Operator: Welcome to the J&J Snack Foods Third Quarter Earnings conference call. My name is Christine, and I will be the 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 recorder.

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

Gerry Shreiber: Good morning, everyone. This is Gerry Shreiber and welcome to our Third Quarter conference call. With me today is Dennis Moore, our CFO; Bob Radano, our COO; Jerry Law, my Assistant and Senior Vice President. Not with us today is Bob Pape nor Teddy Shepherd, our CED, but substituting Bob Pape is Bo Powell.

Let me begin with the obligatory statement. The forward-looking statements contained herein are subject to certain risk and uncertainties that could cause actual results to differ materially for those projected in the forward-looking statements. You’re cautioned not to place undue reliance on these statements, which
reflect management's analysis only as of the date hereof. We undertake no obligation to publicly revise or update these statements to reflect events or circumstances that arise after the date hereof.

Results of operations; net sales increased 8% for the quarter and 8% for the nine months. Excluding the benefit from Philly Swirl, which was acquired in May 2014, sales increased 8% for the quarter and 6% for the nine months. For the quarter, our net earnings increased by 3% to $24.5 million or $1.30 a share from $23.7 million or $1.26 a share a year ago. For the nine months, our net earnings increased to $50.4 million or $2.68 a share from $49.6 million or $2.64 a share a year ago.

We realized a loss of $1.4 million in the quarter as we reduced our holdings of mutual funds. This loss reduced our earnings per share by close to $0.05 a share. Although, we expect to recognize additional losses in these funds going forward our overall return on our investment in mutual funds has been positive since we first made the investments in October 2012.

Our EBITDA, that's earnings before interest, taxes, depreciation and amortization, for the past 12 months was $151.9 million, a record. Food service, sales to our food service customers increased 6% for the quarter and 5% for the nine months, in large part due to increased sales to school food service customers, convenience store chains and warehouse club stores.

Soft pretzel sales were up 4% for the quarter and 4% for the nine months. Italian ice and frozen juice bar and dessert sales were up 6% in the quarter and 1% for the nine months. Churros sales were down 4% in the quarter and down 1% for the nine months as we continue to lap the loss of Taco Bell. Bakery sales were up 10% in the quarter and 8% for the nine months.

Retail supermarkets and grocery; sales of products to retail supermarkets were up 18% for the quarter and 18% for the nine months and they were up 12% for the quarter and 6% for the nine months without
the benefit of Philly Swirl. Soft pretzel sales were up 5% for the quarter and 4% for the nine months, and sales of frozen juice bars and Italian ices were up 15% in the quarter and 12% for the nine months without the benefit of Philly Swirl.

Handheld sales in the quarter were flat and down 4% for the nine months. ICEE and frozen beverages, which include Arctic Blast, Slush Puppie and Parrot Ice. Frozen beverage and related product sales were up 9% in the quarter and 10% for the nine months. Beverage related sales alone were up 8% with gallon sales up 7% in our base ICEE business in the quarter and up 6% with gallon sales up 6% for the nine months. Service revenue for others was up 4% for the quarter and 11% for the nine months.

Consolidated gross profit as a percentage of sales was 32.4% in this year’s third quarter, down slightly from 32.8% last year and for the nine months was 30.5% this year, down from 30.8% last year.

The gross profit percentage in this year’s quarter was driven higher by ICEE and retail supermarkets and offset by reduced margins and food service resulting primarily from higher manufacturing cost and significantly higher cost of egg raw materials. Total operating expense as a percentage of sales decreased to 18.9% from 18.5% in last year’s quarter, primarily because of increased sales.

Capital spending and cash flow; our cash and investment securities balance increased $13.5 million in the quarter to $229.9 million. We continue to look for acquisitions as a use of our cash.

We reduced our holdings of income generating mutual funds to $90 million at quarter end and $67 million in our fourth quarter. We have reinvested some of the proceeds in fixed to floating rate preferred stocks and corporate bonds.
Our capital spending was $15.6 million in the quarter as we continue to invest in plant efficiencies and growing our business. We are presently estimating capital spending for the year to be $45 million to $50 million or so. A cash dividend of $0.36 a share was declared by our Board of Directors and paid on July 2nd. We did not purchase, buyback any of our stock during the quarter.

Commentary; our sales growth of soft pretzels in food service was 4% this quarter. Although sales to restaurant chain this year continued to be roughly flat with last year, sales to schools and convenience store chains were strong.

Frozen juice bars and ices sales in food service were up in this quarter due to sales of our branded WHOLE FRUIT organic juice bars to a warehouse club store. Handheld sales on food service were down again 6% as we continue to face challenges in this business in driving its growth.

Churros sales were down 4%. Excluding the loss of sales to a major food restaurant chain last August, sales were up 8% in the quarter. Bakery sales continued to be strong driven by sales to schools and co-packing business. Sales of soft pretzels in our retail supermarket were up a solid 4% for the quarter and frozen juice and ices were up very strong 15%. Handheld sales in retail supermarket were down 5%, mainly due to lower sales to two customers. In frozen beverages gallon sales were up an outstanding 7% as we benefited from sales to movie theaters where attendance was very strong and service revenue to others was up 4% in the quarter as this area of our business continues to grow and perform very well.

