experienced growth for our 32nd consecutive year — now that's **sense-ational!**



Savor

INHALE THIS AROMATIC

SMELL

AND LOSE YOURSELF IN THE MOMENT.



FAMILY OF BRANDS



MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

In addition to historical information, this discussion and analysis contains forward-looking statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Important factors that might cause such a difference include, but are not limited to, those discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. We focus your attention on the following:

Principles of Consolidation – Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America. Our consolidated financial statements include the accounts of the Company, and all its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Revenue Recognition – We recognize revenue from snack food and frozen beverage products at the time the products are shipped to third parties. When we perform services under our service contracts for frozen beverage dispenser machines, revenue is recognized upon the completion of the services on specified machines. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors.

Our product cost includes amounts for shipping and handling; therefore, we charge our customers shipping and handling fees at the time the products are shipped or when its services are performed. The cost of shipping products to the customer is recognized at the time the products are shipped to the customer and is included in distribution expenses.

We also sell service contracts covering frozen beverage machines sold. The terms of coverage range between 12 and 60 months. We record deferred income on service contracts, which is amortized by the straight-line method over the term of the contracts.

Use of Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the

disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Asset Impairment – We completed documentation of our transitional goodwill impairment tests during the quarter ended March 30, 2002 and did not record any transitional goodwill impairment loss as a result of our adoption of SFAS 142. There were no changes in the carrying amount of goodwill for the fiscal year ended September 27, 2003.

Licenses and rights are being amortized by the straight-line method over periods ranging from 4 to 20 years and amortization expense is reflected throughout operating expenses. There were no changes in the gross carrying amount of intangible assets for the fiscal year ended September 27, 2003. Additionally, we did not record any transitional intangible asset impairment loss upon adoption of SFAS 142.

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 which will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities.

Commodity Price Risk Management – Our most significant raw material requirements include flour, shortening, corn syrup, chocolate and macadamia nuts. We attempt to minimize the effect of future price fluctuations related to the purchase of raw materials primarily through forward purchasing to cover future manufacturing requirements, generally for periods from 1 to 24 months. Futures contracts are not used in combination with forward purchasing of these raw materials. Our procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

Commitments and Contingencies – We are a party to litigation that we currently believe will not have a material adverse effect on our financial condition or results of operations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. Our contractual and other commercial obligations primarily relate to the procurement of goods and services in the normal course of business.

Refer to Note A to the consolidated financial statements for additional information on our accounting policies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

(continued)

RESULTS OF OPERATIONS

Fiscal 2003 (52 weeks) Compared to Fiscal 2002 (52 weeks)

Net sales increased \$11,380,000 or 3% to \$364,567,000 in fiscal 2003 from \$353,187,000 in fiscal 2002.

We have four reportable segments, as disclosed in the notes to the consolidated financial statements: Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages.

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

Food Service

Sales to food service customers increased \$15,309,000 or 8% to \$200,528,000 in fiscal 2003. Soft pretzel sales to the food service market increased \$10,160,000, or 15%, to \$76,062,000 for the 2003 year due primarily to increased sales of PRETZEL FILLERS and GOURMET TWISTS. Increased sales to two customers accounted for approximately 64% of the soft pretzel sales' increase. Sales of bakery products increased \$3,661,000 or 6% to \$67,432,000 in fiscal 2003. Churro sales increased 3% to \$12,923,000. Frozen juice bar and ices sales increased 4% to \$38,120,000. All of the increases in sales throughout the Food Service segment were from a combination of increased unit volume and price increases.

Retail Supermarkets

Sales of products to retail supermarkets decreased \$1,664,000 or 4% to \$39,702,000 in fiscal 2003. Total soft pretzel sales to retail supermarkets were \$17,195,000, an increase of 2% from fiscal 2002. Sales of frozen juice bars and ices decreased \$1,207,000 or 5% to \$24,251,000 in 2003 from \$25,458,000 in 2002. Case sales of frozen juices and ices products introduced in 2002 which were unsuccessful were down 60% for the year.

The Restaurant Group

Sales of our Restaurant Group, which operates BAVARIAN PRETZEL BAKERY and PRETZEL GOURMET retail stores in the Mid-Atlantic region, declined by 9%, primarily due to reduced mall traffic and closings of 5 unprofitable stores.

Frozen Beverages

Frozen beverage and related product sales decreased \$1,296,000 or 1% to \$114,582,000 in fiscal 2003. Beverage sales alone decreased 2% to \$89,387,000 for the year. Lower beverage sales to

two customers accounted for more than the entire decrease in beverage sales. Service revenue increased \$829,000, or 6% to \$15,272,000 for the year.

Sales to certain of our mass merchandising customers decreased in 2003 and are expected to further decline in 2004 as a result of store closings and other factors affecting their operations.

Consolidated

Gross profit was 34% of sales in both 2003 and 2002. Gross profit benefited from a large decrease in depreciation expense which was largely offset by increases in the unit costs of raw materials and packaging and increases in insurance costs.

Total operating expenses increased \$2,807,000 to \$93,998,000 in fiscal 2003 but as a percentage of sales were 26% in 2003 and 2002. Marketing expenses decreased less than 1/2 of 1 percent to 14% of sales in fiscal 2003 from 15% in 2002. Distribution expenses increased less than 1/4 of 1 percent of sales to 8% from 7% last year. Administrative expenses were 4% in both years. Other general income increased to \$384,000 in 2003 from \$19,000 because of the positive resolution of prior acquisition liabilities.

Operating income increased \$2,581,000 or 9% to \$30,847,000 in fiscal 2003.

Interest expense decreased \$408,000 to \$113,000 in fiscal 2003 because we had no long-term debt in 2003.

The effective income tax rate was 36% in fiscal 2003 and 35% in fiscal 2002.

Net earnings increased \$1,789,000 or 10% in fiscal 2003 to \$19,902,000 or \$2.20 per fully diluted share.

RESULTS OF OPERATIONS

Fiscal 2002 (52 weeks) Compared to Fiscal 2001 (52 weeks)

Net sales increased \$24,852,000 or 8% to \$353,187,000 in fiscal 2002 from \$328,335,000 in fiscal 2001.

We have four reportable segments, as disclosed in the notes to the consolidated financial statements: Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages.

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

Food Service

Sales to food service customers increased \$13,846,000 or 8% to \$185,219,000 in fiscal 2002. Soft pretzel sales to the food service market increased 8% to \$65,902,000 for the 2002 year. Sales of bakery products increased \$5,814,000 or 10% to \$63,771,000 in fiscal 2002 due to increased unit sales across our customer base due in part to our acquisition of Uptown Bakery in November 2000. Churro sales increased 7% to \$12,530,000. Frozen juice bar and ices sales increased 10% to \$36,798,000. All of the increases in sales throughout the Food Service segment were primarily the result of changes in unit volume.

