

J & J Snack Foods Third Quarter Earnings
J & J Snack Foods
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Dennis Moore
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Operator: Welcome to the J & J Snack Foods Third Quarter Earnings Conference Call. My name is Kim, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Mr. Gerry Shreiber. Mr. Shreiber, you may begin.

Gerald B. Shreiber: Good morning. Thank you, Kim. This is Gerry Shreiber; and with me today is Dennis Moore, my Senior Vice President and Chief Financial Officer; Vince Melchiorre, our Executive Vice President; Bob Radano, our Senior Vice President and Chief Operating Officer. And also with us today, I have invited our Retail Bakery Group, which is headed up Bob Pape, Senior Vice President. Since we were having meetings and I've invited them into the conference room to listen to this format. Also here is Teddy Shepherd*, our CED.

And I will begin with the obligatory statements. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-

looking statements to reflect events or circumstances that arise after the date hereof.

Results of Operations. Net sales increased 6% for the quarter and 6% for the nine months. This represents 155 straight quarters of consecutive sales increases. Excluding sales from the recent acquisition of Parrot-Ice in February 2010 and California Churros in June 2010, sales increased 5% for both periods. Approximately \$3.0 million, or roughly 30%, for the three months and \$10.5 million, or 40%, for the nine months of the increased sales were sales of funnel cake fries to one customer, Burger King, which is carrying the product in virtually all of its domestic locations. We, as stated in the past, are not able to provide an estimate of these sales going forward. For the quarter, our net earnings increased by 6% to \$15.9 million, or \$0.85 a share, from \$14.9 million, or \$0.80 a share, a year ago. For the nine months, our net earnings increased by 21% to a \$1.71 a share from \$1.42 the share the year ago period. Our EBITDA, earnings before interest, taxes, depreciation, and amortization for the past 12 months was \$106.6 million, another record.

Food Service. Sales to Food Service customers increased 3% for the quarter and 4% for the nine months. Without sales of California Churros, sales increased 2% and 4% for the quarter and nine months. Without sales to Burger King, sales increased less than 1% in both periods. Soft pretzel sales were up 1% in the quarter and 1% for the nine months, an improvement over previous trends. Italian ice and frozen juice bars and dessert sales, decreased 3% for the quarter and 7% for the nine months in large part due to loss of one private label customer and continued softness in School Food Service business. Churro sales were up 7% in the quarter and down 1% in the nine months, benefiting from the

sales of California Churros. Bakery sales, excluding biscuit and dumpling sales and fruit and fig bar sales, were up 2% in the quarter and 2% for the nine months. Biscuit and dumpling sales were down 7% in the quarter and up 2% for the nine months, and fruit and fig bar sales were down 1% and 1% respectively caused by lower sales to one customer who discontinued an SKU.

Retail Supermarkets. Sales of products to Retail Supermarkets were up 14% for the quarter and 16% for the nine months. Soft pretzel sales were down 5% on a case volume decrease of 7% for the quarter and up 2% on a case volume increase - - I'm sorry, and up - - decrease in the quarter and up 2% on a case volume increase of 1% for the nine months. Sales of our frozen juice bars and Italian ices were up 21% on a case volume increase of 6% - - 16% in the quarter and 27% on a case volume increase of 22% for the nine months.

ICEE and Frozen Beverages. ICEE and Frozen Beverages, including ARCTIC BLAST, SLUSH PUPPIE, and more recently Parrot-Ice and related product sales, were up 8% in the quarter and up 6% for the nine months. Beverage sales alone were up 12% in the quarter and 12% for the nine months. Gallon sales were up 10% in our base ICEE business in the quarter and 8% for the nine months, driven by increased sales to three customers. Service revenue for others was down 6% in the quarter and 5% for the nine months. Sales of frozen beverage machines were up \$0.5 million in the quarter and down \$1.2 million for the nine months.

Consolidated. Gross profit as a percentage of sales in the quarter increased to 34.3% from 34% last year and to 32.4% in the nine months from 31.3% a year ago. That's a full percentage and a basis point increase. We were impacted by

about \$1 million of higher ingredient and packaging costs in the quarter and benefited by about \$3.5 million of lower ingredient and packaging costs in the nine months. We cannot project the impact or benefit of changes in ingredient and packaging costs going forward. Total operating expense as a percentage of sales was 0.1 percentage point higher in the quarter and 0.3 percentage points lower in the nine months.

