

J&J SNACK FOODS CORP  
Form 10-Q  
April 26, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended March 31, 2007

or

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

Commission File Number: 0-14616

J & J SNACK FOODS CORP.  
(Exact name of registrant as specified in its charter)

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

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

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

Telephone (856) 665-9533

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

Yes    No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes    No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes    No

As of April 18, 2007, there were 18,574,956 shares of the Registrant's Common Stock outstanding.

## INDEX

|  | Page<br>Number |
|--|----------------|
| Part I. Financial Information  |                |
| Item 1. Consolidated Financial Statements  |                |
| Consolidated Balance Sheets - March 31, 2007 (unaudited) and September 30, 2006  | 3              |
| Consolidated Statements of Earnings (unaudited)<br>- Three Months and Six Months Ended March 31, 2007 and March 25, 2006 | 5              |
| Consolidated Statements of Cash Flows (unaudited)<br>- Six Months Ended March 31, 2007 and March 25, 2006                | 6              |
| Notes to the Consolidated Financial Statements   | 7              |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                            | 20             |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk   | 24             |
| Item 4. Controls and Procedures  | 24             |
| Part II. Other Information   |                |
| Item 4. Submission of Matters to a Vote of Security Holders  | 26             |
| Item 6. Exhibits and Reports on Form 8-K   | 26             |

---

## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

J & J SNACK FOODS CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands)

|   | March 31, 2007<br>(Unaudited) | September 30,<br>2006 |
|---|-------------------------------|-----------------------|
| <b>ASSETS</b>                                       |                               |                       |
| Current assets                                      |                               |                       |
| Cash and cash equivalents                           | \$ 23,414                     | \$ 17,621             |
| Marketable securities                               | 12,322                        | 59,000                |
| Accounts receivable, net                            | 51,811                        | 53,663                |
| Inventories   | 44,519                        | 37,790                |
| Prepaid expenses and other                          | 2,629                         | 1,457                 |
| Deferred income taxes                               | 2,775                         | 2,713                 |
|   | 137,470                       | 172,244               |
| Property, plant and equipment,<br>at cost           |                               |                       |
| Land  | 1,316                         | 556                   |
| Buildings   | 7,751                         | 4,497                 |
| Plant machinery and<br>equipment                    | 112,344                       | 108,682               |
| Marketing equipment                                 | 191,600                       | 189,925               |
| Transportation equipment                            | 2,122                         | 2,013                 |
| Office equipment                                    | 9,573                         | 9,219                 |
| Improvements  | 16,624                        | 16,264                |
| Construction in progress                            | 4,106                         | 2,682                 |
|   | 345,436                       | 333,838               |
| Less accumulated deprecia-<br>tion and amortization | 253,599                       | 248,391               |
|   | 91,837                        | 85,447                |
| Other assets  |                               |                       |
| Goodwill  | 59,271                        | 57,948                |
| Other intangible assets, net                        | 57,654                        | 22,669                |
| Other   | 2,735                         | 2,500                 |
|   | 119,660                       | 83,117                |
|   | \$ 348,967                    | \$ 340,808            |

See accompanying notes to the consolidated financial statements.

## J &amp; J SNACK FOODS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS - Continued  
(in thousands)

|  | March 31, 2007<br>(Unaudited) | September 30,<br>2006 |
|--|-------------------------------|-----------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                               |                       |
| <b>Current liabilities</b>   |                               |                       |
| Accounts payable   | \$ 42,331                     | \$ 40,835             |
| Accrued liabilities  | 8,513                         | 8,502                 |
| Accrued compensation expense   | 6,603                         | 8,367                 |
| Dividends payable  | 1,578                         | 1,385                 |
|  | 59,025                        | 59,089                |
| Deferred income taxes  | 18,211                        | 18,211                |
| Other long-term liabilities  | 553                           | 635                   |
|  | 18,764                        | 18,846                |
| <b>Stockholders' equity</b>  |                               |                       |
| <b>Capital stock</b>   |                               |                       |
| Preferred, \$1 par value; authorized, 10,000 shares; none issued   | -                             | -                     |
| Common, no par value; authorized 50,000 shares; issued and outstanding, 18,565 and 18,468 shares, respectively | 42,649                        | 40,315                |
| Accumulated other comprehensive loss   | (1,979)                       | (1,964)               |
| Retained earnings  | 230,508                       | 224,522               |
|  | 271,178                       | 262,873               |
|  | \$ 348,967                    | \$ 340,808            |

All share amounts reflect the 2-for-1 stock split effective January 5, 2006.