Retail Supermarkets

Sales of products to retail supermarkets increased \$2,290,000 or 6% to \$41,366,000 in fiscal 2002. Total soft pretzel sales to retail supermarkets were \$16,794,000, an increase of 4% from fiscal 2001. Sales of our flagship SUPERPRETZEL brand soft pretzels increased 5% to \$15,497,000. Sales of frozen juice bars and ices increased \$1,745,000 or 7% to \$25,458,000 in 2002 from \$23,713,000 in 2001 due to increased volume of LUIGI'S Real Italian Ice and the Company's MINUTE MAID* brand licensed products.

The Restaurant Group

Sales of our Restaurant Group, which operates BAVARIAN PRETZEL BAKERY and PRETZEL GOURMET retail stores in the Mid-Atlantic region, declined by 11%, primarily due to reduced mall traffic and closings of unprofitable stores.

Frozen Beverages

Frozen beverage and related product sales increased \$10,035,000 or 9% to \$115,878,000 in fiscal 2002. Beverage sales alone increased 2% to \$91,366,000 for the year. Service revenue increased \$5,625,000, or 64% to \$14,443,000 for the year.

Sales to certain of our mass merchandising customers decreased in 2002 and are expected to further decline in 2003 as a result of store closings and other factors affecting their operations.

Consolidated

Gross profit increased to 34% of sales in 2002 from 33% of sales in 2001 primarily due to efficiencies resulting from higher volume. Gross profit was impacted by higher property and casualty insurance costs of approximately \$900,000 for the year. The higher costs were due to market conditions and our own claims experience.

Total operating expenses increased \$3,640,000 to \$91,191,000 in fiscal 2002 but as a percentage of sales decreased to 26% in 2002 from 27% in 2001. The percentage decrease was mainly attributable to our adoption of SFAS 142 which eliminated the amortization of goodwill. Marketing expenses increased less than ¼ of 1 percent

to 15% of sales in fiscal 2002 from 14% in 2001. Distribution expenses decreased less than ½ of 1 percent of sales to 7% from 8% last year because of lower fuel prices early in the year and efficiencies related to higher volume. Administrative expenses were 4% in both years. Other general income of \$19,000 in 2002 compared to other general income of \$620,000 in 2001. Other general income in 2001 included gains from insurance proceeds.

Operating income increased \$7,097,000 or 34% to \$28,266,000 in fiscal 2002.

Interest expense decreased \$2,662,000 to \$521,000 in fiscal 2002 due to the paydown of debt and lower interest rates. As of September 28, 2002, we have repaid all of our long-term debt.

The effective income tax rate was 35% in fiscal 2002 and 36% in fiscal 2001.

Net earnings increased \$6,237,000 or 53% in fiscal 2002 to \$18,113,000 or \$1.99 per fully diluted share.

ACQUISITIONS, LIQUIDITY AND CAPITAL RESOURCES

In November 2000, we acquired the assets of Uptown Bakeries for cash. Uptown Bakeries, located in Bridgeport, NJ, sells bakery items to the food service industry with approximate annual sales of \$17,000,000.

This acquisition was accounted for under the purchase method of accounting, and its operations are included in the consolidated financial statements from the acquisition date.

Our future expected operating cash flow along with our borrowing capacity are our primary sources of liquidity and we believe that these sources are sufficient to fund future growth and expansion.

Fluctuations in the value of the Mexican peso and the resulting revaluation of the net assets of our Mexican frozen beverage subsidiary caused decreases of \$165,000, \$151,000 and \$25,000 in accumulated other comprehensive loss in the 2003, 2002 and 2001 fiscal years, respectively. In 2003, sales of the Mexican subsidiary were \$4,354,000 as compared to \$3,819,000 in 2002.

In fiscal year 2003, we purchased and retired 297,000 shares of our common stock at a cost of \$8,565,000. In fiscal year 2002, we did not purchase or retire any of our common stock. In fiscal year 2001, we purchased and retired 111,000 shares of our common stock at a cost of \$1,431,000. Under a buyback authorization approved by the Board of Directors in April 2003, 478,000 shares remain to be purchased at September 27, 2003.

* MINUTE MAID is a registered trademark of The Coca-Cola Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

(continued)

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

The following table presents our contractual cash flow commitments on long-term debt and operating leases. See Notes to the Consolidated Financial Statements for additional information on our long-term debt and operating leases.

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(in thousands)				
Long-term debt, including current maturities	\$ —	\$ —	\$ —	\$ —	\$ —
Operating leases...	40,164	8,068	11,266	7,262	13,568
Total	<u>\$40,164</u>	<u>\$8,068</u>	<u>\$11,266</u>	<u>\$7,262</u>	<u>\$13,568</u>

As of September 27, 2003, we were committed to purchasing approximately \$13,000,000 of ingredients and packaging in fiscal year 2004. These commitments do not exceed our projected requirements over the related terms and are in the normal course of business.

Effective December 30, 2001, we adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." EITF 01-9 addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products.

As a result of the adoption, we reduced both net sales and marketing expenses by approximately \$25,344,000, \$27,175,000 and \$23,361,000 for the years ended 2003, 2002 and 2001, respectively. These reclassifications have no impact on reported operating income or net earnings or earnings per share.

On December 30, 2001, we adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS No. 144). SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," but it retains many of the fundamental provisions of that Statement. The adoption did not have a material effect on our financial statements.

On October 1, 2001, we adopted SFAS 133, as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." Based on our minimal use of derivatives, the adoption of this standard did not have a significant impact on our earnings or financial position.

On September 30, 2001, we adopted SFAS No. 142 "Goodwill and Intangible Assets" (SFAS No. 142). SFAS No. 142 includes requirements to annually test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, we no longer amortize goodwill, thereby eliminating an annual amortization charge of approximately \$2,600,000. We completed documentation of our transitional goodwill impairment tests during the quarter ended March 2002 and did not record any transitional goodwill impairment loss as a result of our adoption of SFAS No. 142. Additionally, we did not record any transitional intangible asset impairment loss upon adoption of SFAS No. 142. Our annual impairment evaluation reflected no deterioration of our recorded goodwill.

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

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

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

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

Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

Fiscal 2003 Compared to Fiscal 2002

Cash increased \$23,536,000, or 166%, to \$37,694,000 from a year ago because we generated cash from operations in excess of the amount needed for investing and financing activities.

Trade receivables increased \$723,000 or 2% to \$37,645,000 and inventories increased \$1,003,000 or 5% to \$23,202,000 in 2003 due to increased levels of business and higher unit costs of inventories.

Property, plant and equipment decreased \$7,295,000 to \$87,115,000 primarily because expenditures for dispensers required for the expansion of our frozen beverage business, for ovens and portable merchandisers required for the expansion of our food service business and for the expansion and upgrading of production capability at our manufacturing facilities was approximately \$5,000,000 less than depreciation of existing assets.

