CNO Financial Group, Inc.
Form PRE 14A
March 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x

Preliminary Proxy Statement

¨

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

¨

Definitive Proxy Statement

¨

Definitive Additional Materials

¨

Soliciting Material under §240.14a-12

CNO FINANCIAL GROUP, INC.

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

..

No fee required.

..

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Proposed maximum aggregate value of the transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)

Amount Previously Paid:

(2)

Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4)

Date Filed:

CNO Financial Group, Inc.
11825 North Pennsylvania Street
Carmel, Indiana 46032

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 8, 2013

NOTICE IS HEREBY GIVEN THAT the Annual Meeting of Shareholders of CNO Financial Group, Inc. (the Company), will be held at the CNO Conference Center, 11825 North Pennsylvania Street, Carmel, Indiana, at 8:00 a.m., Eastern Daylight Time, on May 8, 2013, for the following purposes:

1. To elect nine directors, each for a one-year term ending in 2014;

2. To approve an amendment to the Company s Amended and Restated Certificate of Incorporation to extend NOL protective amendment to preserve the value of tax net operating losses and certain other tax losses;

3. Ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2013;

4. To cast a non-binding advisory vote to approve executive compensation; and

5. To consider such other matters, if any, as may properly come before the meeting.

Holders of record of outstanding shares of the common stock of the Company as of the close of business on March 11, 2013, are entitled to notice of and to vote at the meeting. Holders of common stock have one vote for each share held of record.

In accordance with the rules of the Securities and Exchange Commission (the SEC), on or about March __, 2013, we either mailed you a Notice of Internet Availability of Proxy Materials (Notice) notifying you how to vote online and how to electronically access a copy of this Proxy Statement and the Company s Annual Report to Shareholders (together referred to as the Proxy Materials) or mailed you a complete set of the Proxy Materials. If you have not received but would like to receive printed copies of these documents, including a proxy card in paper format, you should follow the instructions for requesting such materials contained in the Notice.

Management and the Board of Directors respectfully request that (if you received a paper copy of the Proxy Materials) you date, sign and return the enclosed proxy card in the postage-paid envelope so that we receive the proxy card prior to the Annual Meeting, or, if you prefer, follow the instructions on your proxy card or Notice for submitting a proxy electronically or by telephone. If your shares are held in the name of a bank, broker or other holder of record, please follow the procedures as described in the voting form they send to you. If you attend the meeting in person you may withdraw your proxy and vote personally at the meeting.

By Order of the Board of Directors

Karl W. Kindig, *Senior Vice President and Secretary*

March __, 2013
Carmel, Indiana

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CNO Financial Group, Inc.
11825 North Pennsylvania Street
Carmel, Indiana 46032

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of CNO Financial Group, Inc. (CNO or the Company) for the Annual Meeting of Shareholders (the Annual Meeting) to be held at the CNO Conference Center, 11825 North Pennsylvania Street, Carmel, Indiana on May 8, 2013, at 8:00 a.m., Eastern Daylight Time. We expect to send the Notice or the Proxy Materials and proxy to shareholders on or about March __, 2013.

Solicitation of Proxies

The proxies are solicited by the Board of Directors. Proxies may be solicited by mail, telephone, internet or in person. Proxies may by solicited by the CNO Directors and officers. All expenses relating to the preparation and distribution to shareholders of the Notice, the Proxy Materials and the form of proxy are to be paid by CNO.

If the form of proxy is properly executed and delivered in time for the Annual Meeting, the named proxy holders will vote the shares represented by the proxy in accordance with the instructions marked on the proxy. Each shareholder may appoint a person (who need not be a shareholder), other than the persons named in the proxy, to represent him or her at the Annual Meeting by properly completing a proxy. In either case, such completed proxy should be returned in the envelope provided to you for that purpose (if you have requested or received a paper copy of the Proxy Materials) for delivery no later than May 7, 2013. Proxies received that are unmarked will be voted for each of the Board s nominees for director (Proposal 1), for the approval of the amendment to the Company s Amended and Restated Certificate of Incorporation to extend NOL protective amendment to preserve the value of tax net operating losses and certain other tax losses (the Extended NOL Protective Amendment) (Proposal 2), for ratification of the appointment of the Company s independent registered public accounting firm (Proposal 3), and for approval of the compensation paid to our Named Executive Officers (Proposal 4). A shareholder may revoke a proxy at any time before it is exercised by mailing or delivering to CNO a written notice of revocation or a later-dated proxy, or by attending the Annual Meeting and voting in person.

Record Date and Voting

Only holders of record of shares of CNO s common stock as of the close of business on March 11, 2013, will be entitled to vote at the Annual Meeting. On such record date, CNO had 223,718,646 shares of common stock outstanding and entitled to vote at the Annual Meeting. Each share of common stock will be entitled to one vote with respect to each matter submitted to a vote at the Annual Meeting. The presence in person or by proxy of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting is necessary to constitute a quorum.

On or about March __, 2013, we either mailed you a Notice notifying you how to vote online and how to electronically access a copy of the Proxy Materials or mailed you a complete set of the Proxy Materials. If

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you have not received but would like to receive printed copies of these documents, including a proxy card in paper format, you should follow the instructions for requesting such materials contained in the Notice. %The following sets forth how a shareholder can vote over the Internet, by telephone or by mail:

Voting By Internet

If you hold your shares in street name (that is, if you hold your shares through a broker, bank or other holder of record), you can vote at www.proxyvote.com, 24 hours a day, seven days a week. You will need the 12-digit Control Number included on your Notice or your paper voting instruction form (if you received a paper copy of the Proxy Materials).

Voting By Telephone

If you hold your shares in street name, you can vote using a touch-tone telephone by calling the toll-free number included on your paper voting instruction form (if you received a paper copy of the Proxy Materials), 24 hours a day, seven days a week. You will need the 12-digit Control Number included on your paper voting instruction form.