Operating income increased $3.1 million in the quarter from a year ago, with operating income in frozen beverages higher by $1 million and retail supermarkets higher by $2.9 million. Food service was lower by $766,000. Operating income in food service in this quarter was impacted by about $800,000 due to higher egg cost, which were not recovered through selling price increases, and generally higher manufacturing costs in part due to start up inefficiencies as we expand our manufacturing capabilities.
Our estimated income tax rate was 37% this year and last year for the same quarter. We are estimating a rate of about 36.5% in fiscal year 2015. We continue to grow our sales quarter-over-quarter. This marks 175 straight quarters of sales increases.

I want to thank you for your continued interest. The past has been bright and our future is brighter. I will turn it now back to the audience for and questions.

**Operator:** Thank you. (Operator instructions.) Our first question comes from Jon Andersen.

**Jon Andersen:** I wanted to ask first about the retail supermarket business, which as you pointed out, Gerry, was quite strong in the quarter, up double digits on an organic basis. That's the first time I think that's happened since maybe the second quarter of 2011. Could you talk a little bit more about the particular points of strength you're seeing in the retail supermarket business and how sustainable this might be going forward?

**Gerry Shreiber:** Well, it's a good point, Jon. It's a combination of factors. As you well know, our food service soft pretzel business had been growing significantly in the last couple years, as that business was influenced by more soft pretzels more on menus everywhere.

And our marketing department did a—we had couple of special promotions on our major brands, including SUPERPRETZEL. We benefited from the increase from it. Hopefully, we will be able to repeat this in the future, but there is obviously no guarantee there are going to be double-digit increases in the grocery end of the business.
**Jon Andersen:** In the Bavarian launch, I think you’ve been at retail now for some time and how was that kind of going so far in terms of sell-through, what you’re seeing in terms of velocity of the shelves, is it meeting expectations?

**Gerry Shreiber:** It is not, all right. So that’s even more significant that our major brand SUPERPRETZEL in the frozen section has done so well without having a particular headwind from the other bread products. We’ll continue to do things in there and we’ve expanded not only our business, but we’ve expanded our share, however slightly.

**Jon Andersen:** And then just within that the same segment, I think you mentioned the handhelds were flat, I think the handhelds have been declining. Is there an update you can provide there? Are you seeing some more stability in that business at retail, or is it still kind of touch and go?

**Gerry Shreiber:** I really can’t say stability, but it’s terrible for me to say of all people that flat was good, but after several declines flat was good. We do have a new product that we expect to be in some 500 stores of a major chain in about another month. So we are continuing to develop products through R&D and we have some marketing plans for them.

**Jon Andersen:** Let me shift gear. Let me ask you about the food service segment, because in the press release there was a line in there that indicated the results of the food service segment were disappointing. But I don’t know when I look at it, I see kind of 6% organic growth on a difficult comparison, 8% organic growth a year ago, that looks pretty good to me. When you say disappointing, are you referring to margins within the business or what disappointed there?

**Gerry Shreiber:** Yes. The margins in the business, and 90% of it was caused by this tremendous increase for us in liquid eggs, which affects a couple of our products in here and we absorbed that. So to
the extent and that item, and perhaps due to some startup costs in one of our nearby plants that impacted margins, but we were very satisfied with the overall performance on the topline with food service, particularly since we were able to get back to driving sales in the school food service channel and made significant inroads in the C-store business.

**Jon Andersen:** That makes sense. My last question is just on eggs in particular. Just to be clear, eggs, is this a headwind of $800,000 to a million a month going forward that you are going to be able to fully offset through price and other maybe, I don’t know reformulation or sourcing alternative inputs? What portion of that inflation do you think you’re going to have to kind of absorb within the P&L over the next several quarters?

**Gerry Shreiber:** To answer your question on an annualized basis if we did nothing, it might cost us $9 million to $10 million, but we have passed on some pricing, which is going to take effect next month, when I say next month in August in there. And hopefully, and I say this kind with tongue in cheek. We have been slightly favorable in commodity cost all year, particularly in our major commodity, which is wheat, flour, but every once in a while we run into a wrinkle too. So we’re going to iron out the wrinkle and take care of it one way or the other.

**Operator:** Our next question comes from Jonathan Feeney.

**Jonathan Feeney:** I wanted to ask about are we seeing great growth across and particularly the pretzel part of the business and which you’re reporting some I guess what they call evidenced based pricing through in other businesses where you have egg pressure. Is there any pressure on you from customers to reduce price anywhere or being more promotional anywhere, particularly in the food service business given some of the at least visible, apparent, declines in grain? Are customers are aware of that and does it change the dynamic at all?
Gerry Shreiber: No. Obviously when we talk to customers about the increase in egg products or products that are made with egg, their first response is [noise] and their second response is what can you lower for us? So we try and manage our selling efforts with our customers and be as transparent as we can with cost and whatnot, but our people are doing a pretty good job with that. And even though there are some considerations being given, particularly where there are contractual obligations, it has not had a going forward burden on a share.