Other intangible assets, less accumulated amortization decreased \$308,000 to \$1,231,000 due to amortization.

Accounts payable and accrued liabilities decreased \$186,000 in 2003 from \$40,244,000 in 2002.

Deferred income taxes increased by \$2,568,000 to \$13,374,000 which related primarily to depreciation of property, plant and equipment.

Common stock decreased \$5,882,000 to \$28,143,000 in 2003 because of the repurchase of \$8,565,000 of our common stock which was partially offset by the exercise of incentive stock options and stock issued under our stock purchase plan for employees.

Net cash provided by operating activities decreased \$4,718,000 to \$46,365,000 in 2003 primarily because of a decrease in depreciation and amortization of fixed assets.

Net cash used in investing activities decreased \$2,986,000 to \$16,502,000 in 2003 from \$19,488,000 in 2002 because of an increase in proceeds from disposal of property and equipment.

Net cash used in financing activities decreased \$18,547,000 in 2003 to \$6,327,000 from \$24,874,000 in 2002. The decrease was because we paid down \$28,069,000 of long-term debt in 2002 and we had no long-term debt in 2003.

Fiscal 2002 Compared to Fiscal 2001

Cash increased 90% to \$14,158,000 from a year ago because we generated cash from operations in excess of the amount needed to pay off our long-term debt.

Trade receivables increased \$1,421,000 or 4% to \$36,922,000 and inventories increased \$450,000 or 2% to \$22,199,000 in 2002 due to increased levels of business.

Property, plant and equipment decreased \$10,346,000 to \$94,410,000 because expenditures for dispensers required for the expansion of our frozen beverage business, for ovens and portable merchandisers required for the expansion of our food service business and for the expansion and upgrading of production capability at our manufacturing facilities was approximately \$10,000,000 less than depreciation of existing assets.

Other intangible assets, less accumulated amortization decreased \$309,000 to \$1,539,000 due to amortization.

Accounts payable and accrued liabilities decreased \$318,000 in 2002 from \$40,562,000 in 2001.

Current maturities of long-term debt decreased by \$115,000 to \$0 and long-term debt, less current maturities decreased by \$28,368,000 to \$0 due to our repayment of long-term debt.

Deferred income taxes increased by \$1,578,000 to \$10,806,000 which related primarily to depreciation of property, plant and equipment.

Common stock increased \$4,604,000 to \$34,025,000 in 2002 because of the exercise of incentive stock options and stock issued under our stock purchase plan for employees.

Net cash provided by operating activities increased \$1,629,000 to \$51,083,000 in 2002 primarily due to increased net earnings and deferred income taxes and a smaller increase in accounts receivable, which was partially offset by a lower increase in accounts payable and accrued liabilities.

Net cash used in investing activities decreased \$8,600,000 to \$19,488,000 in 2002 primarily because in 2001 we paid \$11,330,000 to purchase companies and had no acquisitions in 2002.

Net cash used in financing activities increased \$9,566,000 in 2002 to \$24,874,000 from \$15,308,000 in 2001. The increase of \$9,566,000 was the result of our repayment of approximately \$12,000,000 of additional long-term debt compared to 2001.

CONSOLIDATED STATEMENTS OF EARNINGS

	Fiscal year ended		
	September 27, 2003 (52 weeks)	September 28, 2002 (52 weeks)	September 29, 2001 (52 weeks)
(in thousands, except per share information)			
Net Sales	\$364,567	\$353,187	\$328,335
Cost of goods sold	239,722	233,730	219,615
Gross profit	124,845	119,457	108,720
Operating expenses			
Marketing	51,492	51,466	47,124
Distribution	27,705	26,041	25,594
Administrative	15,185	13,703	12,840
Amortization of goodwill	—	—	2,613
Other general income	(384)	(19)	(620)
	93,998	91,191	87,551
Operating income	30,847	28,266	21,169
Other income (expenses)			
Investment income	362	268	356
Interest expense	(113)	(521)	(3,183)
Other	—	—	213
	249	(253)	(2,614)
Earnings before income taxes	31,096	28,013	18,555
Income taxes	11,194	9,900	6,679
NET EARNINGS	\$ 19,902	\$ 18,113	\$ 11,876
Earnings per diluted share	\$2.20	\$1.99	\$1.36
Weighted-average number of diluted shares	9,051	9,093	8,754
Earnings per basic share	\$2.26	\$2.07	\$1.40
Weighted-average number of basic shares	8,800	8,770	8,502

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

	September 27, 2003	September 28, 2002
	(in thousands, except share amounts)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 37,694	\$ 14,158
Receivables		
Trade, less allowances of \$991 and \$1,839, respectively	37,645	36,922
Other	516	1,016
Inventories	23,202	22,199
Prepaid expenses and other	1,348	1,072
Total current assets	100,405	75,367
Property, Plant and Equipment, at cost	298,609	290,340
Less accumulated depreciation and amortization	211,494	195,930
	87,115	94,410
Other Assets		
Goodwill	45,850	45,850
Other intangible assets, net	1,231	1,539
Long-term investment securities held to maturity	275	675
Other	1,807	2,195
	49,163	50,259
	\$236,683	\$220,036
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 27,252	\$ 27,683
Accrued liabilities	12,806	12,561
Total current liabilities	40,058	40,244
Deferred Income Taxes	13,374	10,806
Other Long-Term Liabilities	687	277
Stockholders' Equity		
Preferred stock, \$1 par value; authorized, 5,000,000 shares; none issued	—	—
Common stock, no par value; authorized, 25,000,000 shares; issued and outstanding, 8,757,000 and 8,903,000 respectively	28,143	34,025
Accumulated other comprehensive loss	(1,957)	(1,792)
Retained Earnings	156,378	136,476
	182,564	168,709
	\$236,683	\$220,036