Capital Spending and Cash Flow. Our cash and investment security balance decreased \$7.3 million in the quarter to \$109.5 million due to the purchase of California Churros. We continue to look for and identify acquisitions as a benefit and good resource for our Klondike and cash. Our capital spending was \$8.2 million in the quarter, and we estimate that capital spending for this year will be in the \$33 million range as we continue to invest in plant efficiencies and growing our business. This estimate includes \$6 million additional for this year for the purchase of our frozen distribution warehouse in Pennsauken. A cash dividend of \$0.1075 a share was declared by our Board of Directors and paid on July 7, 2010. We also bought back and retired 154,000 shares so far this fiscal year, but none in the June quarter.

Other Commentary. Our sales growth of 6% this quarter and year-to-date primarily resulted from unit volume increases and decreases. In Food Service, we had a mixed bag balanced with soft pretzels continuing to show improvement and Italian ice and frozen juice bar and dessert sales beginning to stabilize after being down 10% in the first six months of the year. Our convenient store business also showed signs of stability as well. We acquired the assets of California Churros this quarter. California Churros is a manufacturer and seller of premium brand churros, selling its products under the brand CALIFORNIA

CHURROS with last year sales of approximate \$11 million. California Churros brings with it a moderate efficient manufacturing facility in Southern California, which provides us with capacity to continue to expand our niche churro business. Unit sales of soft pretzels in our Retail Supermarket segment were down 7% in the quarter, although still up 1% for the year. We believe that was an aberration that was maybe complicated by the extremely hot weather here in the East. Case sales of frozen ice and juices were up 16% in the quarter, also perhaps benefiting from the extremely hot weather. Year-over-year increases in unit volume of frozen ices and juices continue a trend, which began over a year ago. Our ICEE Frozen Beverage segment had strong gallon sales in our base ICEE business because of two new customers and other customer growth. Our service revenue to others dropped this quarter, down 6%, but we're optimistic we will continue to grow this segment of the business going forward. We were also impacted by \$281,000 of higher gasoline costs this quarter and expect that we may continue to be impacted the balance of our fiscal year. We acquired the assets of Parrot-Ice, a regional producer of specialty beverages in this past February. Parrot-Ice is a manufacturer and distributor for premium brand frozen beverage sold primarily to convenient stores. We expect revenues from Parrot-Ice to be less than \$2 million this fiscal year, but more next fiscal year. Our estimated income tax rate was at 40% for this year, up slightly from last year. We're estimating a tax rate of 40% for the full year.

I want to thank you for your continued interest, and I will now turn this back to the audience for any questions and comments.

Operator:

Thank you. We will now begin the question-and-answer session. If you have a question, please press star then one on your touchtone phone. If you wish to be

removed from the queue, please press the pound sign or the hash key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touchtone phone.

At this time, we have a question from Akshay Jagdale. Please go ahead.

Akshay Jagdale: Good morning, everyone.

Gerald B. Shreiber: Good morning, Akshay. How are you?

Akshay Jagdale: Good. Thanks for asking. **So I wanted to just start with...**

Gerald B. Shreiber: Are you here in this country when... You're getting married soon, right?

Akshay Jagdale: Yes, I am, and thanks for advertising that. But, yes, I'm getting married on August 14th. Everyone is invited.

Gerald B. Shreiber: Well (inaudible) when you go back to your country and a happy and long marriage.

Akshay Jagdale: Thank you. Appreciate it. **I wanted to... Gerry, I wanted to focus a little bit on churros, if I may. I know you made an acquisition in the quarter. You spent about \$24 million, which according to what was disclosed in the Q, it looks like you paid 2.2 times sales, which is more than you usually pay, and that's at a time when churro sales have been slowing down. They're**

actually down, I think, 4% year-to-date. Can you help me understand that, putting that - - those things together here?

Gerald B. Shreiber: This was a specialty premium company that we believe will have real good growth and benefits in the future. And as a matter of fact, the price that we paid, may be by our previous standards a little bit north of center, but it was significantly below what some of the original asking price and others that were interested in it. So we're comfortable with that, and we're comfortable that we'll integrate it properly and continue to grow the category and benefit overall with contribution to earnings for a long, long time.

Akshay Jagdale: **And the other question is just if you look at this quarter, and if I take a step back and say, "Longer-term...." I wanted to ask you about earnings growth. I mean the sales growth was pretty good, 5/6% this quarter, but earnings growth was not much (inaudible). So to me it seems like it's a mix issue. Beverage sales are growing faster than Food Service. So in my opinion, you need to reverse that trend to get leverage. But most companies we follow, including your Company, had been growing earnings much faster than sales. So when can we expect that to happen, if you do believe that's going to happen longer-term, and what needs to happen to get that result?**

Gerald B. Shreiber: Well to begin with, even though earnings were up roughly 7% for the quarter in there, we were impacted by a couple of things. You asked a very simple question: When can we expect earnings to propel north of what we were? And we're working on that. We think our business is extremely well balanced between our - - the multi-channels that we're in. And when you look at it, you

also have to take a look at it over the past three/four years and all these 12 to 15 quarters, I mean we grew consistently and constantly against a lot of economic barriers. But we believe that we're positioned well to if not ignite our bakery and our Food Service business, other than grocery and ICEE, but at least to spear it forward.