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

|   | Three months ended |                | Six months ended |                |
|---|--------------------|----------------|------------------|----------------|
|   | March 31, 2007     | March 25, 2006 | March 31, 2007   | March 25, 2006 |
| Net Sales                                 | \$ 130,040         | \$ 112,044     | \$ 244,182       | \$ 220,615     |
| Cost of goods sold <sup>(1)</sup>         | 87,633             | 76,818         | 166,527          | 152,272        |
| Gross profit                              | 42,407             | 35,226         | 77,655           | 68,343         |
| Operating expenses                        |                    |                |                  |                |
| Marketing <sup>(2)</sup>                  | 17,498             | 14,315         | 32,037           | 28,012         |
| Distribution <sup>(3)</sup>               | 11,766             | 10,139         | 22,707           | 20,495         |
| Administrative <sup>(4)</sup>             | 4,939              | 4,821          | 9,589            | 9,616          |
| Other general expense (income)            | 9                  | (43)           | (8)              | 29             |
|   | 34,212             | 29,232         | 64,325           | 58,152         |
| Operating income                          | 8,195              | 5,994          | 13,330           | 10,191         |
| Other income (expenses)                   |                    |                |                  |                |
| Investment income                         | 535                | 755            | 1,522            | 1,458          |
| Interest expense                          | (28)               | (30)           | (59)             | (59)           |
| Earnings before income taxes              | 8,702              | 6,719          | 14,793           | 11,590         |
| Income taxes                              | 3,369              | 2,582          | 5,655            | 4,443          |
| NET EARNINGS                              | \$ 5,333           | \$ 4,137       | \$ 9,138         | \$ 7,147       |
| Earnings per diluted share                | \$ .28             | \$ .22         | \$ .48           | \$ .38         |
| Weighted average number of diluted shares | 19,014             | 18,811         | 18,954           | 18,754         |
| Earnings per basic share                  | \$ .29             | \$ .23         | \$ .49           | \$ .39         |
| Weighted average number of basic shares   | 18,601             | 18,383         | 18,570           | 18,356         |

(1) Includes share-based compensation expense of \$58 and \$106 for the three and six months ended March 31, 2007, respectively and \$82 and \$141 for the three and six months ended March 25, 2006, respectively.

(2) Includes share-based compensation expense of \$171 and \$312 for the three and six months ended March 31, 2007, respectively and \$157 and \$272 for the three and six months ended March 25, 2006, respectively.

(3) Includes share-based compensation expense of \$13 and \$23 for the three and six months ended March 31, 2007, respectively and \$7 and \$12 for the three and six months ended March 25, 2006, respectively.

(4) Includes share-based compensation expense of \$133 and \$244 for the three and six months ended March 31, 2007, respectively and \$111 and \$192 for the three and six months ended March 25, 2006, respectively.

All share amounts reflect the 2-for-1 stock split effective January 5, 2006.

See accompanying notes to the consolidated financial statements.

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

|   | Six months ended |                |
|---|------------------|----------------|
|   | March 31, 2007   | March 25, 2006 |
| Operating activities:   |                  |                |
| Net earnings  | \$ 9,138         | \$ 7,147       |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                  |                |
| Depreciation and amortization of fixed assets                                       | 11,243           | 11,487         |
| Amortization of intangibles and deferred costs                                      | 1,820            | 749            |
| Share-based compensation  | 685              | 617            |
| Deferred income taxes   | (62)             | (31)           |
| Other   | -                | (26)           |
| Changes in assets and liabilities, net of effects from purchase of companies        |                  |                |
| Decrease (increase) in accounts receivable  | 4,902            | (346)          |
| Increase in inventories   | (4,694)          | (4,416)        |
| Increase in prepaid expenses  | (1,070)          | (433)          |
| (Decrease) increase in accounts payable and accrued liabilities                     | (2,774)          | 239            |
| Net cash provided by operating activities   | 19,188           | 14,987         |
| Investing activities:   |                  |                |
| Purchases of property, plant and equipment  | (11,946)         | (10,830)       |
| Payments for purchase of companies, net of cash acquired                            | (46,570)         | (2,401)        |
| Purchase of marketable securities   | (13,000)         | (22,075)       |
| Proceeds from sale of marketable securities   | 59,750           | 15,550         |
| Proceeds from disposal of property and equipment                                    | 281              | 419            |
| Other   | (554)            | (273)          |
| Net cash used in investing activities   | (12,039)         | (19,610)       |
| Financing activities:   |                  |                |
| Proceeds from issuance of stock   | 1,618            | 997            |
| Payment of cash dividend  | (2,959)          | (2,515)        |
| Net cash used in financing activities   | (1,341)          | (1,518)        |
| Effect of exchange rate on cash and cash equivalents                                | (15)             | (6)            |
| Net increase (decrease) in cash and cash equivalents                                | 5,793            | (6,147)        |
| Cash and cash equivalents at beginning of period                                    | 17,621           | 15,795         |
| Cash and cash equivalents at end of period  | \$ 23,414        | \$ 9,648       |

See accompanying notes to the consolidated financial statements.