If you hold your shares in street name, you may also submit voting instructions to your bank, broker or other holder of record. In most instances, you will be able to do this over the Internet, by telephone, or by mail. Please refer to the information from your bank, broker or other holder of record on how to submit voting instructions.

The Internet and telephone voting procedures, which comply with Delaware law and the SEC rules, are designed to authenticate shareholders identities, to allow shareholders to vote their shares and to confirm that their instructions have been properly recorded.

Voting By Mail

If you have received a paper copy of the Proxy Materials by mail, you may complete, sign, date and return by mail the paper proxy card or voting instruction form sent to you in the envelope provided to you with your Proxy Materials or voting instruction form.

Deadline for Submitting Votes By Internet, Telephone or Mail

If you hold your shares through a bank or brokerage account, proxies submitted over the Internet or by telephone as described above must be received by 11:59 p.m., Eastern Daylight Time, on May 7, 2013.

Proxies submitted by mail should be returned in the envelope provided to you with your paper proxy card or voting instruction form, and must be received no later than May 7, 2013.

If you want to vote in person at the Annual Meeting and you hold your shares in street name, you must obtain a legal proxy from your bank, broker or other holder of record authorizing you to vote. You must then bring the legal proxy to the Annual Meeting.

Please note that you may receive multiple copies of the Notice or Proxy Materials (electronically and/or by mail). These materials may not be duplicates as you may receive separate copies of the Notice or Proxy Materials for each type of account in which you hold shares. Please be sure to vote all of your shares in each of your accounts in accordance with the directions on the proxy card(s) and/or voting instruction form(s) that you receive. In the case of duplicate votes for shares in a particular account, your last vote is the one that counts.

Votes Required

The election of each director (Proposal 1) will be determined by the vote of the majority of the votes cast (where the number of votes cast for a director exceeds the number of votes cast against that director) by the holders of shares represented (in person or by proxy) and entitled to vote on the subject matter provided a quorum is present. The vote required to approve the Extended NOL Protective Amendment (Proposal 2) is a majority of the outstanding shares. The vote required to approve the ratification of the appointment of the Company s independent registered public accounting firm (Proposal 3) and the advisory vote to approve executive compensation (Proposal 4), and any other proposal properly brought before the Annual Meeting, is the affirmative vote of a majority of the shares represented (in person or by proxy) and entitled to vote on the applicable subject matter. Abstentions from voting will have no impact on the election of directors (Proposal 1) and will have the same legal effect as voting against each other proposal.

Abstentions and shares represented by broker non-votes , as described below, are counted as present and entitled to vote for the purpose of determining a quorum. A broker non-vote occurs if you hold your shares in street name and do not provide voting instructions to your broker on a proposal and your broker does not have discretionary authority to vote on such proposal. Under current New York Stock Exchange rules, your broker will not have discretionary authority to vote your shares at the Annual Meeting with respect to Proposal 1 (election of nine directors as listed in this Proxy Statement), Proposal 2 (approval of the Extended NOL Protective Amendment) and Proposal 4 (advisory vote to approve executive compensation). Broker non-votes will have no effect on the outcome of Proposals 1, 3 and 4, but will have the effect of voting against Proposal 2. Your broker will have discretion to vote your uninstructed shares on Proposal 3 (ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2013).

[IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON MAY 8, 2013

This Proxy Statement (including all attachments), the Company s Annual Report to Shareholders (which includes the Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission (SEC) on February 19, 2013) (which is not deemed to be part of the official proxy soliciting materials), and any amendments to the foregoing materials that are required to be provided to shareholders are available at www.proxyvote.com.] Shareholders may obtain copies of the Proxy Statement, Annual Report to Shareholders (including financial statements and schedules thereto) and form of proxy relating to this or future meetings of the Company s shareholders, free of charge on our Internet website at www.CNOinc.com in the Investors SEC Filings section, by calling 317-817-2893 or by sending the Company an email at ir@CNOinc.com. For directions to the Company s 2013 Annual Meeting, please call us at 317-817-2893.

SECURITIES OWNERSHIP

The following table sets forth certain information concerning the beneficial ownership of our common stock as of March 11, 2013 (except as otherwise noted) by each person known to us who beneficially owns more than 5% of the outstanding shares of our common stock, each of our directors and nominees, each of our current executive officers that are named in the Summary Compensation Table on page 33 and all of our current directors, nominees and executive officers as a group. Shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of March 11, 2013 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person or group of persons but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

		Shares Beneficially Owned	
Title of Class	**Name of Beneficial Owner**	**Number**	**Percentage**
Common stock	Dimensional Fund Advisors LP(1)	19,377,524	8.5%
Common stock	Paulson & Co. Inc.(2)	16,751,527	7.6
Common stock	Columbia Wanger Asset Management, LLC(3)	16,177,000	7.1
Common stock	The Vanguard Group(4)	13,019,508	5.7
Common stock	Capital World Investors(5)	11,900,000	5.2
Common stock	Huber Capital Management LLC(6)	11,807,409	5.2
Common stock	Edward J. Bonach(7)	665,159	*
Common stock	Ellyn L. Brown	10,964	*
Common stock	Robert C. Greving	20,616	*
Common stock	Mary R. (Nina) Henderson	7,174	*
Common stock	R. Keith Long(8)	2,085,865	*
Common stock	Neal C. Schneider(9)	101,299	*
Common stock	Frederick J. Sievert	84,616	*
Common stock	Michael T. Tokarz(9)	100,336	*
Common stock	John G. Turner(9)	96,336	*
Common stock	Frederick C. Crawford	192,000	*
Common stock	Eric R. Johnson(10)	635,019	*
Common stock	Christopher J. Nickele(11)	364,161	*
Common stock	Scott R. Perry(12)	601,596	*
Common stock	All directors and executive officers as a group (18 persons)(13)	6,246,374	2.8

* Less than 1%.

(1) Based solely on Amendment No. 1 to Schedule 13G filed with the SEC on February 11, 2013 by Dimensional Fund Advisors LP. The Amendment No. 1 to Schedule 13G reports sole power to vote or direct the vote of 19,075,973 shares and sole power to dispose or direct the disposition of 19,377,524 shares. The business address for Dimensional Fund Advisors LP is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX 78746.