Akshay Jagdale:

But what specifically, Gerry, you need - - do you need to do in your opinion other than acquisitions to get earnings to grow a little bit faster than sales, like they have in the past? I do agree that in the past they have grown that way, but this quarter and looks like maybe in the back half next quarter too, it looks like earnings growth has slowed down and to me it seems like a mix issue, but I'm trying to understand what needs to change in the current business for that to reverse such that you have a little bit more leverage that you can gain from your SG&A and your fixed costs?

Gerald B. Shreiber:

Well certainly sales, and particularly in Food Service, and that seems to be our primary challenge, and I think that's a challenge that with our people and our strength that we're going to be equal to.

Akshay Jagdale:

Okay, that's fair. **And then on just cash usage, obviously you spent the money buying a business, but can you explain to us maybe why not repurchases here? I mean everyone's been talking about M&A, and I know you are very prudent with the cash, but can you just walk us through how you're thinking of cash usage right now because you do have some flexibility there in terms of priorities, whether it's dividend, whether it's share repurchase, or M&A?**

Gerald B. Shreiber: Well it's all these things. We could - - need to invest in our business, in our plants to glean efficiencies and we're also - - we're going to grow our business organically and there's a - - we're looking at acquisitions, so I mean we're going to be frugal with our cash and our investment. But at the same time, we have a lot of things that we're looking at, so I don't think we're going to off on a wild goose chase. But we're going to... We think we have some good things on the backburner that we'll be able to talk about next year.

Akshay Jagdale: **But is it fair to say that you haven't maybe repurchased more shares recently because you think your... You have more of an emphasis on M&A, right, obviously on dividends? Can you just talk about maybe a special dividend, where that would fall in your priority list?**

Gerald B. Shreiber: That comes up every once in awhile, all right. We started dividends I think it's five years ago. We've increased them every single year under the Lodish formula by earnings. Whether we ever pay a special dividend or not, I don't know. I am against that, all right. I think that we got to get sharper and quicker with better uses of our cash so that we can grow our business and our earnings more quickly. I think we have a terrific group of sales and marketing people who are right now trying to catch up with our manufacturing efficiencies. And I believe that over the next 12 to 18 months, we will be doing that in there, so we're going to grow sales and we're going to grow the right mix of sales. But I certainly don't want to use the cash to go up into something that is totally unrelated to the business and then we go off on a wild goose chase.

Akshay Jagdale: Okay great. I'm going to pass it on, but I just wanted to for the time that I've known Vince, it's been a pleasure and congratulations on your move.

Gerald B. Shreiber: Well Vince is here. We're sorry to lose Vince, and Vince was a friend before he joined us. He fell down and hurt his head and he's been making some decisions. He's gone back... No, Vince got a terrific offer and he's going to be going back to the Western Group, which is now Grupo Bimbo. And I said to Vince, "Vince, you're leaving me for a Bimbo. What is wrong with you?" So... But Bob Pape, who's been with us 13 years, and he is not only a seasoned veteran, he has all of the expertise and experience to continue to guide us. And we have a hell of marketing department now that has been formulated, so we're in better shape than we were three years ago, and we wish Vince well and he'll always remain a friend and a supporter.

Akshay, you got to give somebody else a chance now.

Akshay Jagdale: Yes. Thank you.

Gerald B. Shreiber: Okay, bye, Akshay.

Operator: Thank you. Our next question comes from Brian Rafn. Please go ahead.

Brian Rafn: Morning, Gerry.

Gerald B. Shreiber: Good morning, Brian.

Brian Rafn: **Question for you on the ICEE, the Frozen Beverages, as well as some of the fruit bars. Superb job in the Supermarket area. Is this... You talked a little bit about it, is this weather-related or... You talked about the trend being**

about a year, was it heavy couponing early in that cycle or kind of what...

Give me a sense as to what you see the growth in unit volume?

Gerald B. Shreiber: I'm going to turn it over to Bob Pape, who is our Senior Vice President, just recently appointed. But, yes, we're benefiting from weather. There's no question when the weather is 96 degrees every single day, people drink more beverage and eat more juice bars. We're benefiting there. But what has to be considered is our people did a great job 90 days and 180 days before by getting us in the right places with the right features and the right ads, with the right customers and then supporting it in there. Bob say hello and then talk...