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

Note In the opinion of management, the accompanying unaudited consolidated financial statements contain all  
1 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 and six months ended March 31, 2007 and March 25, 2006 are not necessarily indicative of results for the full year. Sales of our retail stores are generally higher in the first quarter due to the holiday shopping season. 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 year ended September 30, 2006.

Note We recognize revenue from Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage  
2 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 account historical experience and other factors.

Note Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated  
3 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.



Note 4 Our calculation of earnings per share in accordance with SFAS No. 128, "Earnings Per Share," is as follows (all share amounts reflect the 2-for-1 stock split effective January 5, 2006):

|  | Three Months Ended March 31, 2007        |               |           |
|--|--|---------------|-----------|
|  | Income                                   | Shares        | Per Share |
|  | (Numerator)                              | (Denominator) | Amount    |
|  | (in thousands, except per share amounts) |               |           |
| <b>Basic EPS</b>   |  |               |           |
| Net Earnings available to common stockholders                          | \$ 5,333                                 | 18,601        | \$ .29    |
| <b>Effect of Dilutive Securities</b>                                   |  |               |           |
| Options  | -  | 413           | (.01)     |
| <b>Diluted EPS</b>   |  |               |           |
| Net Earnings available to common stockholders plus assumed conversions | \$ 5,333                                 | 19,014        | \$ .28    |

109,600 anti-dilutive shares have been excluded from the computation of diluted EPS because the options' exercise price is greater than the average market price of the common stock.

|  | Six Months Ended March 31, 2007          |               |           |
|--|--|---------------|-----------|
|  | Income                                   | Shares        | Per Share |
|  | (Numerator)                              | (Denominator) | Amount    |
|  | (in thousands, except per share amounts) |               |           |
| <b>Basic EPS</b>   |  |               |           |
| Net Earnings available to common stockholders                          | \$ 9,138                                 | 18,570        | \$ .49    |
| <b>Effect of Dilutive Securities</b>                                   |  |               |           |
| Options  | -  | 384           | (.01)     |
| <b>Diluted EPS</b>   |  |               |           |
| Net Earnings available to common stockholders plus assumed conversions | \$ 9,138                                 | 18,954        | \$ .48    |

109,600 anti-dilutive shares have been excluded from the computation of diluted EPS because the options' exercise price is greater than the average market price of the common stock.

|  | Three Months Ended March 25, 2006        |                         |                     |
|--|--|-------------------------|---------------------|
|  | Income<br>(Numerator)                    | Shares<br>(Denominator) | Per Share<br>Amount |
|  | (in thousands, except per share amounts) |                         |                     |
| <b>Basic EPS</b>   |  |                         |                     |
| Net Earnings available to common stockholders                          | \$ 4,137                                 | 18,383                  | \$ .23              |
| <b>Effect of Dilutive Securities</b>                                   |  |                         |                     |
| Options  | -  | 428                     | (.01)               |
| <b>Diluted EPS</b>   |  |                         |                     |
| Net Earnings available to common stockholders plus assumed conversions | \$ 4,137                                 | 18,811                  | \$ .22              |

|  | Six Months Ended March 25, 2006          |                         |                     |
|--|--|-------------------------|---------------------|
|  | Income<br>(Numerator)                    | Shares<br>(Denominator) | Per Share<br>Amount |
|  | (in thousands, except per share amounts) |                         |                     |
| <b>Basic EPS</b>   |  |                         |                     |
| Net Earnings available to common stockholders                          | \$ 7,147                                 | 18,356                  | \$ .39              |
| <b>Effect of Dilutive Securities</b>                                   |  |                         |                     |
| Options  | -  | 398                     | (.01)               |
| <b>Diluted EPS</b>   |  |                         |                     |
| Net Earnings available to common stockholders plus assumed conversions | \$ 7,147                                 | 18,754                  | \$ .38              |

Note The Company follows FASB Statement No. 123(R), "Share-Based Payment". Statement 123(R) requires that the 5 compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued.

Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, Statement 123(R) includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of share-based payment awards.