(2) Based solely on Amendment No. 4 to Schedule 13D filed with the SEC on March 14, 2013 by Paulson & Co. Inc. The business address for Paulson & Co. Inc. is 1251 Avenue of the Americas, New York, NY 10020.

(3) Based solely on Amendment No. 8 to Schedule 13G filed with the SEC on February 14, 2013 by Columbia Wanger Asset Management, LLC. The Amendment No. 8 to Schedule 13G reports sole power to vote or direct the vote of 15,872,000 shares and sole power to dispose or direct the disposition of 16,177,000 shares. The business address for Columbia Wanger Asset Management, LLC is 227 West Monroe Street, Suite 3000, Chicago, IL 60606.

(4) Based solely on Schedule 13G filed with the SEC on February 12, 2013 by The Vanguard Group. The Schedule 13G reports sole power to vote or direct the vote of 331,171 shares, sole power to dispose or direct the disposition of 12,700,337 shares, and shared power to dispose or direct the disposition of 319,171 shares. The business address for The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.

(5) Based solely on Schedule 13G filed with the SEC on February 13, 2013 by Capital World Investors. The Schedule 13G reports sole power to vote or direct the vote of 11,900,000 shares and sole power to dispose or direct the disposition of 11,900,000 shares. The business address for Capital World Investors is 333 South Hope Street, Los Angeles, CA 90071.

(6) Based solely on Schedule 13G filed with the SEC on February 12, 2013 by Huber Capital Management LLC. The Schedule 13G reports sole power to vote or direct the vote of 6,329,812 shares, shared power to vote or direct the vote of 1,032,201 shares, and sole power to dispose or direct the disposition of 11,807,409 shares. The business address for Huber Capital Management LLC is 2321 Rosecrans Ave., Suite 3245, El Segundo, CA 90245.

(7) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 232,250 shares of common stock.

(8) Includes 133,465 shares held directly by Mr. Long, 807,272 shares of common stock owned by Otter Creek Partners I, LP and 1,145,128 shares of common stock owned by Otter Creek International Ltd. Mr. Long is the majority stockholder of Otter Creek Management, Inc., the general partner of Otter Creek Partners I, LP, and by virtue of such ownership Mr. Long has the power to vote and dispose of the shares held by Otter Creek Partners I, LP and therefore may be deemed to be the beneficial owner of those shares. Otter Creek Management, Inc., as an investment advisor of Otter Creek International Ltd., may be deemed to be the beneficial owner of shares held by Otter Creek International Ltd. Mr. Long expressly disclaims beneficial ownership of the shares held by Otter Creek International Ltd.

(9) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 15,400 shares of common stock.

(10) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 480,050 shares of common stock.

(11) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 185,700 shares of common stock.

(12) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase 314,450 shares of common stock.

(13) Includes options, exercisable currently or within 60 days of March 11, 2013, to purchase an aggregate of 2,081,800 shares of common stock held by directors and executive officers.

PROPOSAL 1

ELECTION OF DIRECTORS

Nine individuals will be elected to the Board at the Annual Meeting for one-year terms expiring at the 2014 annual meeting of shareholders. Each nominee listed below is currently a member of the Board. All directors will serve until their successors are duly elected and qualified.

Director Qualifications and Experience

In considering candidates for the Board, the Governance and Nominating Committee reviews the experience, skills, attributes and qualifications of the current Board members and other potential candidates to ensure that the Board has the skills and experience to properly oversee the interests of the Company. In doing so, the Governance and Nominating Committee considers the experience, skills, attributes and qualifications of candidates in these areas:

- Insurance and financial services industry;
- Accounting or other financial management;
- Investments;
- Legal and regulatory;
- Actuarial;
- Management including service as a chief executive officer or manager of business units or functions;
- Marketing;
- Talent management; and
- Experience as a director of other companies.

The key experiences, skills, qualifications and skills of each of the nominees are included in their individual biographies below.

Consideration is also given to each nominee s independence, financial literacy, personal and professional accomplishments and experience in light of the needs of the Company. For incumbent directors, past performance on the Board and contributions to their respective committees are also considered. The Governance and Nominating Committee and the Board seek directors with qualities that will contribute to the goal of having a well-rounded, diverse Board that functions well as a unit and is able to satisfy its oversight responsibilities effectively. The Governance and Nominating Committee expects each of the directors to have proven leadership, sound judgment, high ethical standards and a commitment to the success of the Company.

The Governance and Nominating Committee does not have a specific diversity policy with respect to Board candidates, but it strongly believes that the Board should have a variety of differences in viewpoints, professional experiences, educational background, skills, race, gender and age, and considers issues of diversity and background in its process of selecting candidates for the Board.

Board Nominees

Should any of the nominees become unable to accept election, the persons named in the proxy will have the right to exercise their voting power in favor of such person or persons as the Board may recommend. All of the nominees have consented to being named in this Proxy Statement and to serve if elected. The Board knows of no reason why any of its nominees would be unable to accept election.

The Governance and Nominating Committee will consider candidates for director nominees put forward by shareholders. See Shareholder Proposals for 2014 Annual Meeting for a description of the advance notice procedures for shareholder nominations for directors.

Set forth below is information regarding each person nominated by the Board for election as a director.

Nominees for Election as Directors:

Edward J. Bonach, 59, has been chief executive officer and a director since October 1, 2011 and served as chief financial officer of the Company from May 2007 until January 2012. Mr. Bonach joined CNO from National Life Group, where he served as executive vice president and chief financial officer. Before joining National Life in 2002, he was with Allianz Life for 23 years, where his positions included President Reinsurance Division and chief financial officer. He is a Fellow of the Society of Actuaries, a member of the American Academy of Actuaries, and a Chartered Enterprise Risk Analyst. With respect to Mr. Bonach s nomination for re-election, the Board and the Governance and Nominating Committee considered his experience as chief executive officer and chief financial officer of the Company and his extensive insurance, actuarial and executive management experience.