Bob Pape: Really the results are generated by a combination of promotional activity, new distribution, and obviously the weather helped us as well, so those three elements really came together in the last quarter and did a good job for us.

Brian Rafn: Yeah, it certainly did a nice job. Yeah superb. **On the - - kind of the ICEE Beverage side, again some good numbers there, obviously weather probably. Are you seeing any trend differences versus sales of that through retail, like a target versus the standard kind of cinema and movie channel?**

Gerald B. Shreiber: Well ICEE had a terrific quarter, and it's having a terrific year again. Dan Fachner, who runs that group in there, and they have expanded its beverage business by some additional brands, SLUSH PUPPIE and PARROT-ICE, which is a new niche premium brand, but it also has gotten into some other key customers that a year ago was not selling an ICEE beverage or for that matter any kind of frozen beverage. So it continues to expand its niche customer base

and we continue to look for other opportunities, some of them worldwide for our ICEE and our Frozen Beverage business.

Brian Rafn: **Let me ask you guys anecdotally, and I know that you don't have maybe a perfect answer, but do you think you're taking some market share from the soda pop manufacturers?**

Gerald B. Shreiber: Not really. We've always been... Years ago, it was kind of difficult for us to get in the same place and go side-by-side with them, all right, and we had to play a little bit of David and Goliath. We were David. We had a dog and a sling shot, but now we're there and now we work the cokes, Coca-Colas of the world, who's a tremendous infrastructure partner, and we work with some of the other people in there. So we're there and people look for frozen beverage or frozen carbonated beverage. And when they look for one, chances are we're going to be in the running. We're going to be in the running. Our people run hard; they run long, so we're going to (inaudible) business and it will continue to grow.

Brian Rafn: **Let me ask you, Gerry, on the three brands, PARROT-ICE, SLUSH PUPPIE, and ICEE, I'm assuming that they all have specifically differentiated flavors. ICEE certainly cinema, some major retail. SLUSH PUPPIE, I think you talked about having these little vendor carts that you go out to baseball leagues and football leagues and that type of thing. PARROT-ICE, is that exclusively in convenient stores?**

Gerald B. Shreiber: Well it's not exclusively in convenient stores. It was a Southwestern regional beverage. It's a niche beverage. They were a competitor, and it's a terrific quality product. They had some issues in there. We acquired it February, and we've

been integrating it since, and I think we're going to benefit for that and our other brands for a long time to come. Most of the business is ICEE and it's ICEE managed, including the service, and ICEE today is \$185 million a year company. And when you think back, it's only a few years ago when we acquired it, it was doing \$13 million a year. I can't predict what the next 13 years will be in there, but it'll be a lot more than it is today.

Brian Rafn: Yeah superb. **Gerry, on the ingredient side, you had an inflection point. Do you get a sense in the third quarter relative to a bottoming and then a modest reflation in some of your ingredient costs?**

Gerald B. Shreiber: Well flour appeared - - is stable, though it showed some signs of springing the last couple of weeks. Chocolate and shortening... Sugar, sugar's up there. We're looking at that. And we have passed on some pricing in the cookie business because of our ingredients. We don't want to happen to us what happened a couple years ago when we held back too long and we really narrowed, didn't quite catch up with passing on commodity increases, but we have passed on some for a portion of the bakery business, more specifically cookies, and that'll take effect later in August.

Brian Rafn: Okay, I'll just ask one more and get back in line. **How... You talked about manufacturing, Gerry, certainly efficiencies. You talked about marketing having to kind of catch up a little. From your stance, are you comfortable with the footprint of your distribution warehouse system, capacity-wise, location-wise?**

Gerald B. Shreiber: Well I think that we are very, very smart for things that we did years ago. Where is J & J? Oh, they're in Pennsauken. Oh they're in California. Oh they're in Atlanta. Oh they're in Texas. Oh they're in St. Louis. So we made some decisions years ago and now we have 11 facilities that are operating well and we're able to... And we also have a facility in Texas, so we're able to distribute product and ship product and get product from hither and yon real, real efficiently.

Brian Rafn: Thanks, Gerry. I'll get back in line. Thanks.

Gerald B. Shreiber: Thanks.

Operator: Thank you. Our next question comes from Mitch Pinheiro. Please go ahead.

Gerald B. Shreiber: Hi, Mitch.