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total	Comprehensive Income
	Shares	Amount				
(in thousands)						
Balance at October 1, 2000.....	8,522	\$28,403	\$(1,616)	\$106,487	\$133,274	
Issuance of common stock upon exercise of stock options	207	2,194	—	—	2,194	
Issuance of common stock for employee stock purchase plan	18	255	—	—	255	
Foreign currency translation adjustment.....	—	—	(25)	—	(25)	\$ (25)
Repurchase of common stock.....	(111)	(1,431)	—	—	(1,431)	
Net earnings.....	—	—	—	11,876	11,876	11,876
Comprehensive income.....	—	—	—	—	—	<u>\$11,851</u>
Balance at September 29, 2001.....	8,636	\$29,421	\$(1,641)	\$118,363	\$146,143	
Issuance of common stock upon exercise of stock options	254	4,336	—	—	4,336	
Issuance of common stock for employee stock purchase plan	13	268	—	—	268	
Foreign currency translation adjustment.....	—	—	(151)	—	(151)	\$ (151)
Net earnings.....	—	—	—	18,113	18,113	18,113
Comprehensive income.....	—	—	—	—	—	<u>\$17,962</u>
Balance at September 28, 2002.....	8,903	\$34,025	\$(1,792)	\$136,476	\$168,709	
Issuance of common stock upon exercise of stock options	139	2,342	—	—	2,342	
Issuance of common stock for employee stock purchase plan	12	341	—	—	341	
Foreign currency translation adjustment.....	—	—	(165)	—	(165)	\$ (165)
Repurchase of common stock.....	(297)	(8,565)	—	—	(8,565)	
Net earnings.....	—	—	—	19,902	19,902	19,902
Comprehensive income.....	—	—	—	—	—	<u>\$19,737</u>
Balance at September 27, 2003.....	<u>8,757</u>	<u>\$28,143</u>	<u>\$(1,957)</u>	<u>\$156,378</u>	<u>\$182,564</u>	

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal year ended		
	September 27, 2003 (52 weeks)	September 28, 2002 (52 weeks)	September 29, 2001 (52 weeks)
	(in thousands)		
Operating activities:			
Net earnings.....	\$19,902	\$18,113	\$11,876
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of fixed assets.....	24,234	30,252	30,170
Amortization of intangibles and deferred costs.....	729	734	3,346
(Gains) losses from disposals and write-downs of property & equipment.....	(389)	255	(330)
Increase in deferred income taxes.....	2,568	1,578	888
Changes in assets and liabilities, net of effects from purchase of companies:			
Increase in accounts receivable.....	(285)	(1,068)	(3,411)
Increase in inventories.....	(829)	(207)	(361)
Increase (decrease) in prepaid expenses and other.....	(276)	125	221
Increase in accounts payable and accrued liabilities.....	711	1,301	7,055
Net cash provided by operating activities.....	46,365	51,083	49,454
Investing activities:			
Purchases of property, plant and equipment.....	(19,292)	(20,479)	(17,127)
Payments for purchase of companies, net of cash acquired and debt assumed.....	—	—	(11,330)
Proceeds from investments held to maturity.....	400	840	105
Proceeds from disposal of property and equipment.....	2,534	167	824
Other.....	(144)	(16)	(560)
Net cash used in investing activities.....	(16,502)	(19,488)	(28,088)
Financing activities:			
Proceeds from borrowings.....	—	24,000	13,000
Proceeds from issuance of common stock.....	2,238	3,195	2,307
Payments to repurchase common stock.....	(8,565)	—	(1,431)
Payments of long-term debt.....	—	(52,069)	(29,184)
Net cash used in financing activities.....	(6,327)	(24,874)	(15,308)
Net increase in cash and cash equivalents.....	23,536	6,721	6,058
Cash and cash equivalents at beginning of year.....	14,158	7,437	1,379
Cash and cash equivalents at end of year.....	\$37,694	\$14,158	\$ 7,437

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J&J Snack Foods Corp. and Subsidiaries (the Company) manufactures, markets and distributes a variety of nutritional snack foods and beverages to the food service and retail supermarket industries. A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

1. Principles of Consolidation

The consolidated financial statements include the accounts of J&J Snack Foods Corp. and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in the consolidated financial statements.

2. Revenue Recognition

We recognize revenue from Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage products at the time the products are shipped to third parties. When we perform services under service contracts for frozen beverage dispenser machines, revenue is recognized upon the completion of the services on specified machines. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors.

Effective December 30, 2001, we adopted the provisions of Emerging Issues Task Force (EITF) Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." EITF 01-9 addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products.

As a result of the adoption, we reduced both net sales and marketing expenses by approximately \$25,344,000, \$27,175,000 and \$23,361,000 for the years ended 2003, 2002 and 2001, respectively. These reclassifications have no impact on reported operating income or net earnings or earnings per share.

We follow EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs" (Issue 00-10). Issue 00-10 requires that all amounts billed to customers related to shipping and handling should be classified as revenues. Our product costs include amounts for shipping and handling, therefore, we charge our customers 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 is included in Distribution expenses. Accordingly, this consensus opinion had no effect on our current and previous classifications.

Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101) addresses certain criteria for revenue recognition. SAB 101 outlines the criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. Our revenue recognition policies complied with the guidance contained in SAB 101 and, therefore, our results of operations were not materially affected.

We also sell service contracts covering frozen beverage machines sold. The terms of coverage range between 12 and 60 months. We record deferred income on service contracts which is amortized by the straight-line method over the term of the contracts.

During the years ended September 27, 2003 and September 28, 2002, we sold \$2,561,000 and \$2,281,000, respectively, of service contracts related to our frozen beverage machines. At September 27, 2003 and September 28, 2002, deferred income on service contracts was \$1,783,000 and \$1,345,000, respectively, of which \$687,000 is included in other long-term liabilities as of September 27, 2003 and the balance is reflected as short-term and included in accrued liabilities on the consolidated balance sheet. Service contract income of \$2,122,000, \$1,468,000 and \$948,000 was recognized for the fiscal years ended 2003, 2002 and 2001, respectively.

3. Foreign Currency

Assets and liabilities in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rate of exchange for the period. The cumulative translation adjustment is recorded as a separate component of stockholders' equity.

4. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash Equivalents

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

6. Concentrations of Credit Risk and Accounts Receivable

We maintain cash balances at financial institutions located in various states. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. We periodically maintain cash balances in excess of these insurance limits.

Other financial instruments which could potentially subject us to concentrations of credit risk are trade accounts receivable; however, such risks are limited due to the large number of customers comprising our customer base and their dispersion across geographic regions.

The majority of our accounts receivable are due from trade customers. Credit is extended based on evaluation of our customers' financial condition and collateral is not required. Accounts receivable payment terms vary and are stated in the financial statements at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the payment terms are considered past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, customers' current ability to pay their obligations to us, and the condition of the general economy and the industry as a whole. We write off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

7. Inventories

Inventories are valued at the lower of cost (determined by the first-in, first-out method) or market.

8. Investment Securities

We account for our investment securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This standard requires investments in securities to be classified in one of three categories: held-to-maturity, trading, or available-for-sale. Debt securities that we have the positive intent and ability to hold are classified as held-to-maturity and are reported at amortized cost. At September 27, 2003 and September 28, 2002, all of our debt securities are classified as held-to-maturity.

9. Depreciation and Amortization

Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights arising from acquisitions are amortized by the straight-line method over periods ranging from 4 to 20 years.

On December 30, 2001, we adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS No. 144). SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," but it retains many of the fundamental provisions of that Statement. The adoption did not have a material effect on our financial statements.

10. Fair Value of Financial Instruments

The carrying value of our short-term financial instruments, such as accounts receivables and accounts payable, approximate their fair values, based on the short-term maturities of these instruments.

