## J\&J SNACK FOODS CORP

Form 10-Q
July 26, 2007

## UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION 

Washington, D.C. 20549

FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the period ended June 30, 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.
xYes

No
Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

> xYes No

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

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Yes
    xNo
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As of July 16, 2007, there were 18,674,893 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION<br>Item 1. Consolidated Financial Statements

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

|  | $\begin{gathered} \text { June } 30 \text {, } \\ 2007 \\ \text { (Unaudited) } \end{gathered}$ |  | $\begin{gathered} \text { September 30, } \\ 2006 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| ASSETS |  |  |  |  |
| Current assets |  |  |  |  |
| Cash and cash equivalents | \$ | 15,646 | \$ | 17,621 |
| Marketable securities |  | 25,000 |  | 59,000 |
| Accounts receivable, net |  | 63,135 |  | 53,663 |
| Inventories |  | 46,224 |  | 37,790 |
| Prepaid expenses and other |  | 1,720 |  | 1,457 |
| Deferred income taxes |  | 3,165 |  | 2,713 |
|  |  | 154,890 |  | 172,244 |
| Property, plant and equipment, at cost |  |  |  |  |
| Land |  | 1,316 |  | 556 |
| Buildings |  | 7,751 |  | 4,497 |
| Plant machinery and equipment |  | 115,133 |  | 108,682 |
| Marketing equipment |  | 190,616 |  | 189,925 |
| Transportation equipment |  | 2,195 |  | 2,013 |
| Office equipment |  | 9,647 |  | 9,219 |
| Improvements |  | 16,977 |  | 16,264 |
| Construction in progress |  | 5,020 |  | 2,682 |
|  |  | 348,655 |  | 333,838 |
| Less accumulated depreciation and amortization |  | 255,652 |  | 248,391 |
|  |  | 93,003 |  | 85,447 |
| Other assets |  |  |  |  |
| Goodwill |  | 59,874 |  | 57,948 |
| Other intangible assets, net |  | 59,529 |  | 22,669 |
| Other |  | 2,666 |  | 2,500 |
|  |  | 122,069 |  | 83,117 |
|  | \$ | 369,962 | \$ | 340,808 |

See accompanying notes to the consolidated financial statements.
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J \& J SNACK FOODS CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - Continued
(in thousands)

|  | $\begin{gathered} \text { June 30, } \\ 2007 \\ \text { (Unaudited) } \end{gathered}$ |  | $\begin{gathered} \text { September } 30, \\ 2006 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| LIABILITIES AND STOCKHOLDERS' EQUITY |  |  |  |  |
| Current liabilities |  |  |  |  |
| Accounts payable | \$ | 46,716 | \$ | 40,835 |
| Accrued liabilities |  | 11,302 |  | 8,502 |
| Accrued compensation expense |  | 7,442 |  | 8,367 |
| Dividends payable |  | 1,586 |  | 1,385 |
|  |  | 67,046 |  | 59,089 |
| Deferred income taxes |  | 18,211 |  | 18,211 |
| Other long-term liabilities |  | 487 |  | 635 |
|  |  | 18,698 |  | 18,846 |
| Stockholders' equity |  |  |  |  |
| Capital stock |  |  |  |  |
| Preferred, \$1 par value; authorized, 10,000 shares; none issued |  | - |  | - |
| Common, no par value; authorized 50,000 shares; issued and outstanding, |  |  |  |  |
| 18,663 and 18,468 shares, respectively |  | 44,742 |  | 40,315 |
| Accumulated other comprehensive loss |  | $(1,943)$ |  | $(1,964)$ |
| Retained earnings |  | 241,419 |  | 224,522 |
|  |  | 284,218 |  | 262,873 |
|  | \$ | 369,962 | \$ | 340,808 |