Mitch Pinheiro: Good morning, guys. **So specifically, hey Gerry, just following up on that last question about pricing in bakery, what type of price increase do you think you'll ultimately realize there?**

Gerald B. Shreiber: Well we've announced five.

Mitch Pinheiro: Okay, 5%.

Gerald B. Shreiber: So we expect five.

Mitch Pinheiro: Okay. **As far as...**

Gerald B. Shreiber: And I understand your question, and there's always some times, but I will trust my people to make the right decision and judgment.

Mitch Pinheiro: Okay, just trying to get a sense for the magnitude of...

Gerald B. Shreiber: They have some flexibility with that, particularly we all know what it's like to be beat up by a customer coming out of there after a 14-hour day so...

Mitch Pinheiro: I haven't felt that yet, so. **So in your pricing outlook for other areas, can you talk about that as you look not only in the fourth quarter but into fiscal '11? Is part of your revenue growth - - how much do you think pricing would add next year based on what you know of commodities today?**

Gerald B. Shreiber: Don't know, Mitch. Don't know.

Mitch Pinheiro: **What about... What have discussions been like with your customers in terms of either pricing? Are they coming back to you looking for concessions? Has that abated. Is that increasing? Can you color that for us?**

Gerald B. Shreiber: It's always been a competitive environment. I don't want to you think we go into a customer and say, "Here's a 4% increase," and they give us a hug and kiss. It doesn't happen like that, all right. But, hey, we make niche products and by and large we have - - we're popular priced items and we're generally, whether it be supermarket or in a school channel or a mass merchandising channel, we're generally a economical purchase, an impulse purchase in there and we're

popularly priced. It's extremely profitable for the customer on a food service basis standpoint. We want to certainly glean all of our efficiencies without impacting any kind of quality so that we could deliver a quality product that meets the pricing objectives of our customers and its consumers.

Mitch Pinheiro: **With FCB, not to minimize a nice double digit increase there, but with the warm weather would've expected perhaps a stronger performance and I'm curious...**

Gerald B. Shreiber: Mitch, that's almost unfair and unruly. They have a 12% increase in beverage on a product line that has been traditionally slowed by nutritional concerns and other beverages. Now I think that our ICEE group performed fabulously; and if we can maintain that type of growth, you'll be happy, we'll be happy, and so will our customers and our shareholders.

Mitch Pinheiro: **So... But... So I was wondering how their channels, in particular, a lot of the retail C-store channel either traffic or just the basic mix of your locations, how that had an impact on FCB in the quarter? Are you seeing any discretionary spending impact, any channel impact positive or negative?**

Gerald B. Shreiber: Well more recently we've seen a little bit of stability coming to the convenient store channel, which - - and we can track that almost daily and weekly with our uptown business. That was running down 6/7/8/9% a year ago and through most of this year. Now we're getting back to flattish, which is a big improvement, and hopefully the economy is going to come back. We're Americans and we live in America, which we still believe is the greatest country in the world, and we think

that the economy will come back. It may not bounce back or snap back, but we're well positioned and well balanced with our products throughout - - for all of the different channels.

Mitch Pinheiro: **Are you seeing... I mean to say that, are you seeing anything or is that just your personal view? I mean are you seeing the economy come back in any one of your channels? I mean it's not coming back in arenas. Is it coming... It's not coming...**

Gerald B. Shreiber: Good question. You give me a dangling... Mitch, you keep giving me extra questions. We're seeing a little bit of bounce back in the convenient store channel. We've certainly seen an overall improvement in our grocery business and our in-store bakery business. Now the grocery business, I have to balance that. Does that mean more people are eating at home and not going to the movies or a basketball game? I really don't know that, but we're at all of these markets and that's why I keep making reference to our balanced portfolio, our in-store Bakery group, our Food Service group, our Retail group, our ICEE group. So we got teams out there and we're all going to make the playoffs and then they'll battle each other and we'll see who has the best games and the best profitability. But I'm real pleased with our team and our direction.

Mitch Pinheiro: Okay, last question then. **For fiscal '11, so what's fiscal '11 going to look like for J & J conceptually? I know you don't give guidance, but is it going to be sort of more the same in terms of your top line type of growth?**

Gerald B. Shreiber: Good isn't it? I mean more the same is pretty good?

Mitch Pinheiro: Well.

Gerald B. Shreiber: When you say, "More the same," we're looking that we can grow that top line hopefully in the mid-single digits, maybe higher if we get a break, maybe lower if it goes the other way. But we've been consistent now for 38 plus years and 155 straight quarters, so I think you can look for us to be consistently good.