11. 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 which will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities.

12. Earnings Per Common Share

We follow SFAS No. 128, "Earnings Per Share" (EPS). Basic 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.

The Company's calculation of EPS is as follows:

	Fiscal year ended September 27, 2003		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Earnings Per Basic Share			
Net Income available to common stockholders	\$19,902	8,800	\$2.26
Effect of Dilutive Securities			
Options	—	251	(.06)
Earnings Per Diluted Share			
Net Income available to common stockholders plus assumed conversions	\$19,902	9,051	\$2.20

168,394 anti-dilutive weighted shares have been excluded in the computation of 2003 diluted EPS because the options' exercise price is greater than the average market price of the common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

	Fiscal year ended September 28, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Earnings Per Basic Share			
Net Income available			
to common stockholders	\$18,113	8,770	\$2.07
Effect of Dilutive Securities			
Options	—	323	(.08)
Earnings Per Diluted Share			
Net Income available to			
common stockholders plus			
assumed conversions	<u>\$18,113</u>	<u>9,093</u>	<u>\$1.99</u>

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

	Fiscal year ended September 29, 2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Earnings Per Basic Share			
Net Income available			
to common stockholders	\$11,876	8,502	\$1.40
Effect of Dilutive Securities			
Options	—	252	(.04)
Earnings Per Diluted Share			
Net Income available to			
common stockholders plus			
assumed conversions	<u>\$11,876</u>	<u>8,754</u>	<u>\$1.36</u>

294,167 anti-dilutive weighted shares have been excluded in the computation of 2001 diluted EPS because the options' exercise price is greater than the average market price of the common stock.

13. Accounting for Stock-Based Compensation

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

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

	Fiscal year ended		
	September 27, 2003	September 28, 2002	September 29, 2001
	(52 weeks)	(52 weeks)	(52 weeks)
	(in thousands, except per share amounts)		
Net income, as reported	<u>\$19,902</u>	\$18,113	\$11,876
Less: stock-based compensation			
costs determined under fair value			
based method for all awards	<u>1,189</u>	1,353	1,651
Net income, pro forma	<u>\$18,713</u>	<u>\$16,760</u>	<u>\$10,225</u>
Earnings per share of			
common stock – basic:			
As reported	\$ 2.26	\$ 2.07	\$ 1.40
Pro forma	\$ 2.13	\$ 1.91	\$ 1.20
Earnings per share of			
common stock – diluted:			
As reported	\$ 2.20	\$ 1.99	\$ 1.36
Pro forma	\$ 2.07	\$ 1.84	\$ 1.17

The fair value of these options is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for grants in fiscal 2003, 2002 and 2001, respectively; expected volatility of 43% for fiscal year 2003, 40% for year 2002 and 38% for year 2001; risk-free interest rates of 3.07%, 3.58% and 4.69%; and expected lives ranging between 5 and 10 years for all years.

14. Advertising Costs

Advertising costs are expensed as incurred. Total advertising expense was \$2,119,000, \$1,619,000, and \$1,765,000 for the fiscal years 2003, 2002 and 2001, respectively.

15. Interest Rate Risk Management

In prior years, we used interest rate swaps to modify the interest rate characteristics of certain long-term obligations. As of September 27, 2003, we had no interest rate swap contracts.

Interest rate swaps are expected to be effective economic hedges and have a high correlation with the items being hedged at inception and throughout the hedge period. The variable interest rate of a swap contract is referenced to the same index as the variable interest rate of the debt being hedged.

Interest rate swaps are accounted for using the accrual method, with an adjustment to interest expense in the income statement. The effects of swap positions are included in financing activities in the Statement of Cash Flows. Interest receivable or payable under the swap contracts is included in Receivables or Accounts Payable. Unrealized gains and losses on the swaps are not recognized in the balance sheet. Realized gains and losses from disposition or settlement of swap contracts are deferred on the balance sheet and amortized to interest expense over the appropriate period.

If the hedged item is settled or terminated, deferred and/or unrecognized gains or losses on the hedging instrument on that date are recognized as an adjustment to the gain or loss on disposition or termination of the related hedged item. Future accruals on the swap and subsequent gains and losses on the swap or forward contract are included in income in the period they occur.

We follow SFAS No. 133, as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." Based on our minimal use of derivatives, this standard does not have a significant impact on our earnings or financial position.

16. Commodity Price Risk Management

Our most significant raw material requirements include flour, shortening, corn syrup, chocolate, and macadamia nuts.

We attempt to minimize the effect of future price fluctuations related to the purchase of raw materials primarily through forward purchasing to cover future manufacturing requirements, generally for periods from 1 to 24 months.

As of September 27, 2003, we have approximately \$13,000,000 of such commitments. Futures contracts are not used in combination with forward purchasing of these raw materials. Our procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

17. Comprehensive Income

We follow SFAS No. 130, "Reporting Comprehensive Income." This standard established new standards for reporting comprehensive income, which includes net income as well as certain other items which result in a change to equity during the period.

18. Segment Reporting

We follow SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of our reportable segments.

19. Recent Accounting Pronouncements

Effective December 30, 2001, we adopted the provisions of EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." EITF 01-9 addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products.

As a result of the adoption, we reduced both net sales and marketing expenses by approximately \$25,344,000, \$27,175,000 and \$23,361,000 for the years ended 2003, 2002 and 2001, respectively. EITF Issue No. 01-9 requires certain marketing expenses incurred by us, not previously reclassified, to be classified as deductions from revenue. These reclassifications have no impact on reported operating income or net earnings or earnings per share.

On September 30, 2001, we adopted SFAS No. 142 "Goodwill and Intangible Assets" (SFAS No. 142). SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, we no longer amortize goodwill, thereby eliminating an annual amortization charge of approximately \$2,600,000. We completed documentation of our transitional goodwill impairment tests during the quarter ended March 2002 and did not record any transitional goodwill impairment loss as a result of our adoption of SFAS 142. Additionally, we did not record any transitional intangible asset impairment loss upon adoption of SFAS No. 142. Our annual impairment evaluation reflected no deterioration of our recorded goodwill.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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

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

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

Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 is not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

20. Reclassifications

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

NOTE B - ACQUISITIONS

On November 20, 2000, we acquired the assets of Uptown Bakeries for cash. Uptown Bakeries, located in Bridgeport, NJ, sells fresh bakery products to the food service industry with approximate annual sales of \$17 million.

This acquisition was accounted for under the purchase method of accounting, and its operations are included in the consolidated financial statement from the acquisition date.