All share amounts reflect the 2-for-1 stock split effective January 5, 2006.
See accompanying notes to the consolidated financial statements.
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# J \& J SNACK FOODS CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF EARNINGS <br> (Unaudited) <br> (in thousands, except per share amounts) 

|  | Three months ended |  |  |  | Nine months ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { June } 30, \\ 2007 \end{gathered}$ |  | June 24, 2006 |  | June 30, 2007 |  | June 24, 2006 |  |
| Net Sales | \$ | 162,510 | \$ | 140,132 | \$ | 406,692 | \$ | 360,747 |
| Cost of goods sold(1) |  | 106,852 |  | 89,399 |  | 273,379 |  | 241,671 |
| Gross profit |  | 55,658 |  | 50,733 |  | 133,313 |  | 119,076 |
| Operating expenses |  |  |  |  |  |  |  |  |
| Marketing(2) |  | 19,261 |  | 16,175 |  | 51,298 |  | 44,187 |
| Distribution(3) |  | 13,201 |  | 12,050 |  | 35,908 |  | 32,545 |
| Administrative(4) |  | 5,286 |  | 4,638 |  | 14,875 |  | 14,254 |
| Impairment charge |  | - |  | 1,193 |  | - |  | 1,193 |
| Other general (income)expense |  | (896) |  | (71) |  | (904) |  | (42) |
|  |  | 36,852 |  | 33,985 |  | 101,177 |  | 92,137 |
| Operating income |  | 18,806 |  | 16,748 |  | 32,136 |  | 26,939 |
| Other income(expenses) |  |  |  |  |  |  |  |  |
| Investment income |  | 481 |  | 786 |  | 2,003 |  | 2,244 |
| Interest expense and other |  | (30) |  | (40) |  | (89) |  | (99) |
| Earnings before income taxes |  | 19,257 |  | 17,494 |  | 34,050 |  | 29,084 |
| Income taxes |  | 6,760 |  | 6,708 |  | 12,415 |  | 11,151 |
| NET EARNINGS | \$ | 12,497 | \$ | 10,786 | \$ | 21,635 | \$ | 17,933 |
| Earnings per diluted share | \$ | . 66 | \$ | . 57 | \$ | 1.14 | \$ | . 95 |
| Weighted average number of diluted shares |  | 19,055 |  | 18,866 |  | 18,988 |  | 18,792 |
| Earnings per basic share | \$ | . 67 | \$ | . 58 | \$ | 1.16 | \$ | . 97 |
| Weighted average number of basic shares |  | 18,677 |  | 18,469 |  | 18,606 |  | 18,394 |

(1)Includes share-based compensation expense of $\$ 61$ and $\$ 167$ for the three and nine months ended June 30, 2007, respectively and $\$ 80$ and $\$ 221$ for the three and nine months ended June 24,2006 , respectively.
(2) Includes share-based compensation expense of $\$ 179$ and $\$ 491$ for the three and nine months ended June 30, 2007, respectively and $\$ 155$ and $\$ 427$ for the three and nine months ended June 24, 2006, respectively.
(3)Includes share-based compensation expense and $\$ 14$ and $\$ 37$ for the three and nine months ended June 30, 2007, respectively and $\$ 7$ and $\$ 19$ for the three and nine
months ended June 24, 2006, respectively.
(4)Includes share-based compensation expense of $\$ 141$ and $\$ 385$ for the three and nine months ended June 30, 2007, respectively and $\$ 108$ and $\$ 300$ for the three and nine months ended June 24, 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 <br> (Unaudited) (in thousands) 