Ellyn L. Brown, 63, joined our Board in May 2012. Until her retirement from full-time law practice, Ms. Brown practiced corporate and securities law, most recently as principal of Brown & Associates, a boutique law and consulting firm that provided operations, regulatory and governance services to financial services industry clients and other clients that operated in heavily regulated, high-scrutiny environments. Ms. Brown has been a member of the board of directors of NYSE Euronext, Inc. (and predecessor entities) since 2005, and also is a member of the board of NYSE Regulation, the entity that oversees NYSE market regulation. She is also a member of the board of directors of Walter Investment Management Corp. Ms. Brown served as a governor of the Financial Industry Regulatory Authority from 2007-2012 and served from 2007-2011 as a trustee of the Financial Accounting Foundation, the parent entity of the Financial Accounting Standards Board and the Governmental Accounting Standards Board. With respect to Ms. Brown s nomination for re-election, the Board and the Governance and Nominating Committee considered her extensive financial industry, legal and regulatory experience.

Robert C. Greving, 61, joined our Board in May 2011. Mr. Greving is the retired executive vice president, chief financial officer and chief actuary for Unum Group, having held those positions from 2005 to 2009. Mr. Greving also served as president of Unum International Ltd., Bermuda. Before becoming executive vice president and chief financial officer of Unum Group in 2003, he held senior vice president, finance, and chief actuary positions with Unum Group and with The Provident Companies, Inc., which merged with Unum Group. His duties prior to retirement included directing all aspects of the finance and actuarial responsibilities for the corporate and nine insurance subsidiary insurance companies of Unum Group. He previously held senior positions with PennCorp Dallas Operations, Southwestern Life Insurance Company, American Founders Insurance Company, Aegon USA and Horace Mann Life Insurance Company during his 35 years in the insurance industry. He is a Fellow of the Society of Actuaries. With respect to Mr. Greving s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive experience with the management of companies in the life, health, disability and annuity lines of business and in particular with the actuarial, financial and investment disciplines.

Mary R. (Nina) Henderson, 62, joined our Board in August 2012. Ms. Henderson is the managing partner of Henderson Advisory, a consulting practice providing marketing perspective and business evaluation to investment management firms in the consumer products and food industries. Previously she was a corporate vice president of Bestfoods and president of Bestfoods Grocery. During her 30-year career with Bestfoods, and its predecessor company CPC International, Ms. Henderson held a wide variety of international and North American general management and executive marketing positions. Ms. Henderson has been a director of Walter Energy, Inc. since February 2013. She previously served as a director of Del Monte Foods Company (2002 2011), The Equitable Companies (1996 2000), AXA Financial (2001 2011), Pactiv Corporation (2000 2010), Royal Dutch Shell plc and its predecessor company The Shell Transport and Trading Company (2001 2009) and the Hunt Corporation (1991 2002). With respect to Ms. Henderson s nomination, the Board and the Governance and Nominating Committee considered her management leadership experience, consumer marketing background, and her experience as a director of companies in a variety of industries, including insurance.

R. Keith Long, 64, joined our Board in May 2009. Mr. Long founded Otter Creek Management, Inc. in 1991 and since that date has served as its president and chief executive officer. Otter Creek Management, Inc. is the investment advisor for two hedge funds, Otter Creek Partners I, LP and Otter Creek International Ltd. Mr. Long has 35 years of experience in investment analysis in both fixed income and equities. His experience prior to founding Otter Creek Management, Inc. includes 10 years as a fixed income analyst, trader and arbitrageur, and eight years as an equity portfolio manager. His previous employers include Morgan Stanley, Kidder Peabody, Tradelink, Mesirow Financial and Lionel Edie & Co. He is the former chairman of the board of Financial Industries, Inc., a life insurance company, and the former chairman of Financial Institutions, Inc., a property and casualty insurance company. With respect to Mr. Long s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive investment experience and prior experience in the insurance industry.

Neal C. Schneider, 68, joined our Board in September 2003. Mr. Schneider served from 2003 until 2010 as the non-executive chairman of the board of PMA Capital Corporation, whose subsidiaries provide insurance products, including workers compensation and other commercial property and casualty lines of insurance, as well as fee-based services. He also served on the executive, audit and governance committees for PMA Capital. Until his retirement in 2000, Mr. Schneider spent 34 years with Arthur Andersen & Co., including service as partner in charge of the Worldwide Insurance Industry Practice and the North American Financial Service Practice. Between 2000 and 2002, he was an independent consultant and between 2002 and 2003, Mr. Schneider was a partner of Smart and Associates, LLP, a business advisory and accounting firm. With respect to Mr. Schneider s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive knowledge and experience in accounting and financial matters, particularly with respect to insurance companies, and in corporate governance.

Frederick J. Sievert, 65, joined our Board in May 2011. Mr. Sievert is the retired President of New York Life Insurance Company, having served in that position from 2002 through 2007. Mr. Sievert shared responsibility for overall company management in the Office of the Chairman, from 2004 until his retirement in 2007. Mr. Sievert joined New York Life in 1992 as senior vice president and chief financial officer. In 1995 he was promoted to executive vice president and was elected to the New York Life board of directors in 1996. Prior to joining New York Life, Mr. Sievert was a senior vice president for Royal Maccabees Life Insurance Company, a subsidiary of the Royal Insurance Group of London, England. Mr. Sievert is a Fellow of the Society of Actuaries. He has been a director of Reinsurance Group of America, Incorporated since 2010. With respect to Mr. Sievert s nomination for re-election, the Board and the Governance and Nominating Committee considered his extensive insurance, actuarial and executive management experience.