NOTE C - INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of our long-term investment securities held to maturity at September 27, 2003 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Municipal government securities.....	\$275	\$ 5	\$ —	\$280

The amortized cost, gross unrealized gains and losses, and fair values of our long-term investment securities held to maturity at September 28, 2002 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Municipal government securities.....	\$675	\$ 40	\$ —	\$715

The following table lists the maturities of long-term investment securities classified as held to maturity at September 27, 2003:

	Amortized Cost	Fair Value
	(in thousands)	
Due after one year through five years.....	\$275	\$280

There were no proceeds from sales of securities in the past three years. We use the specific identification method to determine the cost of securities sold.

NOTE D - INVENTORIES

Inventories consist of the following:

	September 27, 2003	September 28, 2002
	(in thousands)	
Finished goods.....	\$10,537	\$10,001
Raw materials.....	2,775	2,846
Packaging materials.....	2,975	2,914
Equipment parts and other.....	6,915	6,438
	<u>\$23,202</u>	<u>\$22,199</u>

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	September 27, 2003	September 28, 2002	Estimated Useful Lives
		(in thousands)	
Land	\$ 606	\$ 756	—
Buildings	5,106	5,456	15–39.5 years
Plant machinery and equipment	93,122	88,908	5–10 years
Marketing equipment	173,360	171,429	5 years
Transportation equipment	909	828	5 years
Office equipment	7,394	6,832	3–5 years
Improvements	15,654	15,885	5–20 years
Construction in progress ..	2,458	246	—
	<u>\$298,609</u>	<u>\$290,340</u>	

NOTE F - GOODWILL AND INTANGIBLE ASSETS

On September 30, 2001, we adopted SFAS No. 142 "Goodwill and Intangible Assets" (SFAS No. 142). SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, we no longer amortize goodwill, thereby eliminating an annual amortization charge of approximately \$2,600,000.

Our four reporting units, which are also reportable segments, are Food Service, Retail Supermarket, The Restaurant Group and Frozen Beverages.

The carrying amount of acquired intangible assets for the reportable segments are as follows:

	September 27, 2003		September 28, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)			
Food Service				
Amortized intangible assets				
Licenses and rights	\$2,066	\$ 908	\$2,066	\$ 619
Retail Supermarket				
Amortized intangible assets				
Licenses and rights	\$ —	\$ —	\$ —	\$ —
The Restaurant Group				
Amortized intangible assets				
Licenses and rights	\$ 20	\$ 20	\$ 20	\$ 19
Frozen Beverages				
Amortized intangible assets				
Licenses and rights	\$ 201	\$ 128	\$ 201	\$ 110

Licenses and rights are being amortized by the straight-line method over periods ranging from 4 to 20 years and amortization expense is reflected throughout operating expenses. There were no changes in the gross carrying amount of intangible assets for fiscal years 2003 and 2002. Additionally, we did not record any transitional intangible asset impairment loss upon adoption of SFAS 142. Aggregate amortization expense of intangible assets for the fiscal years 2003, 2002 and 2001 was \$308,000, \$309,000 and \$271,000.

Estimated amortization expense for the next five fiscal years is approximately \$300,000 in 2004, \$200,000 in 2005, and \$150,000 in 2006, 2007 and 2008.

Goodwill

The carrying amounts of goodwill for the reportable segments are as follows:

	Food Service	Retail Supermarkets	Restaurant Group	Frozen Beverages	Total
	(in thousands)				
Balance at September 27, 2003	\$14,241	\$ —	\$ 438	\$31,171	\$45,850
Balance at September 28, 2002	\$14,241	\$ —	\$ 438	\$31,171	\$45,850

There were no changes in the carrying amount of goodwill for the year ended September 27, 2003.

Reported net income, exclusive of amortization expense that is related to goodwill that is no longer being amortized, would have been:

	Fiscal year ended		
	September 2003	September 2002	September 2001
Reported net earnings	\$19,902	\$18,113	\$11,876
Add back: Goodwill amortization ..	—	—	1,674
Adjusted net earnings	\$19,902	\$18,113	\$13,550
Basic earnings per share:			
Reported net earnings	\$ 2.26	\$ 2.07	\$ 1.40
Goodwill amortization	—	—	.19
Adjusted net earnings	\$ 2.26	\$ 2.07	\$ 1.59
Diluted earnings per share:			
Reported net earnings	\$ 2.20	\$ 1.99	\$ 1.36
Goodwill amortization	—	—	.19
Adjusted net earnings	\$ 2.20	\$ 1.99	\$ 1.55

NOTE G - ACCRUED LIABILITIES

Included in accrued liabilities is accrued compensation of \$6,133,000 and \$6,121,000 as of September 27, 2003 and September 28, 2002, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE H - LONG - TERM DEBT

Our general-purpose bank credit line agreement provides for a \$50,000,000 revolving credit facility repayable in December 2004, with the availability of repayments without penalty. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. As of September 27, 2003 and September 28, 2002, there were no outstanding balances under this facility.

NOTE I - INCOME TAXES

Income tax expense is as follows:

	Fiscal year ended		
	September 27, 2003	September 28, 2002	September 29, 2001
	(in thousands)		
Current			
U.S. Federal	\$ 7,790	\$7,510	\$5,042
Foreign	66	43	96
State	770	769	653
	<u>\$ 8,626</u>	<u>\$8,322</u>	<u>\$5,791</u>
Deferred			
U.S. Federal	\$ 2,360	\$1,450	\$ 816
State	208	128	72
	<u>2,568</u>	<u>1,578</u>	<u>888</u>
	<u>\$11,194</u>	<u>\$9,900</u>	<u>\$6,679</u>

The provisions for income taxes differ from the amounts computed by applying the federal income tax rate of approximately 35% to earnings before income taxes for the following reasons:

	Fiscal year ended		
	September 27, 2003	September 28, 2002	September 29, 2001
	(in thousands)		
Income taxes at statutory rates ..	\$10,649	\$9,753	\$6,309
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal income tax benefit	636	552	360
Other, net	(91)	(405)	10
	<u>\$11,194</u>	<u>\$9,900</u>	<u>\$6,679</u>

Deferred tax assets and liabilities consist of the following:

	September 27, 2003	September 28, 2002
	(in thousands)	
Deferred tax assets		
Vacation accrual	\$ 601	\$ 531
Insurance accrual	1,099	1,068
Deferred income	409	168
Allowances	873	1,310
Other, net	434	297
	<u>3,416</u>	<u>3,374</u>
Deferred tax liabilities		
Depreciation of property and equipment ...	16,682	14,072
Other, net	108	108
	<u>16,790</u>	<u>14,180</u>
	<u>\$13,374</u>	<u>\$10,806</u>

NOTE J - LEASE COMMITMENTS

1. Lease Commitments

The following is a summary of approximate future minimum rental commitments for noncancelable operating leases with terms of more than one year as of September 27, 2003:

	Plants and Offices	Equipment (in thousands)	Total
2004	\$ 4,864	\$3,204	\$ 8,068
2005	4,151	1,889	6,040
2006	3,637	1,589	5,226
2007	3,159	890	4,049
2008 and thereafter	16,309	472	16,781
	<u>\$32,120</u>	<u>\$8,044</u>	<u>\$40,164</u>

Total rent expense was \$9,991,000, \$10,017,000 and \$10,537,000 for fiscal years 2003, 2002 and 2001, respectively.