|  | Nine months ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | June 30, 2007 |  | June 24,$2006$ |  |
| Operating activities: |  |  |  |  |
| Net earnings | \$ | 21,635 | \$ | 17,933 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |  |  |  |  |
| Depreciation and amortization of fixed assets |  | 16,848 |  | 17,125 |
| Amortization of intangibles and deferred costs |  | 3,225 |  | 1,220 |
| Share-based compensation |  | 1,080 |  | 967 |
| Deferred income taxes |  | (452) |  | (51) |
| Other |  | (142) |  | - |
| Loss from disposals and impairment of property, plant and equipment |  | 18 |  | 1,127 |
| Changes in assets and liabilities, net of effects from purchase of companies |  |  |  |  |
| Increase in accounts receivable |  | $(6,421)$ |  | $(10,051)$ |
| Increase in inventories |  | $(5,349)$ |  | $(4,880)$ |
| Increase in prepaid expenses |  | (161) |  | (239) |
| Increase in accounts payable and accrued liabilities |  | 6,124 |  | 5,920 |
| Net cash provided by operating activities |  | 36,405 |  | 29,071 |
| Investing activities: |  |  |  |  |
| Purchase of property, plant and equipment |  | $(17,406)$ |  | $(12,792)$ |
| Payments for purchases of companies, net of cash acquired |  | $(52,747)$ |  | $(25,152)$ |
| Purchase of marketable securities |  | $(31,100)$ |  | $(24,075)$ |
| Proceeds from sale of marketable securities |  | 65,308 |  | 32,650 |
| Proceeds from disposal of property and equipment |  | 408 |  | 750 |
| Other |  | (683) |  | (532) |
| Net cash used in investing activities |  | $(36,220)$ |  | $(29,151)$ |
| Financing activities: |  |  |  |  |
| Proceeds from issuance of stock |  | 2,355 |  | 1,624 |
| Payments of cash dividend |  | $(4,536)$ |  | $(3,889)$ |
| Net cash used in financing activities |  | $(2,181)$ |  | $(2,265)$ |
| Effect of exchange rate on cash and cash equivalents |  | 21 |  | (203) |
| Net decrease in cash and cash equivalents |  | $(1,975)$ |  | $(2,548)$ |
| Cash and cash equivalents at beginning of period |  | 17,621 |  | 15,795 |
| Cash and cash equivalents at end of period | \$ | 15,646 | \$ | 13,247 |

See accompanying notes to the consolidated financial statements.

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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 period 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 nine months ended June 30, 2007 and June 24, 2006 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 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 consideration 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 Our calculation of earnings per share in accordance with SFAS No. 128, "Earnings Per Share," is as follows (all 4 share amounts reflect the 2-for-1 stock split effective January 5, 2006):

|  | Three Months Ended June 30, 2007 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Income (Numerator) (in tho |  | Shares (Denominator) , except per share | Per Share Amount unts) |  |
| Basic EPS |  |  |  |  |  |
| Net Earnings available to common stockholders | \$ | 12,497 | 18,677 | \$ | . 67 |
| Effect of Dilutive Securities Options |  | - | 378 |  | (.01) |
| Diluted EPS |  |  |  |  |  |
| Net Earnings available to common stockholders plus assumed conversions | \$ | 12,497 | 19,055 | \$ | . 66 |

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.

|  | Nine Months Ended June 30, 2007 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Income (Numerator) (in thou | Shares (Denominator) except per share | mo | Per Share <br> Amount nts) |
| Basic EPS |  |  |  |  |  |
| Net Earnings available to common stockholders | \$ | 21,635 | 18,606 | \$ | 1.16 |
| Effect of Dilutive Securities |  |  |  |  |  |
| Options |  | - | 382 |  | (.02) |
| Diluted EPS |  |  |  |  |  |
| Net Earnings available to common stockholders plus assumed conversions | \$ | 21,635 | 18,988 | \$ | 1.14 |

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.

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Three Months Ended June 24, 2006


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 $123(\mathrm{R})$ 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.

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

At June 30, 2007, the Company has two stock-based employee compensation plans. Share-based compensation of $\$ 285,000$, net of a tax benefit of $\$ 110,000$, or $\$ .01$ per share, was recognized for the three months ended June 30, 2007 ; and $\$ 277,000$, net of a tax benefit of $\$ 73,000$, or $\$ .01$ per share, was recognized for the three months ended June 24,2006 . For the nine months ended June 30, 2007, share-based compensation expense of $\$ 697,000$, net of a tax benefit of $\$ 383,000$, or $\$ .04$ per share was recognized; and $\$ 699,000$, net of a tax benefit of $\$ 268,000$, or $\$ .04$ per share, was recognized for the nine months ended June 24, 2006. The Company anticipates that share-based compensation will be approximately $\$ 1,000,000$, net of tax benefits, or $\$ .05$ 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 $4.57 \%$ and $4.37 \%$; dividend rate of $.91 \%$ and $1.0 \%$ and expected lives ranging between 5 and 10 years.