Michael T. Tokarz, 63, joined our Board in September 2003. Mr. Tokarz is the chairman of MVC Capital, Inc. (a registered investment company). In addition, he has been a managing member of the Tokarz Group, LLC (venture capital investments) since 2002. He was a general partner with Kohlberg Kravis Roberts & Co. from 1985 until he retired in 2002. He is a senior investment professional with over 30 years of lending and investment experience including diverse leveraged buyouts, financings, restructurings and dispositions. Mr. Tokarz has served on the boards of publicly traded companies for over 20 years and during the last five years has served as a director of Dakota Growers Pasta Companies, Inc. (2004 2010), MVC Capital, Inc. (2004 present), Mueller WateARGIN-LEFT: 0pt; MARGIN-RIGHT: 0pt">

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

	Three months ended December 26, 2015	December 27, 2014
Net Sales	$222,850	$ 212,752
Cost of goods sold[1]	159,015	151,651
Gross Profit	63,835	61,101
Operating expenses		
Marketing [2]	19,629	19,487
Distribution [3]	18,256	17,521
Administrative [4]	7,690	7,525
Other general income	(100)	(42)
Total Operating Expenses	45,475	44,491
Operating Income	18,360	16,610
Other income (expense)		
Investment income	1,160	1,354
Interest expense & other	(32)	(24)
Earnings before income taxes	19,488	17,940
Income taxes	7,009	6,684
NET EARNINGS	$12,479	$ 11,256
Earnings per diluted share	$0.66	$ 0.60
Weighted average number of diluted shares	18,839	18,801
Earnings per basic share	$0.67	$ 0.60
Weighted average number of basic shares	18,687	18,669

(1) Includes share-based compensation expense of $133 and $112 for the three months ended December 26, 2015 and December 27, 2014, respectively.
(2) Includes share-based compensation expense of $201 and $172 for the three months ended December 26, 2015 and December 27, 2014, respectively.

(3) Includes share-based compensation expense of $11 and $11 for the three months ended December 26, 2015 and December 27, 2014, respectively.
(4) Includes share-based compensation expense of $173 and $229 for the three months ended December 26, 2015 and December 27, 2014, respectively.

The accompanying notes are an integral part of these statements.

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

	Three months ended	
	December 26, 2015	December 27, 2014
Net Earnings	$ 12,479	$ 11,256
Foreign currency translation adjustments	(640)	(1,955)
Unrealized holding loss on marketable securities	(822)	(1,922)
Total Other Comprehensive(Loss)Income, net of tax	(1,462)	(3,877)
Comprehensive Income	$ 11,017	$ 7,379

All amounts are net of tax.

The accompanying notes are an integral part of these statements.

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

	Three months ended December 26, 2015	December 27, 2014
Operating activities:		
Net earnings	$ 12,479	$ 11,256
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of fixed assets	8,170	7,981
Amortization of intangibles and deferred costs	1,455	1,434
Share-based compensation	518	526
Deferred income taxes	(36)	(208)
Loss on sale of marketable securities	109	509
Other	89	(58)
Changes in assets and liabilities net of effects from purchase of companies		
Decrease in accounts receivable	10,527	16,023
Increase in inventories	(12,073)	(10,522)
Decrease(increase)in prepaid expenses	3,141	(115)
Decrease in accounts payable and accrued liabilities	(3,461)	(2,895)
Net cash provided by operating activities	20,918	23,931
Investing activities:		
Purchases of property, plant and equipment	(13,304)	(9,674)
Purchases of marketable securities	(21,329)	(11,639)
Proceeds from redemption and sales of marketable securities	1,198	11,601
Proceeds from disposal of property and equipment	581	197

Other		(72	)		(47	)
Net cash used in investing activities		(32,926	)		(9,562	)
Financing activities:						
Payments to repurchase common stock		(3,115	)		(1,670	)
Proceeds from issuance of stock		640			1,098	
Payments on capitalized lease obligations		(67	)		(39	)
Payment of cash dividend		(6,723	)		(5,972	)
Net cash used in financing activities		(9,265	)		(6,583	)
Effect of exchange rate on cash and cash equivalents		(494	)		(1,471	)
Net (decrease) increase in cash and cash equivalents		(21,767	)		6,315	
Cash and cash equivalents at beginning of period		133,689			91,760	
Cash and cash equivalents at end of period	$	111,922		$	98,075	

The accompanying notes are an integral part of these statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1 In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and the results of operations and cash flows. Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported net earnings.

The results of operations for the three months ended December 26, 2015 and December 27, 2014 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen juice bars and ices are generally higher in the third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 26, 2015.

Note 2 We recognize revenue from our products when the products are shipped to our customers. Repair and maintenance equipment service revenue is recorded when it is performed provided the customer terms are that the customer is to be charged on a time and material basis or on a straight-line basis over the term of the contract when the customer has signed a service contract. Revenue is recognized only where persuasive evidence of an arrangement exists, our price is fixed or estimable and collectability is reasonably assured. We record offsets to revenue for allowances, end-user pricing adjustments, trade spending, coupon redemption costs and returned product. Customers generally do not have the right to return product unless it is damaged or defective. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors. The allowance for doubtful receivables was $324,000 and $304,000 at December 26, 2015 and September 26, 2015, respectively.

Note 3 Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights, customer relationships and non-compete agreements arising from acquisitions are amortized by the straight-line method over periods ranging from 3 to 20 years. Depreciation expense was $8,170,000 and $7,981,000 for the three months ended December 26, 2015 and December 27, 2014, respectively.

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

	Three Months Ended December 26, 2015		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$12,479	18,687	$ 0.67
Effect of Dilutive Securities			
Options	-	152	(0.01)
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$12,479	18,839	$ 0.66

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	Three Months Ended December 27, 2014		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	$11,256	18,669	$ 0.60
Effect of Dilutive Securities			
Options	-	132	-
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	$11,256	18,801	$ 0.60

Note 5 At December 26, 2015, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

	Three months ended	
	December 26, 2015	December 27, 2014
	(in thousands, except per share amounts)	
Stock Options	$250	$ 284
Stock purchase plan	92	147
Restricted stock issued to an employee	1	1
Total share-based compensation	$343	$ 432
The above compensation is net of tax benefits	$175	$ 92

The Company anticipates that share-based compensation will not exceed $1.8 million net of tax benefits for the fiscal year ending September 24, 2016.