2. Other Commitments

We are a party to litigation which management currently believes will not have a material adverse effect on our financial condition or results of operations.

We self-insure, up to loss limits, certain insurable risks such as worker's compensation and automobile liability claims. Accruals for claims under our self-insurance program are recorded on a claim-incurred basis. Under this program, the estimated liability for claims incurred but unpaid in fiscal year 2003 and 2002 was \$1,700,000 and \$1,100,000, respectively. In connection with certain self-insurance agreements, we customarily enter into letters of credit arrangements with our insurers. At September 27, 2003 and September 28, 2002, we had outstanding letters of credit totaling approximately \$5,900,000 and \$4,800,000, respectively.

NOTE K - CAPITAL STOCK

Under our current share repurchase program authorized by the Board of Directors, 478,000 shares remain to be repurchased as of September 27, 2003. In fiscal year 2003, we purchased and retired 297,000 shares of our common stock at a cost of \$8,565,000. In fiscal year 2001, we purchased and retired 111,000 shares of our common stock at a cost of \$1,431,000.

NOTE L - STOCK OPTIONS

We have a Stock Option Plan (the "Plan"). Pursuant to the Plan, stock options may be granted to officers and our key employees which qualify as incentive stock options as well as stock options which are nonqualified. The exercise price of incentive stock options is at least the fair market value of the common stock on the date of grant. The exercise price for nonqualified options is determined by a committee of the Board of Directors. The options are generally exercisable after three years and expire no later than ten years from date of grant. There were 400,000 shares reserved under the Plan; options for 320,000 shares remain unissued as of September 27, 2003.

A summary of the status of our option plans as of fiscal years 2003, 2002 and 2001 and the changes during the years ended on those dates is represented below:

	Incentive Stock Options		Nonqualified Stock Options	
	Stock Options Outstanding	Weighted-Average Exercise Price	Stock Options Outstanding	Weighted-Average Exercise Price
Balance, October 1, 2000	915,294	\$14.92	356,000	\$13.99
Granted	182,333	21.24	34,000	20.60
Exercised	(195,800)	10.80	(34,000)	12.00
Cancelled	(21,000)	15.10	—	—
Balance, September 29, 2001	880,827	17.08	356,000	14.75
Granted	81,333	38.21	34,000	39.53
Exercised	(239,583)	14.19	(34,000)	10.75
Cancelled	(25,386)	19.96	—	—
Balance, September 28, 2002	697,191	20.40	356,000	17.55
Granted	80,000	33.83	—	—
Exercised	(118,456)	16.86	(37,000)	13.63
Cancelled	(53,106)	24.05	—	—
Balance, September 27, 2003	<u>605,629</u>	\$22.55	<u>319,000</u>	\$18.00
Exercisable Options, September 27, 2003	<u>297,621</u>		<u>319,000</u>	

The weighted-average fair value of incentive options granted during fiscal years ended September 27, 2003, September 28, 2002 and September 29, 2001 was \$14.15, \$15.39 and \$8.19, respectively. The weighted-average fair value of nonqualified stock options granted during fiscal years ended September 28, 2002 and September 29, 2001 was \$23.93 and \$12.22, respectively.

The following table summarizes information about incentive stock options outstanding at September 27, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at September 27, 2003	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at September 27, 2003	Weighted-Average Exercise Price
\$12.75–\$19.00	164,750	6.95 years	\$13.41	159,750	\$13.34
\$19.38–\$24.16	301,485	4.62 years	\$21.41	137,871	\$21.63
\$33.70–\$38.48	139,394	4.58 years	\$35.81	—	—
	<u>605,629</u>			<u>297,621</u>	

The following table summarizes information about nonqualified stock options outstanding at September 27, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at September 27, 2003	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at September 27, 2003	Weighted-Average Exercise Price
\$11.00–\$15.94	183,000	2.87 years	\$12.59	183,000	\$12.59
\$19.25–\$21.75	102,000	5.93 years	\$20.53	102,000	\$20.53
\$39.53	34,000	8.60 years	\$39.53	34,000	\$39.53
	<u>319,000</u>			<u>319,000</u>	

NOTE M - 401(K) PROFIT-SHARING PLAN

We maintain a 401(k) profit-sharing plan for our employees. Under this plan, we may make discretionary profit-sharing and matching 401(k) contributions. Contributions of \$1,071,000, \$1,051,000 and \$866,000 were made in fiscal years 2003, 2002 and 2001, respectively.

NOTE N - CASH FLOW INFORMATION

The following is supplemental cash flow information:

	Fiscal year ended		
	September 27, 2003	September 28, 2002	September 29, 2001
		(in thousands)	
Cash paid for:			
Interest	\$ 138	\$ 1,068	\$2,966
Income taxes	7,321	10,429	344

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

NOTE O - SEGMENT REPORTING

We principally sell our products to the food service and retail supermarket industries. We also distribute our products directly to the consumer through our chain of retail stores referred to as The Restaurant Group. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business and restaurant group because of different distribution and capital requirements. We maintain separate and discrete financial information for the four operating segments mentioned above which is available to our Chief Operating Decision Makers. We have applied no aggregate criteria to any of these operating segments in order to determine reportable segments.

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

Food Service

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

Retail Supermarkets

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

The Restaurant Group

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

Frozen Beverages

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

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

	Fiscal year ended		
	September 27, 2003	September 28, 2002	September 29, 2001
	(in thousands)		
Sales to external customers:			
Food Service	\$200,528	\$185,219	\$171,373
Retail Supermarket	39,702	41,366	39,076
The Restaurant Group	9,755	10,724	12,043
Frozen Beverages	114,582	115,878	105,843
	<u>\$364,567</u>	<u>\$353,187</u>	<u>\$328,335</u>
Depreciation and Amortization ⁽¹⁾ :			
Food Service	\$ 13,098	\$ 13,547	\$ 13,832
Retail Supermarket	—	—	—
The Restaurant Group	558	682	854
Frozen Beverages	11,307	16,757	16,217
	<u>\$ 24,963</u>	<u>\$ 30,986</u>	<u>\$ 30,903</u>
Operating Income (Loss) ⁽¹⁾ :			
Food Service	\$ 17,804	\$ 17,382	\$ 15,103
Retail Supermarket	2,144	1,936	1,770
The Restaurant Group	(975)	(915)	(1,450)
Frozen Beverages	11,874	9,863	8,359
	<u>\$ 30,847</u>	<u>\$ 28,266</u>	<u>\$ 23,782</u>
Capital Expenditures:			
Food Service	\$ 9,929	\$ 11,418	\$ 6,673
Retail Supermarket	—	—	—
The Restaurant Group	61	159	268
Frozen Beverages	9,302	8,902	10,186
	<u>\$ 19,292</u>	<u>\$ 20,479</u>	<u>\$ 17,127</u>
Assets:			
Food Service	\$151,000	\$129,702	\$124,951
Retail Supermarket	—	—	—
The Restaurant Group	2,192	2,921	4,032
Frozen Beverages	83,491	87,413	95,498
	<u>\$236,683</u>	<u>\$220,036</u>	<u>\$224,481</u>

* MINUTE MAID is a registered trademark of The Coca-Cola Company.