During the 2007 and 2006 nine month periods, the Company granted 128,200 and 153,171 stock options, respectively. The weighted-average grant date fair value of these options was $\$ 11.94$ and $\$ 10.04$, respectively. 1,000 options were granted in the third quarter of 2006 and 10,000 options were granted in the third quarter of 2007. Additionally, in the third quarter of 2007, the Company awarded 10,000 shares of restricted stock which vest over three years.

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 6 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 material cumulative adjustments.

Inventories consist of the following:

|  |  | September |  |
| :--- | ---: | ---: | ---: | ---: |
|  | June 30, | 2007 | 20, |
|  | (in thousands) |  |  |

NoteWe principally sell our products to the food service and retail supermarket industries. We also distribute our 8 products directly to the consumer through our chain of retail stores referred to as The Restaurant Group. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business and restaurant group because of different distribution and capital requirements. We maintain separate and discrete financial information for the four operating segments mentioned above which is available to our Chief Operating Decision Makers. We have applied no aggregate criteria to any of these operating segments in order to determine reportable segments. Our four reportable segments are Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages. All inter-segment net sales and expenses have been eliminated in computing net sales and operating income (loss). These segments are described below.

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

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

| Three Months Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: |
| June 30, | June 24, | June 30, | June 24, |
| 2007 | 2006 | 2007 | 2006 |


| Sales to External Customers: |  |  |  |  |  |  |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Food Service | $\$$ | 95,419 | $\$$ | 82,979 | $\$$ | 255,619 | $\$$ | 228,969 |
| Retail Supermarket |  | 17,380 |  | 14,510 |  | 37,316 | 32,204 |  |
| Restaurant Group |  | 566 |  | 824 |  | 2,244 | 3,079 |  |
| Frozen Beverages |  | 49,145 |  | 41,819 |  | 111,513 |  | 96,495 |
|  | $\$$ | 162,510 | $\$$ | 140,132 | $\$$ | 406,692 | $\$$ | 360,747 |


| Depreciation and Amortization: |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Food Service | \$ | 4,307 | \$ | 3,492 | \$ | 11,921 | \$ | 10,510 |
| Retail Supermarket |  | - |  | - |  | - |  |  |
| Restaurant Group |  | 14 |  | 24 |  | 45 |  | 82 |
| Frozen Beverages |  | 2,689 |  | 2,593 |  | 8,107 |  | 7,753 |
|  | \$ | 7,010 | \$ | 6,109 | \$ | 20,073 | \$ | 18,345 |
|  |  |  |  |  |  |  |  |  |
| Operating Income(Loss): |  |  |  |  |  |  |  |  |
| Food Service(1) | \$ | 9,900 | \$ | 9,283 | \$ | 23,189 | \$ | 21,097 |
| Retail Supermarket(2) |  | 255 |  | 729 |  | 924 |  | 1,003 |
| Restaurant Group |  | (61) |  | (81) |  | (26) |  | (45) |
| Frozen Beverages(3) |  | 8,712 |  | 6,817 |  | 8,049 |  | 4,884 |
|  | \$ | 18,806 | \$ | 16,748 | \$ | 32,136 | \$ | 26,939 |


| Capital Expenditures: | $\$$ | 3,814 | $\$$ | 2,756 | $\$$ | 9,079 | $\$$ | 7,843 |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Food Service |  | - |  | - |  | - | - |  |
| Retail Supermarket |  | 40 |  | 2 |  | 101 | 2 |  |
| Restaurant Group |  | 1,606 |  | 1,940 |  | 8,226 |  | 4,947 |
| Frozen Beverages | $\$$ | 5,460 | $\$$ | 4,698 | $\$$ | 17,406 | $\$$ | 12,792 |
|  |  |  |  |  |  |  |  |  |
| Assets: | $\$$ | 238,929 | $\$$ | 204,117 | $\$$ | 238,929 | $\$$ | 204,117 |
| Food Service | - |  | - |  | - |  | - |  |
| Retail Supermarket |  | 779 |  | 871 |  | 779 | 871 |  |
| Restaurant Group |  | 130,254 |  | 124,395 |  | 130,254 |  | 124,395 |
| Frozen Beverages | $\$$ | 369,962 | $\$$ | 329,383 | $\$$ | 369,962 | $\$$ | 329,383 |