Mitch Pinheiro: **And if you look... So and consistently good, do you also consider when you look at the various operating segments, will one be... For fiscal '11, do you expect one of those to outshine the other or is it going to be, as you say, consistent among all of your operations? Do you have any...**

Gerald B. Shreiber: They're all working on budgets now. They've all been given a target in there, and we'll get our first pass on looking at this probably in the next couple of weeks in there. I think that a couple years ago when we had the perfect storm of commodity increases by commodity - - by commodity in there, we had a little temporary skip/speed bump in earnings. We don't think that's going to be the case going forward.

Mitch Pinheiro: All right, well thank you for your answers.

Gerald B. Shreiber: Thank you, Mitch.

Operator: Thank you. Our next question comes from Shaumo Sadhukhan. Please go ahead.

Gerald B. Shreiber: Hi, Shaumo.

Shaumo Sadhukhan: Hey, Gerry, it's Shaumo Sadhukhan. How are you doing?

Gerald B. Shreiber: Good. How are you?

Shaumo Sadhukhan: **I wanted to ask you about the Retail Supermarket business.**

Gerald B. Shreiber: Sure.

Shaumo Sadhukhan: **Noticed that your margins in that business are up a lot over the last eight quarters or something. Typically you've been kind of five/six/seven range and now you're running well into the double digits; I think 13/14 range the last few quarters. Can you talk about how you've been able to do that and whether you think you can continue to keep those type of margins?**

Gerald B. Shreiber: Well you're talking specifically our Supermarket business, right?

Shaumo Sadhukhan: Yep.

Gerald B. Shreiber: It's a combination of a few factors. Slotting has... Slotting varies. You have major slotting in one year and perhaps you don't have it the next year. I think we've gotten a little bit better with our merchandising and our marketing. We've directed our efforts customer-centric. And by that I mean, we've assigned specialty guys/teams and we've expanded that business a little bit. All of sudden we got into a new channel, which up until a year/year and a half ago we didn't sell. That's called dollar stores. We were able to take existing products, redress it, keep the equity and the brand names like LUIGI'S, like SUPER PRETZEL, like

A-BOB*, and put them in smaller packages and get them into the dollar channel and we're able to do it both quickly, efficiently, and profitability. So it's a combination of all these factors and I think that it gives us confidence we'll continue to expand some of our product whereas into these channels.

Shaumo Sadhukhan: **Gerry, one other thing I wanted to ask is: You guys have historically... Well if you look at the last four quarters, I did a calculation, your margin's running about 11% the last four quarters. Historically you've been running about 8 to 9%, and I think the reason why the margin has been up the last few quarters is because some commodity costs might have come down. And I'm wondering if you're seeing any pressure from any of your customers to give price discounts because you're kind of running at all-time high margins, maybe they see that and are asking for some sort of concession.**

Gerald B. Shreiber: I think that was asked before and I addressed it. Keep in mind that we haven't had any price increase in the last two years, and we're very sensitive to passing off pricing. But by the same token, one of our goals several years back was to get our margins from I think at the time it was 7% or so and I made a statement that my CFO and friend, Dennis Moore, tried to like punch me in the middle of a conference call. I said my goal was to get to double digits, and we got there within two years, and now we're at 11%, so now we want to stay on that horse so to speak. So once we got on the horse, we want to stay on there.

Shaumo Sadhukhan: Okay, sounds good. Thank you.

Gerald B. Shreiber: Okay. (Inaudible) horse.

Operator: *Thank you. Our next question is a follow-up from Brian Rafn. Please go ahead.*

Brian Rafn: **Yeah, Gerry, wanted to ask you a little bit of weakness I think in the fig bar sales. Is that a seasonal issue or kind of give me a sense of what you see there?**

Gerald B. Shreiber: Well two things. We're straining in capacity there. We're in the middle of an expansion, planned expansion, and we lost one SKU with a major customer in there. So there's these kind of ups and downs that happen in the normal course of business, nothing crashed, not a major hurdle, but a little... When you look at that business, we've grown the business now, it's 3.5 years. It was doing \$15 million when we acquired it. It'll do close to \$38 million this year, and I think overall we performed very well with that business and there's plans for it to continue to grow. I would say that overall that's something we're happy with, nothing to crow about with that business.

Brian Rafn: **Sure. What type of capacity and volume would you be increasing? You're doubling or you're up 50? Give me a sense.**

Gerald B. Shreiber: Well double (inaudible), but certainly we can get that business, we believe, certainly to the \$60 million range.

Brian Rafn: Okay.

Gerald B. Shreiber: ...(inaudible) four or five years.

Brian Rafn: **Yeah, what's the distribution channel on that? Is that a supermarket item or is that a convenient store, gas station?**

Gerald B. Shreiber: There's dollar stores and whoever. But at this point, our base business is the dollar channel is a strong market and other economy stores.