At March 31, 2007, the Company has two stock-based employee compensation plans. Share-based compensation of \$268,000, net of a tax benefit of \$107,000, or \$.01 per share, was recognized for the three months ended March 31, 2007; and \$250,000, net of a tax benefit of \$107,000, or \$.01 per share, was recognized for the three months ended March 25, 2006. For the six months ended March 31, 2007, share-based compensation expense of \$412,000, net of a tax benefit of \$273,000, or \$.02 per share was recognized; and \$422,000, net of a tax benefit of \$195,000, or \$.02 per share, was recognized for the six months ended March 25, 2006. The Company anticipates that share-based compensation will not exceed \$1,000,000, net of tax benefits, or approximately \$.05 per share for the year ending September 29, 2007.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2007 and 2006: expected volatility of 26% and 34%; risk-free interest rates of 4.53% and 4.37%; dividend rate of .92% and 1.0% and expected lives ranging between 5 and 10 years.

During the 2007 and 2006 six month periods, the Company granted 118,200 and 152,471 stock options, respectively. The weighted-average grant date fair value of these options was \$11.96 and \$10.04, respectively. No options were issued in the second quarter of 2006 and 10,000 were issued in the second quarter of 2007.

Expected volatility for both years is based on the historical volatility of the price of our common shares over the past 53 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 In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (SFAS 109).

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 also provides guidance on financial reporting and classification of differences between tax positions taken in a tax return and amounts recognized in the financial statements.

FIN 48 is effective for fiscal years beginning after December 15, 2006; earlier application is encouraged. We are currently evaluating the provisions of FIN 48 to determine its impact on our financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements.

Historically, there have been two widely used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the "roll-over" and "iron curtain" method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements. We currently use the roll-over method for quantifying identified financial statement misstatements.

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods.

SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of October 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this "cumulative effect" transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose.

Currently, we are not anticipating recording any such cumulative adjustment.

Note 7

Inventories consist of the following:

|                         | March 31, 2007<br>(unaudited) | September 30,<br>2006 |
|-------------------------|-------------------------------|-----------------------|
|                         | (in thousands)                |                       |
| Finished goods          | \$ 23,102                     | \$ 18,398             |
| Raw materials           | 6,079                         | 5,415                 |
| Packaging materials     | 4,385                         | 3,803                 |
| Equipment parts & other | 10,953                        | 10,174                |
|                         | \$ 44,519                     | \$ 37,790             |

Note 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, baked goods, biscuits and fig and fruit bars. 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; supermarket chains; 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, although some of our products are purchased by the consumer for consumption at home.

#### 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 frozen novelties 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, SLUSH PUPPIE and ARCTIC BLAST in the United States, Mexico and Canada.

Edgar Filing: J&J SNACK FOODS CORP - Form 10-Q

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:

|                                       | Three Months Ended |                | Six Months Ended |                |
|---------------------------------------|--------------------|----------------|------------------|----------------|
|                                       | March 31, 2007     | March 25, 2006 | March 31, 2007   | March 25, 2006 |
| (in thousands)<br>(unaudited)         |                    |                |                  |                |
| <b>Sales to External Customers:</b>   |                    |                |                  |                |
| Food Service                          | \$ 84,720          | \$ 71,374      | \$ 160,200       | \$ 145,990     |
| Retail Supermarket                    | 11,648             | 10,458         | 19,936           | 17,694         |
| Restaurant Group                      | 708                | 1,017          | 1,678            | 2,255          |
| Frozen Beverages                      | 32,964             | 29,195         | 62,368           | 54,676         |
|                                       | \$ 130,040         | \$ 112,044     | \$ 244,182       | \$ 220,615     |
| <b>Depreciation and Amortization:</b> |                    |                |                  |                |
| Food Service                          | \$ 4,150           | \$ 3,507       | \$ 7,614         | \$ 7,018       |
| Retail Supermarket                    | -                  | -              | -                | -              |
| Restaurant Group                      | 13                 | 25             | 31               | 58             |
| Frozen Beverages                      | 2,683              | 2,653          | 5,418            | 5,160          |
|                                       | \$ 6,846           | \$ 6,185       | \$ 13,063        | \$ 12,236      |
| <b>Operating Income(Loss):</b>        |                    |                |                  |                |
| Food Service <sup>(1)</sup>           | \$ 7,453           | \$ 6,186       | \$ 13,289        | \$ 11,814      |
| Retail Supermarket <sup>(2)</sup>     | 94                 | 17             | 669              | 274            |
| Restaurant Group                      | (87)               | 35             | 35               | 36             |
| Frozen Beverages <sup>(3)</sup>       | 735                | (244)          | (663)            | (1,933)        |
|                                       | \$ 8,195           | \$ 5,994       | \$ 13,330        | \$ 10,191      |
| <b>Capital Expenditures:</b>          |                    |                |                  |                |
| Food Service                          | \$ 2,934           | \$ 2,417       | \$ 5,265         | \$ 5,087       |
| Retail Supermarket                    | -                  | -              | -                | -              |
| Restaurant Group                      | 60                 | -              | 61               | -              |
| Frozen Beverages                      | 2,967              | 3,704          | 6,620            | 5,743          |
|                                       | \$ 5,961           | \$ 6,121       | \$ 11,946        | \$ 10,830      |
| <b>Assets:</b>                        |                    |                |                  |                |
| Food Service                          | \$ 226,857         | \$ 216,623     | \$ 226,857       | \$ 216,623     |
| Retail Supermarket                    | -                  | -              | -                | -              |
| Restaurant Group                      | 752                | 922            | 752              | 922            |
| Frozen Beverages                      | 121,358            | 95,654         | 121,358          | 95,654         |
|                                       | \$ 348,967         | \$ 313,199     | \$ 348,967       | \$ 313,199     |