${ }^{(1)}$ Includes share-based compensation expense of $\$ 287$ and $\$ 787$ for the three and nine months ended June 30, 2007, respectively and $\$ 248$ and $\$ 686$ for the three and nine months ended June 24, 2006, respectively.
(2)Includes share-based compensation expense of $\$ 15$ and $\$ 40$ for the three and nine months ended June 30, 2007, respectively and $\$ 17$ and $\$ 47$ for the three and nine months ended June 24, 2006, respectively.
(3)Includes share-based compensation expense of $\$ 93$ and $\$ 253$ for the three and nine months ended June 30, 2007, respectively and $\$ 85$ and $\$ 234$ for the three and nine months ended June 24,2006 , respectively.

Note We follow SFAS No. 142 "Goodwill and Intangible Assets". SFAS No. 142 includes requirements to test goodwill 9 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 amount of acquired intangible assets for the Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage segments as of June 30, 2007 are as follows:

|  | Gross Carrying Amount |  |  | lated <br> ation <br> nds) | Carrying Amount |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| FOOD SERVICE |  |  |  |  |  |  |
| Indefinite lived intangible assets |  |  |  |  |  |  |
| Trade Names | \$ | 8,180 | \$ | - | \$ | 8,180 |
| Amortized intangible assets |  |  |  |  |  |  |
| Licenses and rights | \$ | 37,328 | \$ | 5,216 | \$ | 32,112 |
|  | \$ | 45,508 | \$ | 5,216 | \$ | 40,292 |

## RETAIL SUPERMARKETS

| Indefinite lived intangible assets |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Trade Names | \$ | 2,731 | \$ | - | \$ | 2,731 |
| THE RESTAURANT GROUP |  |  |  |  |  |  |
| Amortized intangible assets |  |  |  |  |  |  |
| Licenses and rights | \$ | - | \$ | - | \$ | - |
| FROZEN BEVERAGES |  |  |  |  |  |  |
| Indefinite lived intangible assets |  |  |  |  |  |  |
| Trade Names | \$ | 9,315 | \$ | - | \$ | 9,315 |
| Amortized intangible assets |  |  |  |  |  |  |
| Licenses and rights | \$ | 8,227 | \$ | 1,036 | \$ | 7,191 |
|  | \$ | 17,542 | \$ | 1,036 | \$ | 16,506 |

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 $\$ 12,799,000$ in the Food Service segment were acquired in the Hom/Ade and RADAR acquisitions, respectively. In April 2007, intangible assets of $\$ 2,731,000$ in the Retail Supermarket segment were acquired in the WHOLE FRUIT Sorbet and FRUIT-A-FREEZE Fruit Bar acquisition. In June 2007, intangible assets of \$413,000 in the Frozen Beverages segment were acquired in an acquisition of an ICEE territory. Aggregate amortization expense of intangible assets for the three months ended June 30, 2007 and June 24, 2006 was $\$ 1,268,000$ and $\$ 356,000$, respectively and for the nine months ended June 30, 2007 and June 24, 2006 was $\$ 2,853,000$ and $\$ 931,000$, respectively.

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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, Restaurant Group and Frozen Beverage segments are as follows:
$\left.\begin{array}{lcccccccc} & \text { Food Service } & \begin{array}{c}\text { Retail } \\ \text { Supermarket }\end{array} & \begin{array}{c}\text { Restaurant } \\ \text { Group }\end{array} & \begin{array}{c}\text { Frozen } \\ \text { Beverages }\end{array} & \text { Total } \\ \text { Balance at June 30, 2007 } & \$ & 23,548 & \$ & - & \$ & 386 & \$ & 35,940\end{array}\right) \$$

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. Goodwill of $\$ 603,000$ in the Frozen Beverages segment was acquired in the June acquisition of an ICEE territory.