Brian Rafn: Okay. All right.

Gerald B. Shreiber: And it's also (inaudible)...

Brian Rafn: Go ahead.

Gerald B. Shreiber: (Inaudible)... Gone.

Brian Rafn: Go ahead. No, I'm there. Go ahead.

Gerald B. Shreiber: It helps to set like a little bit of guidance and it helps our Supermarket business because we were able to marry the synergies there.

Brian Rafn: Gotcha. Gotcha. **Any comment migration from private label and national brand of visa versa, any trends in the grocery stores?**

Gerald B. Shreiber: I think you saw most of the major influence in that trend over the past four or five years, particularly when commodities were going crazy. It may have slowed down a bit.

Brian Rafn: **Okay, so then you're saying once you see a rebound, you think the demand for national brands, you'll rebound in that?**

Gerald B. Shreiber: Well we're still selling national brands and our brands are national.

Brian Rafn: Right.

Gerald B. Shreiber: We still are. We'll produce private label for customers. We have our... Our LUIGI'S is having a terrific year, but we're also doing a product for others. Our pretzel brands, we do most of the private label for supermarkets that are in the business, so we're real good producers and we're efficient manufacturers. And because we are, that gives us a little bit of an advantage and a niche that we can compete in that market.

Brian Rafn: Sure.

Gerald B. Shreiber: And so...

Brian Rafn: **Could you give us a sense, Gerry, what from the relationship for you guys across your brands, you mentioned pretzels, certainly the LUIGI'S, the frozen ices. What would your manufacture of private label be for grocery chains versus what you do in your own national brands? Is it 10% of the mix or...**

Gerald B. Shreiber: Single digits you mentioned, it's single digits.

Brian Rafn: **Okay, so there's a base to grow there then?**

Gerald B. Shreiber: Yeah. Well there's a base to grow there certainly. But even though, and you mentioned pretzels, so I'll comment on that, even though it's less than - - it's single digits, but we're probably maybe an 80 or 85% share of the private label market. Why? To begin with, we can make them at multiple plants and we make them lower than at a more economical cost basis than anybody else and we distribute well. So you take all of these factors together, niche, quality product, cost efficient producer, and distribution benefits and we're ranked number one, number one, and number one.

Brian Rafn: Yeah. No, you always do a superb job in that. **On the Food Service school cafeteria side, Gerry, you bring in arsenal of products. You've I think had a lower sugar cookie or a lower - - less fat or whatever, what seems to be the issue there? I mean obviously with...**

Gerald B. Shreiber: Well...

Brian Rafn: Go ahead.

Gerald B. Shreiber: Couple things. Number one was nutritional and wellness concerns. We had to reformulate not only our cookie product - - cookie products and completely reformulate our juice bars and we've been channeled. There's a little bit of softness in that category. We've been making strides. It's not like we're losing share in there, but there also - - there's a complication from budget, state budgets, federal budgets in there. So it's still a very profitable business for us and we continue to strategically work with and define and work through the challenges.

Brian Rafn: Okay. I asked you last quarter, you're seeing in the supermarket channels, Gerry, rack kiosks close to the front end of the store, single service, generally lunch traffic, sodas, sandwich wraps, cheese, little cheese sticks. It seemed to be a natural mix for you guys since you reformulated package size for the dollar stores. Are you guys looking at that or is that something that just really doesn't apply to some of your products?

Gerald B. Shreiber: It doesn't really apply, particularly when you need a freezer box channel. Although, we do have some single serves in some of the grocery markets where we'll take out our cups of MINUTE MAID and whatnot, some of the others that are being sold.

All right, can we get on to somebody else who's waiting here just so...

Brian Rafn: Thanks.

Gerald B. Shreiber: ...has a chance too. Thank you. Good questions.

Operator: Thank you. Our next question comes from Robert Costello. Please go ahead.

Robert Costello: Hello, Gerry.

Gerald B. Shreiber: Hi, Bob.

Robert Costello: **The churros market, prior to buying the California Churros, what kind of sales did you do? Can you give us just an estimate so we have an idea of what your total sales would be for going forward?**

Gerald B. Shreiber: Well year one, we did about \$100 in sales and this year combined we'll do about 48 to 49 million, so that's pretty good.

Robert Costello: Right. **You do a lot of business in the frozen novelty in the club stores, but churros availability in club stores in the East is pretty much nil in the club stores. They're not really marketed or distributed well. Given that this is your strength...**

Gerald B. Shreiber: (Inaudible)...