(1) Includes share-based compensation expense of \$274 and \$500 for the three and six months ended March 31, 2007, respectively and \$254 and \$438 for the three and six months ended March 25, 2006, respectively.

(2)



Edgar Filing: J&J SNACK FOODS CORP - Form 10-Q

Includes share-based compensation expense of \$14 and \$25 for the three and six months ended March 31, 2007, respectively and \$17 and \$30 for the three and six months ended March 25, 2006, respectively.

(3) Includes share-based compensation expense of \$87 and \$160 for the three and six months ended March 31, 2007, respectively and \$86 and \$149 for the three and six months ended March 25, 2006, respectively.

15

---

Note We follow SFAS No. 142 "Goodwill and Intangible Assets." SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, we do not amortize goodwill.

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

The carrying amounts of acquired intangible assets for the Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage segments as of March 31, 2007 are as follows:

|                                    | Gross Carrying<br>Amount | Accumulated<br>Amortization<br>(in thousands) | Net Carrying<br>Amount |
|------------------------------------|--------------------------|---|------------------------|
| <b>FOOD SERVICE</b>                |                          |   |                        |
| Indefinite lived intangible assets |                          |   |                        |
| Trade Names                        | \$ 8,180                 | \$ -  | \$ 8,180               |
| Amortized intangible assets        |                          |   |                        |
| Licenses and rights                | \$ 37,403                | \$ 4,222                                      | \$ 33,181              |
|                                    | \$ 45,583                | \$ 4,222                                      | \$ 41,361              |
| <b>RETAIL SUPERMARKETS</b>         |                          |   |                        |
| Amortized intangible assets        |                          |   |                        |
| Licenses and rights                | \$ -                     | \$ -  | \$ -                   |
| <b>THE RESTAURANT GROUP</b>        |                          |   |                        |
| Amortized Intangible Assets        |                          |   |                        |
| Licenses and rights                | \$ -                     | \$ -  | \$ -                   |
| <b>FROZEN BEVERAGES</b>            |                          |   |                        |
| Indefinite lived intangible assets |                          |   |                        |
| Trade Names                        | \$ 8,960                 | \$ -  | \$ 8,960               |
| Amortized intangible assets        |                          |   |                        |
| Licenses and rights                | 8,175                    | 842   | 7,333                  |
|                                    | \$ 17,135                | \$ 842  | \$ 16,293              |

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. In January 2007, intangible assets of \$23,771,000 and \$12,799,000 were acquired in the Hom/Ade and RADAR acquisitions, respectively. Aggregate amortization expense of intangible assets for the three months ended March 31, 2007 and March 25, 2006 was \$1,107,000 and \$292,000, respectively and for the six months ended March 31, 2007 and March 25, 2006 was \$1,585,000 and \$575,000, respectively.

Estimated amortization expense for the next five fiscal years is approximately \$4,000,000 in 2007, \$4,700,000 in 2008, \$4,500,000 in 2009 and 2010 and \$4,400,000 in 2011. The weighted average amortization period of the intangible assets is 10.3 years.

Goodwill

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

|                           | Food Service   | Retail Supermarket | Restaurant Group | Frozen Beverages | Total     |
|---------------------------|----------------|--------------------|------------------|------------------|-----------|
|                           | (in thousands) |                    |                  |                  |           |
| Balance at March 31, 2007 | \$ 23,548      | \$ -               | \$ 386           | \$ 35,337        | \$ 59,271 |

Goodwill of \$36,000 and \$1,287,000 in the Food Service segment was acquired in the January 2007 Hom/Ade and RADAR acquisitions, respectively.