Note The amortized cost, unrealized gains and losses, and fair market values of our investment securities available 10 for sale at June 30, 2007 are summarized as follows:

|  | Amortized Cost | Gross <br> Unrealized <br> Gains <br> (in thousands) | Gross <br> Unrealized <br> Losses | Fair <br> Market <br> Value |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Available for Sale Securities |  |  |  |  |  |  |
| Equity Securities | $\$$ | 25,000 | $\$$ | - | $\$$ | - |
|  | $\$$ | 25,000 | $\$$ | - | $\$$ | - |

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 Unrealized Gains |  | Gross <br> Unrealized Losses |  | Fair <br> Market Value |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Available for Sale Securities |  |  |  |  |  |  |  |  |
| 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 June 30, 2007 and September 30, 2006, they do not fluctuate from par.

Proceeds from the sale of marketable securities were
$\$ 5,558,000$ and $\$ 65,308,000$ in the three and nine months ended June 30, 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 11 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.

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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 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 and other acquisitions which were made during the third quarter is as follows:

|  | Hom/Ade |  | Radar <br> (in thousands) |  | Other |
| :--- | ---: | ---: | ---: | ---: | ---: |
| Working Capital | $\$$ | 1,410 | $\$$ | 1,284 | $\$$ |
| Property, plant \& equipment | 233 | 5,750 | 989 |  |  |
| Trade Names | 6,220 | 1,960 | 1,442 |  |  |
| Customer Relationships | 17,250 | 10,730 | 3,086 |  |  |
| Covenant not to Compete | 301 | 109 | 58 |  |  |
| 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 nine months ended June 30, 2007 excluding the impact of the Hom/Ade and Radar acquisitions. The impact of the acquisitions made in the third quarter on net sales, net earnings and earnings per share was not significant.

| Pro Forma |  | Pro Forma | 9 Months |
| :---: | :---: | :---: | :---: |
| 3 Months Ended | 3 Months Ended | 9 Months Ended | Ended |
| June 30, | June 24, | June 30, | June 24, |
| 2007 | 2006 | 2007 | 2006 |
|  | (in thousands) |  |  |
|  | (unaudited) |  |  |


| Net Sales | $\$$ | 152,037 | $\$$ | 140,132 | $\$$ | 387,022 | $\$$ | 360,747 |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Net Earnings | $\$$ | 11,829 | $\$$ | 10,786 | $\$$ | 20,340 | $\$$ | 17,933 |
| Earnings per diluted share | $\$$ | .62 | $\$$ | .57 | $\$$ | 1.07 | $\$$ | .95 |
| Earnings per basic share | $\$$ | .63 | $\$$ | .58 | $\$$ | 1.09 | $\$$ | .97 |

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.

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The Company's Board of Directors declared a regular quarterly cash dividend of $\$ .085$ per share of its common stock payable on July 6, 2007 to shareholders of record as of the close of business on June 15, 2007.

In the three months ended June 30, 2007 and June 24, 2006, fluctuations in the valuation of the Mexican peso caused an increase of $\$ 36,000$ and a decrease of $\$ 197,000$, respectively, in stockholders' equity because of the translation of the net assets of the Company's Mexican frozen beverage subsidiary. In the nine month periods, there was an increase of $\$ 21,000$ in fiscal year 2007 and a decrease of $\$ 203,000$ 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 2006.

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 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.

On June 25, 2007, we acquired the assets of an ICEE distributor in Kansas with annual sales of less than $\$ 1$ 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.

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 June 30, 2007.

Results of Operations
Net sales increased $\$ 22,378,000$ or $16 \%$ for the three months to $\$ 162,510,000$ and $\$ 45,945,000$ or $13 \%$ to $\$ 406,692,000$ for the nine months ended June 30, 2007 compared to the three and nine months ended June 24, 2006.