Robert Costello: Pardon.

Gerald B. Shreiber: You mean in the freezer section there?

Robert Costello: Exactly. **I mean you have French toast. You have waffles for people to buy, but you don't have churros.**

Gerald B. Shreiber: Right.

Robert Costello: **Why? Is there a reason why?**

Gerald B. Shreiber: Well to begin with, they have a few items in there that they move and buy them. Now we are selling churros and the snack bars.

Robert Costello: Right.

Gerald B. Shreiber: And we are looking for next year about the possibility of putting it in a retail pack which would be available and sold through supermarkets and perhaps club stores.

Robert Costello: Right.

Gerald B. Shreiber: But I would look for, and this is not - - I'm not giving you a prediction here, but I would look for increased penetration through the club channel in churros.

Robert Costello: Right, you give people an option of another product to buy that otherwise that's how you've normally grown your business.

Gerald B. Shreiber: If I owned all the club stores, I would put all my products in every category, in the drugs, in the beverage and this, but I don't. They're the boss. We want to make them happy and keep them happy. I think by and large that we do. We're selling pretzels and we're selling our novelties there.

Robert Costello: **But if you think your ICEE business, you changed the ICEE liquid form into a push pop and you obviously told us that you'd be able to increase sales through the same methodology, so it only seem to be logical that that would be an area where opportunity exists, just as one example, which we're...**

Gerald B. Shreiber: We're looking at it, Bob.

Robert Costello: All right...

Gerald B. Shreiber: Yeah, but (inaudible), we still kept our ICEE beverage drink, we just took the equity from the brand and put it into a freeze up ICEE bar or juice bar.

Robert Costello: Right, and it's available in the club stores and you can't get enough of it when you go there.

Gerald B. Shreiber: Well I like that...

Robert Costello: (Inaudible)... Well I think you have strong market share there and I look at who makes the products and what's available and you're - - you've... **How about plant consolidation? You talked in the past in calls that you had opportunities. Is there any examples of where you've been able to benefit from that in the recent past or going forward you might?**

Gerald B. Shreiber: I am satisfied with our plant efficiencies and our plant locations. Couple years ago, we did close and shifted production from one pretzel facility that was excess capacity to our needs, but it was very small.

Robert Costello: Right.

Gerald B. Shreiber: But I'm looking at our plant capacity now and I think that we have plenty of capacity to grow our business over the next four to five years and we don't have to build, with the exception of the fig and fruit bar facility, which we're expanding, we won't have to build any new plants. We may acquire somebody along the

way which will come with a plant, but we've been pretty good at doing that and continuing to grow our business.

Robert Costello: Right. **Is... You obviously in the last quarter, you mentioned the benefit of the Burger King business. Is that an exclusive contract where the product can only be sold there or is it available to be sold in other end markets?**

Gerald B. Shreiber: Well we sell it to some other venues, but Burger King does have an exclusive for its channel, which is QSRs.

Robert Costello: Right. **Now going forward this time next year, given the success of that, is there logical parallels to additional efforts in that area with other products?**

Gerald B. Shreiber: Working on it, Bob. We're working on it, but we just can't tell. We just can't tell. We got our people.... As a matter of fact, a couple of our people have been meeting with some of these quick service restaurant chains as recently as this week. Suzanne Murphy*, the big head down there with Burger King and talking some innovations and new products, but some of these things take awhile. Perhaps a Burger King will be up. We had a team that's working on the possibility of developing new healthy products for McDonald's. Might this happen? It's not going to happen this year, but it may be years, but we're working on these things and we have both the marketing and the creativity and development groups to get ourselves into there and perhaps will be benefiting from this in 2013 and '14.

Robert Costello: **When you look at the overall margins of your different product categories that you manufacture, what offers you the best upside on a margin basis**

you think going forward from either acquisition through additional penetration in a particular industry segment? When you look through your different categories that you - - where would you find the best return on your investment going forward if you had to put money to work?

Gerald B. Shreiber: Well we make pretzels. We make pretzels well, and it's one of our best margin items and we have capacity at five/six different plants, so I think that answers that.

Robert Costello: Right. All right. Thanks very much.

Gerald B. Shreiber: Thank you.

Operator: Thank you. At this time, I show no further questions.

Gerald B. Shreiber: I want to thank everybody for participating in the call. My Executive Team thanks you and my In-Store Bakery group that has been listening to this thanks you, and we look forward to talking to you again next quarter. Thank you and bye.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

Please Note: * Proper names/organizations spelling not verified.
[sic] Verbatim, might need confirmation.
- - Indicates hesitation, faltering speech, or stammering.