Note 10 The amortized cost, unrealized gains and losses, and fair market values of our investment securities available for sale at March 31, 2007 are summarized as follows:

|                                 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Market Value |
|---------------------------------|----------------|------------------------|-------------------------|-------------------|
|                                 | (in thousands) |                        |                         |                   |
| Available for Sale Securities   |                |                        |                         |                   |
| Equity Securities               | \$ 12,322      | \$ -                   | \$ -                    | \$ 12,322         |
| Municipal Government Securities | -              | -                      | -                       | -                 |
|                                 | \$ 12,322      | \$ -                   | \$ -                    | \$ 12,322         |

The amortized cost, unrealized gains and losses, and fair market values of the Company's investment securities available for sale at September 30, 2006 are summarized as follows:

|                                      | Amortized Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Market<br>Value |
|--------------------------------------|----------------|------------------------------|-------------------------------|----------------------|
|                                      | (in thousands) |                              |                               |                      |
| <b>Available for Sale Securities</b> |                |                              |                               |                      |
| Equity Securities                    | \$ 54,000      | \$ -                         | \$ -                          | \$ 54,000            |
| Municipal Government Securities      | 5,000          | -                            | -                             | 5,000                |
|                                      | \$ 59,000      | \$ -                         | \$ -                          | \$ 59,000            |

Because of the short term nature of our investment securities held at March 31, 2007 and September 30, 2006, they do not fluctuate from par.

Proceeds from the sale of marketable securities were \$46,875,000 and \$59,750,000 in the three and six months ended March 31, 2007, respectively, with no gain or loss recorded. We use the specific identification method to determine the cost of securities sold.

Note On January 9, 2007 we acquired the assets of Hom/Ade Foods, Inc., a manufacturer and distributor of biscuits and dumplings sold under the MARY B'S and private label store brands to the supermarket industry. Hom/Ade, headquartered in Pensacola, Florida, had annual sales of approximately \$30 million.

On January 31, 2007 we acquired the assets of Radar Inc., a manufacturer and seller of fig and fruit bars selling its products under the brand DADDY RAY'S. Headquartered and with its manufacturing facility in Moscow Mills, MO (outside of St. Louis), Radar, Inc. had annual sales of approximately \$23 million dollars selling to the retail grocery segment and mass merchandisers, both branded and private label.

These acquisitions were accounted for under the purchase method of accounting, and their operations are included in the consolidated financial statements from their respective acquisition dates.

The allocation of the purchase prices for the Hom/Ade and Radar acquisitions is as follows:

|                                | Hom/Ade<br>(in thousands) |        | Radar |        |
|--------------------------------|---------------------------|--------|-------|--------|
| Working Capital                | \$                        | 1,410  | \$    | 1,284  |
| Property, plant<br>& equipment |                           | 233    |       | 5,750  |
| Trade Names                    |                           | 6,220  |       | 1,960  |
| Customer Relationships         |                           | 17,250 |       | 10,730 |
| Covenant not to Compete        |                           | 301    |       | 109    |
| Goodwill                       |                           | 36     |       | 1,287  |
|                                | \$                        | 25,450 | \$    | 21,120 |

The following pro forma information discloses net sales, net earnings and earnings per share for the three and six months ended March 31, 2007 excluding the impact of these acquisitions.

|                               | Pro Forma<br>3 Months Ended<br>March 31,<br>2007 |         | 3 Months Ended<br>March 25,<br>2006 |         | Pro Forma<br>6 Months Ended<br>March 31,<br>2007 |         | 6 Months Ended<br>March 25,<br>2006 |         |
|-------------------------------|--|---------|-------------------------------------|---------|--|---------|-------------------------------------|---------|
|                               | (in thousands)<br>(unaudited)                    |         |                                     |         |  |         |                                     |         |
| Net Sales                     | \$   | 120,843 | \$                                  | 112,044 | \$   | 234,985 | \$                                  | 220,615 |
| Net Earnings                  | \$   | 4,706   | \$                                  | 4,137   | \$   | 8,511   | \$                                  | 7,147   |
| Earnings per<br>diluted share | \$   | .25     | \$                                  | .22     | \$   | .45     | \$                                  | .38     |
| Earnings per<br>basic share   | \$   | .25     | \$                                  | .23     | \$   | .46     | \$                                  | .39     |

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

Liquidity and Capital Resources

Our current cash and marketable securities 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.

The Company's Board of Directors declared a regular quarterly cash dividend of \$.085 per share of its common stock payable on April 5, 2007 to shareholders of record as of the close of business on March 15, 2007.

In the three months ended March 31, 2007 and March 25, 2006, fluctuations in the valuation of the Mexican peso caused a decrease of \$88,000 and a decrease of \$59,000, respectively, in stockholders' equity because of the translation of the net assets of the Company's Mexican frozen beverage subsidiary. In the six month periods, there was a decrease of \$15,000 in fiscal year 2007 and a decrease of \$6,000 in fiscal year 2006.