The Company did not grant any stock options during the 2016 and 2015 three month period.

Expected volatility is based on the historical volatility of the price of our common shares over the past 49 months for 5 year options and 10 years for 10 year options. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

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

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

The total amount of gross unrecognized tax benefits is $339,000 and $334,000 on December 26, 2015 and September 26, 2015, respectively, all of which would impact our effective tax rate over time, if recognized. We recognize interest and penalties related to income tax matters as a part of the provision for income taxes. As of December 26, 2015 and September 26, 2015, respectively, the Company has $204,000 and $199,000 of accrued interest and penalties.

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

Note 7 In May 2014, the FASB issued guidance on revenue recognition which says that we should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which we expect to be entitled in exchange for those goods or services. This guidance is effective for our fiscal year ending September 2019. Early application is permitted. We anticipate that the impact of this guidance on our consolidated financial statements will not be material.

In September 2015, the FASB issued guidance on accounting for business combinations which require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This guidance eliminates the requirement to retrospectively account for these adjustments. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. This guidance did not impact amounts and disclosures related to previous business combinations; therefore, the adoption of this guidance in the current quarter did not impact our consolidated financial statements.

In July 2015, the FASB issued guidance which requires an entity to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance will simplify the subsequent measurement of inventory, as current guidance requires an entity to measure inventory at the lower of cost or market. Under current guidance, market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. The adoption of this guidance in the current quarter did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued guidance on the balance sheet classification of deferred taxes which eliminates the current requirement to present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet and now requires entities to classify all deferred tax assets and liabilities as noncurrent. This guidance is effective for our fiscal year ended September 2018. Early adoption is permitted. We anticipate that the impact of this guidance on our consolidated financial statements will not be material.

Note 8 Inventories consist of the following:

	December 26, 2015 (unaudited) (in thousands)	September 26, 2015
Finished goods	$42,338	$ 34,258
Raw materials	18,881	17,000
Packaging materials	7,300	5,949
Equipment parts and other	25,984	25,450
Total Inventories	$94,503	$ 82,657
The above inventories are net of reserves	$2,443	$ 2,627

Note 9 We principally sell our products to the food service and retail supermarket industries. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business because of different distribution and capital requirements. We maintain separate and discrete financial information for the three operating segments mentioned above which is available to our Chief Operating Decision Makers.

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

Food Service

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

Retail Supermarkets

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

Frozen Beverages

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

The Chief Operating Decision Maker for Food Service and Retail Supermarkets and the Chief Operating Decision Maker for Frozen Beverages monthly review detailed operating income statements and sales reports in order to assess performance and allocate resources to each individual segment. 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 three reportable segments is as follows:

	Three months ended	
	December 26, 2015	December 27, 2014
	(unaudited) (in thousands)	
Sales to External Customers:		
Food Service		
Soft pretzels	$38,699	$40,718
Frozen juices and ices	8,315	8,201
Churros	13,936	12,967
Handhelds	6,146	5,158
Bakery	76,601	74,431
Other	3,055	2,086
Total Food Service	$146,752	$143,561
Retail Supermarket		
Soft pretzels	$8,740	$9,200
Frozen juices and ices	9,064	9,155
Handhelds	3,875	4,879
Coupon redemption	(574)	(1,073)
Other	155	226
Total Retail Supermarket	$21,260	$22,387
Frozen Beverages		
Beverages	$28,070	$25,510
Repair and maintenance service	17,763	15,310
Machines sales	8,732	5,747
Other	273	237
Total Frozen Beverages	$54,838	$46,804
Consolidated Sales	$222,850	$212,752
Depreciation and Amortization:		
Food Service	$5,385	$5,190
Retail Supermarket	286	316
Frozen Beverages	3,954	3,909
Total Depreciation and Amortization	$9,625	$9,415

Operating Income :		
Food Service	$15,902	$15,493
Retail Supermarket	1,090	666
Frozen Beverages	1,368	451
Total Operating Income	$18,360	$16,610
Capital Expenditures:		
Food Service	$8,084	$6,133
Retail Supermarket	156	23
Frozen Beverages	5,064	3,518
Total Capital Expenditures	$13,304	$9,674
Assets:		
Food Service	$546,264	$521,702
Retail Supermarket	23,099	22,610
Frozen Beverages	172,275	158,552
Total Assets	$741,638	$702,864

Note 10 Our three reporting units, which are also reportable segments, are Food Service, Retail Supermarkets and Frozen Beverages.

The carrying amounts of acquired intangible assets for the Food Service, Retail Supermarkets and Frozen Beverage segments as of December 26, 2015 and September 26, 2015 are as follows:

	December 26, 2015		**September 26, 2015**	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
	(in thousands)			
FOOD SERVICE				
Indefinite lived intangible assets				
Trade Names	$13,072	$ -	$13,072	$ -
Amortized intangible assets				
Non compete agreements	592	545	592	538
Customer relationships	40,797	34,487	40,797	33,584
License and rights	3,606	2,826	3,606	2,802
TOTAL FOOD SERVICE	$58,067	$ 37,858	$58,067	$ 36,924
RETAIL SUPERMARKETS				
Indefinite lived intangible assets				
Trade Names	$7,206	$ -	$7,206	$ -
Amortized Intangible Assets				
Non compete agreements	160	132	160	114
Customer relationships	7,979	1,420	7,979	1,220
TOTAL RETAIL SUPERMARKETS	$15,345	$ 1,552	$15,345	$ 1,334
FROZEN BEVERAGES				
Indefinite lived intangible assets				
Trade Names	$9,315	$ -	$9,315	$ -
Amortized intangible assets				
Non compete agreements	198	198	198	198
Customer relationships	6,678	6,234	6,678	6,075
Licenses and rights	1,601	872	1,601	854
TOTAL FROZEN BEVERAGES	$17,792	$ 7,304	$17,792	$ 7,127
CONSOLIDATED	$91,204	$ 46,714	$91,204	$ 45,385

Amortized intangible assets are being amortized by the straight-line method over periods ranging from 3 to 20 years and amortization expense is reflected throughout operating expenses. There were no intangible assets acquired in the three months ended December 26, 2015. Aggregate amortization expense of intangible assets for the three months ended December 26, 2015 and December 27, 2014 was $1,329,000 and $1,355,000 respectively.