Approximately $\$ 15,700,000$ of the sales increase resulted in the three months from the acquisitions of SLUSH PUPPIE in May 2006, Hom/Ade Foods and Radar in January 2007 and FRUIT-A-FREEZE and WHOLE FRUIT in April 2007. Excluding these sales, sales increased 5\%. For the nine months, approximately $\$ 31,800,000$ of the sales increase resulted from these acquisitions and the acquisition of ICEE of Hawaii in January 2006; without these sales, sales increased $4 \%$.

## FOOD SERVICE

Sales to food service customers increased $\$ 12,440,000$ or $15 \%$ in the third quarter to $\$ 95,419,000$ and increased $\$ 26,650,000$ or $12 \%$ for the nine months. Excluding Hom/Ade sales of $\$ 6,684,000$ and DADDY RAY sales of $\$ 5,937,000$, sales increased $2 \%$ for the quarter and $3 \%$ for the nine months. Soft pretzel sales to the food service market decreased $4 \%$ to $\$ 24,989,000$ in the third quarter due primarily to a large unit volume decline to one customer and were essentially unchanged at $\$ 73,357,000$ in the nine months. Italian ice and frozen juice treat and dessert sales increased $10 \%$ to $\$ 15,033,000$ in the three months and $12 \%$ to $\$ 32,682,000$ in the nine months. Excluding sales from the WHOLE FRUIT and FRUIT-A-FREEZE acquisitions, sales increased $5 \%$ in the quarter and $10 \%$ in the nine months primarily due to increased sales to school food service customers. Churro sales to food service customers decreased $7 \%$ to $\$ 5,661,000$ in the third quarter and were essentially unchanged at $\$ 16,278,000$ in the nine months. Sales of bakery products increased $\$ 683,000$ or $9 \%$ in the third quarter to $\$ 34,579,000$ and increased $\$ 3,940,000$ or $4 \%$ for the nine months due primarily to increased sales to private label customers. Sales of our funnel cake products were down $22 \%$ to $\$ 2,361,000$ in the quarter and $7 \%$ to $\$ 4,577,000$ for the nine months as sales declined to one customer. 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 $\$ 2,870,000$ or $20 \%$ to $\$ 17,380,000$ in the third quarter and increased $\$ 5,112,000$, or $16 \%$, in the nine months. Soft pretzel sales increased $20 \%$ to $\$ 5,960,000$ for the quarter and increased $9 \%$ to $\$ 18,928,000$ for the nine months. Case sales of soft pretzels were up $14 \%$ for the quarter and were flat for the nine months with reduced trade spending accounting for the larger dollar sales increases. Sales of frozen juices and ices increased $\$ 2,104,000$ or $21 \%$ to $\$ 11,985,000$ in the third quarter and $\$ 3,852,000$ or $24 \%$ to $\$ 19,584,000$ in the nine months.

## THE RESTAURANT GROUP

Sales of our Restaurant Group decreased $31 \%$ to $\$ 566,000$ in the third quarter and $27 \%$ to $\$ 2,244,000$ for the nine month period. The sales decreases were caused primarily by the closing or licensing of stores in the past year. Sales of stores open for both year's quarter and nine months were down about $9 \%$ from last year in the quarter and $5 \%$ for the nine months.

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## FROZEN BEVERAGES

Frozen beverage and related product sales increased $18 \%$ to $\$ 49,145,000$ in the third quarter and $\$ 15,018,000$ or $16 \%$ to $\$ 111,513,000$ in the nine month period. Excluding the impact of the ICEE of Hawaii and SLUSH PUPPIE acquisitions, sales were up $7 \%$ for the quarter and $4 \%$ for the nine months. Beverage sales alone increased $14 \%$ to $\$ 32,973,000$ in the third quarter and were up $16 \%$ to $\$ 73,502,000$ in the nine months. Excluding the benefit of sales from the acquisitions, beverage sales alone would have been up $5 \%$ in the quarter and $3 \%$ in the nine months although frozen carbonated beverage gallon sales were down $2 \%$ for the quarter and nine months. Service revenue increased $20 \%$ to $\$ 8,324,000$ in the third quarter and $27 \%$ to $\$ 22,581,000$ for the nine months as we continue to expand our customer base. Sales of frozen carbonated beverage machines were $\$ 230,000$ higher this year than last in the three month period but for the nine months, sales of machines were lower by $\$ 3,005,000$.