On January 31, 2006, we acquired the stock of ICEE of Hawaii. ICEE of Hawaii, headquartered in Waipahu, Hawaii, distributes ICEE frozen beverages and related products throughout the Hawaiian islands. Annual sales are approximately \$2.3 million.

On May 26, 2006, The ICEE Company, our frozen carbonated beverage distribution company, acquired the SLUSH PUPPIE branded business from Dr. Pepper/Seven Up, Inc., a Cadbury Schweppes Americas Beverages Company for \$18.1 million plus approximately \$4.3 million in working capital. SLUSH PUPPIE, North America's leading brand for frozen non-carbonated beverages, is sold through an existing established distributor network to over 20,000 locations in the United States and Canada as well as to certain international markets. Sales of the SLUSH PUPPIE business were approximately \$18 million in 2005.

On January 9, 2007 we acquired the assets of Hom/Ade Foods, Inc., a manufacturer and distributor of biscuits and dumplings sold under the MARY B'S and private label store brands to the supermarket industry. Hom/Ade, headquartered in Pensacola, Florida, had annual sales of approximately \$30 million.

On January 31, 2007 we acquired the assets of Radar Inc., a manufacturer and seller of fig and fruit bars selling its products under the brand DADDY RAY'S. Headquartered and with its manufacturing facility in Moscow Mills, MO (outside of St. Louis), Radar, Inc. had annual sales of approximately \$23 million dollars selling to the retail grocery segment and mass merchandisers, both branded and private label.

On April 2, 2007, we acquired the WHOLE FRUIT Sorbet and FRUIT-A-FREEZE Fruit Bar brands, along with related assets. Selling primarily to the supermarket industry, sales for 2007 are expected to be less than \$2 million.

These acquisitions were accounted for under the purchase method of accounting, and their operations are included in the consolidated financial statements from their respective acquisition dates.

The allocation of the purchase prices for the Hom/Ade and Radar acquisitions is as follows:

|                             | Hom/Ade        | Radar     |
|-----------------------------|----------------|-----------|
|                             | (in thousands) |           |
| Working Capital             | \$ 1,410       | \$ 1,284  |
| Property, plant & equipment | 233            | 5,750     |
| Trade Names                 | 6,220          | 1,960     |
| Customer Relationships      | 17,250         | 10,730    |
| Covenant not to Compete     | 301            | 109       |
| Goodwill                    | 36             | 1,287     |
|                             | \$ 25,450      | \$ 21,120 |

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 March 31, 2007.

#### Results of Operations

Net sales increased \$17,996,000 or 16% for the three months to \$130,040,000 and \$23,567,000 or 11% to \$244,182,000 for the six months ended March 31, 2007 compared to the three and six months ended March 25, 2006.

Approximately \$13.2 million of the sales increase resulted in the three months from the acquisitions of ICEE of Hawaii in January 2006, SLUSH PUPPIE in May 2006 and Hom/Ade Foods and Radar in January 2007. Excluding these sales, sales increased 4%. For the six months, approximately \$16.1 million of the sales increase resulted from these acquisitions; without these sales, sales increased 3%.

## FOOD SERVICE

Sales to food service customers increased \$13,346,000 or 19% in the second quarter to \$84,720,000 and increased \$14,210,000 or 10% for the six months. Excluding Hom/Ade sales of \$7,950,000 and DADDY RAY sales of \$3,440,000, sales increased 6% for the quarter and 3% for the six months. Soft pretzel sales to the food service market increased 3% to \$24,537,000 in the second quarter and increased 2% to \$48,368,000 in the six months. Italian ice and frozen juice treat and dessert sales increased 15% to \$9,957,000 in the three months and 15% to \$17,649,000 in the six months primarily due to increased sales to school food service customers. Churro sales to food service customers increased 2% to \$5,376,000 in the second quarter and were up 5% to \$10,617,000 in the six months. Sales of bakery products increased \$1,704,000 or 6% in the second quarter to \$32,208,000 and increased \$1,109,000 or 2% for the six months due primarily to increased sales to private label customers. The changes in sales throughout the food service segment were from a combination of volume changes and price increases.

## RETAIL SUPERMARKETS

Sales of products to retail supermarkets increased \$1,190,000 or 11% to \$11,648,000 in the second quarter and increased 13% or \$2,242,000 in the first half. Soft pretzel sales for the second quarter were essentially flat at \$7,292,000 and were up 4% to \$12,968,000 for the six months. Case sales of soft pretzels were down 10% for the quarter and 5% for the six months; however, reduced trade spending offset the case sales declines. Sales of frozen juices and ices increased \$1,212,000 or 34% to \$4,765,000 in the second quarter and 30% to \$7,599,000 in the first half primarily due to the introduction of several new products in 2006.