Estimated amortization expense for the next five fiscal years is approximately $5,100,000 in 2016, $2,600,000 in 2017, $1,800,000 in 2018, $1,700,000 in 2019 and $1,400,000 in 2020. The weighted average amortization period of the intangible assets is 10.0 years.

Goodwill

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

		Retail	Frozen	
	Food	Service	Supermarket	Beverages
Total	(in thousands)			
Balance at December 26, 2015	$46,832	$3,670	$ 35,940	$ 86,442
Balance at September 26, 2015	$46,832	$3,670	$ 35,940	$ 86,442

There was no goodwill acquired in the three months ended December 26, 2015.

Note 11 We have classified our investment securities as marketable securities held to maturity and available for sale. The FASB defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the FASB has established three levels of inputs that may be used to measure fair value:

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

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

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

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

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at December 26, 2015 are summarized as follows:

	Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Corporate Bonds	$87,772	$ 14	$ 1,534	$86,252
Total investment securities held to maturity	$87,772	$ 14	$ 1,534	$86,252

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at December 26, 2015 are summarized as follows:

	Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Mutual Funds	$18,733	$ -	$ 1,262	$17,471
Preferred Stock	20,473	17	453	20,037
Total investment securities available for sale	$39,206	$ 17	$ 1,715	$37,508

The mutual funds seek current income with an emphasis on maintaining low volatility and overall moderate duration. The unrealized losses of $1.3 million are spread over 4 funds with total fair market value of $17.5 million. The Fixed-to-Floating Perpetual Preferred Stock generate fixed income to call dates in 2018, 2019 and 2025 and then income is based on a spread above LIBOR if the securities are not called. The mutual funds and Fixed-to-Floating Perpetual Preferred Stock do not have contractual maturities; however, we classify them as long term assets as it is our intent to hold them for a period of over one year, although we may sell some or all of them depending on presently unanticipated needs for liquidity or market conditions.

The corporate bonds generate fixed income to maturity dates in 2017 through 2021, with $65 million maturing within 3 years. Our expectation is that we will hold the corporate bonds to their maturity dates and redeem them at our amortized cost.

The amortized cost, unrealized gains and losses, and fair market values of our investment securities held to maturity at September 26, 2015 are summarized as follows:

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Market Value**
	(in thousands)			
Corporate Bonds	$66,660	$ 15	$ 663	$66,012
Total investment securities held to maturity	$66,660	$ 15	$ 663	$66,012

The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at September 26, 2015 are summarized as follows:

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Market Value**
	(in thousands)			
Mutual Funds	$20,041	$ -	$ 827	$19,214
Preferred Stock	20,473	114	163	20,424
Total investment securities available for sale	$40,514	$ 114	$ 990	$39,638

The amortized cost and fair value of the Company's held to maturity securities by contractual maturity at December 26, 2015 and September 26, 2015 are summarized as follows:

	December 26, 2015		September 26, 2015	
	Amortized Cost	Fair Market Value	Amortized Cost	Fair Market Value
	(in thousands)			
Due in one year or less	$-	$-	$-	$-
Due after one year through five years	86,685	85,191	63,522	63,010
Due after five years through ten years	1,087	1,061	3,138	3,002
Total held to maturity securities	$87,772	$86,252	$66,660	$66,012
Less current portion	-	-	-	-
Long term held to maturity securities	$87,772	$86,252	$66,660	$66,012

Proceeds from the redemption and sale of marketable securities were $1,198,000 and $11,601,000 in the three months ended December 26, 2015 and December 27, 2014, respectively, with a loss of $109,000 recorded in the three months ended December 26, 2015 and $509,000 recorded in the three months ended December 27, 2014. We use the specific identification method to determine the cost of securities sold.

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

	Three Months ended December 26, 2015 (unaudited) (in thousands)		
	Foreign Currency Translation Adjustments	Unrealized Holding Loss on Marketable Securities	Total
Beginning Balance	$(10,021)	$ (876)	$(10,897)
Other comprehensive (loss) income before reclassifications	(640)	(892)	(1,532)
Amounts reclassified from accumulated other comprehensive income	-	70	70
Ending Balance	$(10,661)	$ (1,698)	$(12,359)

All amounts are net of tax.

	Three Months ended December 27, 2014 (unaudited) (in thousands)		
	Foreign Currency Translation Adjustments	Unrealized Holding Loss on Marketable Securities	Total
Beginning Balance	$(4,632)	$ (1,356)	$(5,988)
Other comprehensive (loss) income before reclassifications	(1,955)	(2,138)	(4,093)
Amounts reclassified from accumulated other comprehensive income	-	216	216

Ending Balance	$(6,587)	$ (3,278)	$(9,865)

All amounts are net of tax.

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

Liquidity and Capital Resources

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

The Company's Board of Directors declared a regular quarterly cash dividend of $.39 per share of its common stock payable on January 7, 2016, to shareholders of record as of the close of business on December 22, 2015.

In our fiscal year ended September 26, 2015, we purchased and retired 72,698 shares of our common stock at a cost of $8,011,118. In the quarter ended December 26, 2015, we purchased and retired 27,083 shares of our common stock at a cost of $3,115,439. On November 8, 2012 the Company's Board of Directors authorized the purchase and retirement of 500,000 shares of the Company's common stock; 162,392 shares remain to be purchased under this authorization.

In the three months ended December 26, 2015 and December 27, 2014 fluctuations in the valuation of the Mexican and Canadian currencies and the resulting translation of the net assets of our Mexican and Canadian subsidiaries caused an increase of $640,000 in accumulated other comprehensive loss in the 2016 first quarter and an increase of $1,955,000 in accumulated other comprehensive loss in the 2015 first quarter.