## CONSOLIDATED

Gross profit as a percentage of sales decreased to $34.25 \%$ in the three month period from $36.20 \%$ last year and decreased to $32.78 \%$ in the nine month period from $33.01 \%$ a year ago. The lower margin Daddy Ray's business accounted for approximately $1 / 2$ of the decreased margin percentage in the third quarter. Gross margin percentage for the nine months this year would have been slightly higher without Daddy Ray's. We were impacted by higher commodity costs of about $\$ 2,000,000$ for the June quarter and by $\$ 5,000,000$ for the nine 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 nine month period. For the third quarter, however, trade spending in our Retail Supermarket segment increased and our insurance costs increased slightly compared to a year ago. We expect to continue to be impacted by higher commodity pricing going forward.

Total operating expenses increased $\$ 2,867,000$ in the third quarter but as a percentage of sales decreased to $23 \%$ from $24 \%$ last year. For the nine months, operating expenses increased $\$ 9,040,000$ but as a percentage of sales decreased about $2 / 3$ of a percentage point to $25 \%$. Marketing expenses were at $12 \%$ in both years' three month period and increased about $1 / 3$ of a percentage point as a percent of sales in the nine months to $13 \%$. Marketing expenses this year include $\$ 842,000$ in the third quarter and $\$ 1,764,000$ in the nine months of costs for a TV/Internet advertising campaign for our retail SUPERPRETZEL product. Distribution expenses decreased about $1 / 2$ of a percentage point to $8 \%$ in the three months and were $9 \%$ of sales in both year's nine month period. Administrative expenses as a percent of sales were $3 \%$ in both years' third quarter and were $4 \%$ for the nine months in both years.

Operating expenses in last year's quarter and nine months include an impairment charge of $\$ 1,193,000$ in the Food Service segment for the writedown of robotic packaging equipment.

Other general income of $\$ 896,000$ in the third quarter and nine months primarily consist of about $\$ 495,000$ of insurance gains in the Frozen Beverages segment and a royalty settlement of $\$ 569,000$ in the Food Service segment reduced by other general expense items.

Operating income increased $\$ 2,058,000$ or $12 \%$ to $\$ 18,806,000$ in the third quarter and $\$ 5,197,000$ or $19 \%$ to $\$ 32,136,000$ in the nine months as a result of the aforementioned. Excluding the writedown of robotic packaging equipment in last year's quarter, operating income increased $\$ 865,000$, or $5 \%$, for the quarter and $\$ 4,004,000$, or $14 \%$, for the nine months. Excluding the writedown of the robotic packaging equipment in last year's quarter and the increase in other general income this year, operating income was essentially unchanged for the quarter and up $\$ 3.2$ million, or $11 \%$, for the nine months.

Investment income decreased by $\$ 305,000$ to $\$ 481,000$ in this year's third quarter and by $\$ 241,000$ to $\$ 2,003,000$ in the nine months primarily due to lower investable balances of cash and marketable securities.

The effective income tax rate has been estimated at $35 \%$ for the third quarter, down from $38 \%$ last year, and at $36 \%$ for the nine months compared to $38 \%$ in the year ago nine months. The decrease in the rate this year results primarily from the resolution of state and foreign tax matters this quarter.

Net earnings increased $\$ 1,711,000$ or $16 \%$ in the three month period to $\$ 12,497,000$ and increased $21 \%$ or $\$ 3,702,000$ to $\$ 21,635,000$ in the nine months this year from $\$ 17,933,000$ last year.

Item3. 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 $10-\mathrm{K}$ filed with the SEC.

Item 4. Controls and Procedures
The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of June 30, 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 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

Reports on Form 8-K - Reports on Form 8-K were filed on April 3, 2007, April 26, 2007, May 3, 2007 and June 5, b) 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: July 26, 2007

Dated: July 26, 2007
/s/ Gerald B. Shreiber
Gerald B. Shreiber
President

Dennis G. Moore
Senior Vice President and
Chief Financial Officer

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