## THE RESTAURANT GROUP

Sales of our Restaurant Group decreased 30% to \$708,000 in the second quarter and 26% to \$1,678,000 for the six month period. The sales decreases were caused primarily by the closing or licensing of unprofitable stores over the past year. Sales of stores open for both year's six months were down about 5% from last year.



## FROZEN BEVERAGES

Frozen beverage and related product sales increased 13% to \$32,964,000 in the second quarter and \$7,692,000 or 14% to \$62,368,000 in the six month period. Excluding the impact of the ICEE of Hawaii and SLUSH PUPPIE acquisitions, sales were down 1% for the quarter and up 2% for the six months. Beverage sales alone increased 19% to \$20,944,000 in the second quarter and were up 17% to \$40,529,000 in the six months. Excluding the benefit of sales from the acquisitions, beverage sales alone would have been up 3% in the quarter and 2% in the six months; gallon sales were flat for the quarter and down 2% for the six months. Service revenue increased 37% to \$7,721,000 in the second quarter and 30% to \$14,257,000 for the six months. Sales of frozen carbonated beverage machines were \$2,867,000 lower this year than last in the three month period and for the six months, sales of machines were lower by \$3,235,000.

## CONSOLIDATED

Gross profit as a percentage of sales increased to 32.61% in the three month period from 31.44% last year and increased to 31.80% in the six month period from 30.98% a year ago. More than ½ of the improvement in the second quarter gross profit percentage resulted from the decrease in sales of low margin frozen carbonated beverage machines this year compared to last year. We were impacted by higher commodity costs of approximately \$1,500,000 for the March quarter and by \$3 million for the six months. Reduced trade spending in our retail supermarket segment, other pricing, and cost decreases in our first quarter in group health insurance, property and casualty insurance and utilities totaling approximately \$900,000 helped to maintain our gross profit percentage for the two periods. We expect to continue to be impacted by higher commodity pricing going forward.

Total operating expenses increased \$4,980,000 in the second quarter and as a percentage of sales was at 26% for both years. For the first half, operating expenses increased \$6,173,000 and as a percentage of sales were 26% in both years. Marketing expenses were 13% of sales in all periods, distribution expenses were 9% of sales in all periods, and administrative costs were 4% of sales in all periods. However, although at 13% of sales, marketing expenses increased .68 of a percentage point of sales in the quarter and .42 of a percentage point of sales in the six month period due to \$925,000 of costs for a TV/Internet advertising campaign for our retail SUPERPRETZEL product. We plan to spend an additional \$1 million on this campaign over the remaining six months of our fiscal year.

Operating income increased \$2,201,000 or 37% to \$8,195,000 in the second quarter and \$3,139,000 or 31% to \$13,330,000 in the first half.

Investment income decreased by \$220,000 to \$535,000 in this year's second quarter due to lower investable balances of cash and marketable securities. For the six months, investment income increased by \$64,000 due to higher investable balances and interest rates in the first quarter.

The effective income tax rate has been estimated at 39% for the second quarter this year compared to 38% for all other reported periods. The increase in the second quarter this year is due to a lower tax benefit on share-based compensation.

Net earnings increased \$1,196,000 or 29% in the current three month period to \$5,333,000 and increased 28% to \$9,138,000 in the six months this year from \$7,147,000 last year.

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 2006 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 March 31, 2007, 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 were no changes in the Company's internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

The results of voting at the Annual Meeting of Shareholders held on February 7, 2007 is as follows:

|   | Votes Cast |         |          | Absentees<br>and Broker<br>Non Votes |
|---|------------|---------|----------|--------------------------------------|
|   | For        | Against | Withheld |                                      |
| Election of Dennis Moore as Director  | 14,514,096 | -       | 774,062  | -                                    |
| The increase in the number of shares of<br>Common Stock for issuance under the<br>Company's Stock Option Plan | 12,950,374 | 994,307 | -        | -                                    |

The Company had 18,513,826 shares outstanding on December 10, 2006 the record date.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

- 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

b) Report on Form 8-K - Reports on Form 8-K were filed on January 9, 2007, January 25, 2007, January 31 and February 20, 2007

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: April 25, 2007

/s/ Gerald B. Shreiber

---

Gerald B. Shreiber  
President

Dated: April 25, 2007

/s/ Dennis G. Moore

---

Dennis G. Moore  
Senior Vice President and  
Chief Financial Officer