Our general-purpose bank credit line which expires in December 2016 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 December 26, 2015.

Results of Operations

Net sales increased $10,098,000 or 5% to $222,850,000 for the three months ended December 26, 2015 compared to the three months ended December 27, 2014.

FOOD SERVICE

Sales to food service customers increased $3,191,000 or 2% in the first quarter to $146,752,000. Soft pretzel sales to the food service market decreased 5% to $38,699,000 in the first quarter due primarily to lower sales to school food service, warehouse club stores and restaurant chains.

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Frozen juices and ices sales for the quarter were up 1% to $8,315,000 with sales increases and decreases throughout our customer base. Churro sales to food service customers increased 7% to $13,936,000 in the first quarter with sales increases and decreases throughout our customer base.

Sales of bakery products increased $2,170,000 or 3% in the first quarter to $76,601,000 as sales increases to two customers and school food service accounted for all of the sales increase.

Sales of handhelds increased $988,000, or 19%, with sales to one customer accounting for all of the increase. Sales of funnel cake products increased $1,009,000, or 58%, primarily due to increased sales to school food service.

Sales of new products in the first twelve months since their introduction were approximately $2.2 million in this quarter. Price increases accounted for approximately $4.0 million of sales in the quarter and net volume decreases, including new product sales as defined above, accounted for approximately $800,000 of sales decline in the quarter.

Operating income in our Food Service segment increased from $15,493,000 to $15,902,000 in the quarter. Operating income for the quarter increased primarily because of lower marketing expenses.

RETAIL SUPERMARKETS

Sales of products to retail supermarkets decreased $1,127,000 or 5% to $21,260,000 in the first quarter. Soft pretzel sales for the first quarter were down 5% to $8,740,000 due primarily to the discontinuance of SUPERPRETZEL BAVARIAN Soft Pretzel Bread which was introduced in the year ago quarter. Sales of frozen juices and ices decreased $91,000 or 1% to $9,064,000 in the first quarter. Coupon redemption costs, a reduction of sales, decreased 47% or about $499,000 for the quarter. Handheld sales to retail supermarket customers decreased 21% to $3,875,000 in the quarter with a sales decrease to one customer and trade spending for the introduction of new products accounting for about 2/3 of the decrease.

Sales of new products in the first twelve months since their introduction were approximately $300,000 in the quarter. Price increases accounted for approximately $650,000 of sales in the quarter and net volume decreases, including new product sales as defined above and net of decreased coupon costs, accounted for approximately $1.8 million of the sales decrease in this quarter. Operating income in our Retail Supermarkets segment increased from $666,000 to $1,090,000 in the quarter primarily because of lower coupon and advertising expenses, which were higher a year ago to introduce our SUPERPRETZEL BAVARIAN Soft Pretzel Bread.

FROZEN BEVERAGES

Frozen beverage and related product sales increased 17% to $54,838,000 in the first quarter. Beverage related sales alone were up 10% in the quarter. Gallon sales were up 11% for the quarter with about 2/3 of the increase coming from movie theater chains. Service revenue increased 16% to $17,763,000 in the first quarter with sales increases and decreases throughout our customer base.

Sales of beverage machines, which tend to fluctuate from year to year while following no specific trend, were $8,732,000 or 52% higher in the three month period. The approximate number of company owned frozen beverage dispensers was 53,800 and 53,100 at December 26, 2015 and September 26, 2015, respectively. Operating income in our Frozen Beverage segment was $1,368,000 in this year’s quarter compared to $451,000 last year as higher sales in all areas of the business contributed to the improvement in operating income.

CONSOLIDATED

Gross profit as a percentage of sales was about the same at 28.64% in this year’s three month period and 28.72% last year.

Total operating expenses increased $984,000 in this quarter but as a percentage of sales decreased from 20.9% percent to 20.4%. Marketing expenses decreased to 8.81% of sales from 9.16%, distribution expenses decreased to 8.19% of sales from 8.24% and administrative expenses decreased to 3.45% of sales from 3.54%. Marketing expenses decreased as a percent of sales because of the much higher frozen beverage sales relative to marketing expenses and generally lower marketing expenses in our food service segment.

Operating income increased $1,750,000 or 11% to $18,360,000 in the first quarter as a result of the aforementioned items.

Investment income decreased by $194,000 in the quarter due primarily to lower yields on our investments as we have decreased our holdings of mutual funds and reinvested the proceeds into corporate bonds.

The effective income tax rate has been estimated at 36% for this year's quarter and 37% for last year's quarter. We are estimating an effective income tax rate of approximately 36% for the year. Last year's quarter's rate was impacted by a low tax benefit on share based compensation and by realized losses on sales of investment securities that are not deductible.

Net earnings increased $1,223,000 or 11% in the current three month period to $12,479,000 as a result of the aforementioned items.

There are many factors which can impact our net earnings from year to year and in the long run, among which are the supply and cost of raw materials and labor, insurance costs, factors impacting sales as noted above, the continuing consolidation of our customers, our ability to manage our manufacturing, marketing and distribution activities, our ability to make and integrate acquisitions and changes in tax laws and interest rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth, in item 7a. "Quantitative and Qualitative Disclosures About Market Risk," in its 2015 annual report on Form 10-K filed with the SEC.

Item 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of December 26, 2015, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over financial reporting during the quarter ended December 26, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit No.	
31.1 & 31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
99.5 & 99.6	Certification Pursuant to the 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	The following financial information from J&J Snack Foods Corp.'s Quarterly Report on Form 10-Q for the quarter ended December 26, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	J & J SNACK FOODS CORP.
Dated: January 25, 2016	/s/ Gerald B. Shreiber Gerald B. Shreiber Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)
Dated: January 25, 2016	/s/ Dennis G. Moore Dennis G. Moore, Senior Vice President, Chief Financial Officer and Director (Principal Financial Officer) (Principal Accounting Officer)