(1) 2001 depreciation and amortization expense excludes amortization expense associated with goodwill.

NOTE P - QUARTERLY FINANCIAL DATA (UNAUDITED)

	Fiscal year ended September 27, 2003				Fiscal year ended September 28, 2002				
	Net Sales	Gross Profit	Net Earnings	Net Earnings Per Diluted Share ⁽¹⁾	Net Sales	Gross Profit	Net Earnings	Net Earnings Per Diluted Share ⁽¹⁾	
	(in thousands, except per share information)								
1st Quarter	\$ 77,244	\$ 22,065	\$ 1,201	\$.13	1st Quarter	\$ 74,797	\$ 22,044	\$ 822	\$.09
2nd Quarter	81,408	26,876	3,001	.33	2nd Quarter	77,712	25,156	2,336	.25
3rd Quarter	102,529	38,383	7,808	.87	3rd Quarter	100,628	36,430	7,518	.80
4th Quarter	103,386	37,521	7,892	.88	4th Quarter	100,050	35,827	7,437	.81
Total	<u>\$364,567</u>	<u>\$124,845</u>	<u>\$19,902</u>	<u>\$ 2.21</u>	Total	<u>\$353,187</u>	<u>\$119,457</u>	<u>\$18,113</u>	<u>\$ 1.95</u>

(1) Total of quarterly amounts does not necessarily agree to the annual report amounts due to separate quarterly calculations of weighted average shares outstanding.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Shareholders and Board of Directors
J&J SNACK FOODS CORP.

Grant Thornton 
GRANT THORNTON LLP

We have audited the accompanying consolidated balance sheets of J&J Snack Foods Corp. and Subsidiaries as of September 27, 2003 and September 28, 2002, and the related consolidated statements of earnings, changes in stockholders' equity and cash flows for each of the fiscal years in the three-year period ended September 27, 2003 (52 weeks, 52 weeks and 52 weeks, respectively). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of J&J Snack Foods Corp. and Subsidiaries as of September 27, 2003 and September 28, 2002, and the consolidated results of their operations and their consolidated cash flows for each of the fiscal years in the three-year period ended September 27, 2003 in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Philadelphia, Pennsylvania

November 5, 2003

CORPORATE INFORMATION

DIRECTORS

Gerald B. Shreiber

Chairman of the Board, President and Chief Executive Officer

Dennis G. Moore

Senior Vice President, Chief Financial Officer, Secretary and Treasurer

Robert M. Radano

Senior Vice President and Chief Operating Officer

Sidney R. Brown^{(1), (2)}

Chief Executive Officer, NFI Industries

Peter G. Stanley^{(1), (2)}

Vice President, Emerging Growth Equities, Ltd.

Leonard M. Lodish, Ph.D.^{(1), (2)}

Samuel R. Harrell Professor, Marketing Department of the Wharton School, University of Pennsylvania

OFFICERS

Gerald B. Shreiber

Chairman of the Board, President and Chief Executive Officer

Dennis G. Moore

Senior Vice President, Chief Financial Officer, Secretary and Treasurer

Robert M. Radano

Senior Vice President and Chief Operating Officer

Michael Karaban

Senior Vice President, Marketing

Paul L. Hirschman

Vice President, Information Systems

OFFICERS OF SUBSIDIARY COMPANIES

J&J SNACK FOODS SALES CORP.

John Duckett

Vice President, Service & Assembly

Anthony P. Harrison II

Vice President, Quality Control and Research & Development

H. Robert Long

Vice President, Distribution

Harry A. McLaughlin

Vice President, Controller

Robert J. Pape

Vice President, Sales - Retail

Milton L. Segal

Vice President, Purchasing

Steven J. Taylor

Vice President, Sales - Food Service

Thomas Weber

Vice President, Operations

MIA PRODUCTS

T.J. Couzens

Vice President/General Manager

THE ICEE COMPANY

Dan Fachner

President

Kent Galloway

Vice President and Chief Financial Officer

Joe Boulanger

Vice President/General Manager Western Zone

Lou Fiorentino

Vice President/General Manager Eastern Zone

Rick Naylor

Vice President/General Manager Central Zone

Rod Sexton

Vice President of Service Operations

Susan Woods

Vice President, Marketing

ICEE DE MEXICO, S.A. DE C.V.

Andres Gonzalez

Vice President

PRETZELS, INC.

Gary Powell

President

QUARTERLY COMMON STOCK DATA

Fiscal 2003	Market Price	
	High	Low
1st Quarter.....	\$40.25	\$30.27
2nd Quarter	37.85	25.31
3rd Quarter	34.00	28.65
4th Quarter	37.67	29.33

Fiscal 2002	Market Price	
	High	Low
1st Quarter.....	\$26.25	\$18.10
2nd Quarter	40.40	23.22
3rd Quarter	45.15	32.42
4th Quarter	44.97	34.85

STOCK LISTING

The common stock of J&J Snack Foods Corp. is traded on the NASDAQ National Market System with the symbol JJSF.

TRANSFER AGENT AND REGISTRAR

American Stock Transfer & Trust Company
New York, NY

INDEPENDENT ACCOUNTANTS

Grant Thornton LLP
Philadelphia, PA

COUNSEL

Blank Rome LLP
Cherry Hill, NJ

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled for Thursday, February 5, 2004 at 10:00 a.m. at the Hilton at Cherry Hill, 2349 W. Marlton Pike, Cherry Hill, NJ.

FORM 10-K

Copies of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K may be obtained without charge by writing to:

J&J Snack Foods Corp.
6000 Central Highway
Pennsauken, NJ 08109
Attention: Dennis G. Moore

WEBSITE

www.jjsnack.com

(1) Audit Committee Member.

(2) Compensation Committee Member.

THERE'S ONLY
ONE CONCLUSION:
SNACK FOODS
AND BEVERAGES
FROM J&J
ARE SIMPLY

SENSE-ATIONAL!

YUM-M-M.



6000 Central Highway
Pennsauken, NJ 08109
(856) 665-9533

WWW.JJSNACK.COM