Jonathan Feeney: I guess as you look at the deal environment, small group companies that might fit into your portfolio. It seems like the price of everything has become extremely high, but you have historically, even in periods I can remember when we were in—I mean you go back to '05, '06 when we’re in some very elevated pricing environments for deals for food companies influenced by private equities, do you still were able to source some good ones. So any sort of viewpoint you have on the level of activity. What are you looking at if anything and your philosophy about it right now?

Gerry Shreiber: Jon, all I can tell you is that we continue to seek out and search, and there has been ongoing discussions and some of it for a long time. Last year we made two acquisitions, both of them kind of small, both of them tuck-in kind of things, one in the pretzel, one in ices, and their benefit is probably going to be more than what meets the eye in the long term and we continue to look at things. We're looking at things which are somewhat bigger, somewhat significantly bigger, but we are not going to make an acquisition just for an acquisition sake and the only thing worse than not making acquisition would be to make a bad one.

Jonathan Feeney: Right. That's for sure. And just—
Gerry Shreiber: [audio disruption] we want to be wise about it and not just make an acquisition for acquisition’s sake.

Operator: Our next question comes from Akshay Jagdale.

Akshay Jagdale: I just want to ask about the restaurant channel within your Food Service segment. It seems like things are flattening out a little bit after couple of years of good growth. Can you talk a little bit about just the restaurant channel? Why you’re seeing sort of flattish growth there? I think of it more like couple of years ago you started to get pretzels and to a lesser extent churros on restaurant menus and more and more restaurants caught on. So what are we seeing now, are people taking these items off the menus or are you just in a stage where timing wise, you’re not adding a lot of new customers. Can you help me understand that?

Gerry Shreiber: Combination of [indiscernible]. It’s a combination of [audio disruption]. Akshay, you want to sell? Hello.

Akshay Jagdale: Can you hear me?

Gerry Shreiber: I can hear you now.

Akshay Jagdale: Yes. Sorry about that. I was on my headphone.

Gerry Shreiber: But it’s a combination of both factors, partly the menu is changing because people get a little bit exposed and tired to it. But we’re keeping reasonable pace with our targets and goals and sometimes looking at flat and there is a lot of effort that goes in to keep it on the menu and maintaining flat sales.
Akshay Jagdale: Can you talk a little bit more about innovation with the Oreo Churro, seems exciting but doesn’t look like a lot of big customers have caught on yet. I know, you went through a product formulation change there where—it’s now filled, right. So can you talk a little bit about how that launch is going?

Gerry Shreiber: We are still very, very not only committed but very excited with the Oreo Churros and now making it easier for the customers that they don’t have to have two SKUs, the Churro and the dip. We’re getting some strong interest in the filled Churros and I think that the product after a slow start, after a lot of marketing, got off to a slow start but that pace has accelerated in the last few months and we’re cautiously optimistic and we’ll continue to do so.

Operator: Our next question comes from Brian Rasson. Please go ahead.

Brian Rasson: You talked a little bit about eggs. Can you go through some of the other ingredients if there is any delta change, flour, sugar, shortening, chocolate, cocoa—anything else that’s up or down [indiscernible]?

Gerry Shreiber: The primary ingredient, the main ingredient that you mentioned, wheat, is pretty stable. Flour is stable. As a matter of fact, I’ve noticed, year-over-year flour is probably down a bit. Dennis, you want to comment on chocolate or some of the—?

Dennis Moore: Generally speaking, if you take the entire basket of commodity, without eggs, we’re relatively flattish at this point.
**Brian Rasson:** So talk a little bit about, you guys mentioned with ICEE, that’s a fairly solid installed base. Some of the other flavors that you have in that frozen drink area, ARTIC BLAST, PARROT ICE, SLUSH PUPPIE. How are they relative to budget plan? How are they performing versus ICEE?

**Gerry Shreiber:** You have to go back to the genesis of some of the other brands. When ARTIC BLAST was developed as a competitor brand against what was then the ICEE distributors. SLUSH PUPPIE, a brand that we acquired a few years back is doing okay, but it’s doing significant—we’re getting a major benefit from SLUSH PUPPIE in licensing. Oftentimes, you’ll see them in these little transparent plastic tubes and more recently in these what they call, pouches. So ICEE has continued to perform well as a subsidiary company with ICEE being the main brand and some of the secondary and tertiary brands being used in a utility fashion.

**Brian Rasson:** Yes, I remember SLUSH PUPPIE was something you pushed around in carts like baseball fields or Little League. What were ARTIC BLAST and PARROT ICE? Are they just—?

**Gerry Shreiber:** PARROT ICE is primarily like a cocktail enhancer or flavor. ARTIC BLAST was used in areas where we did not have the benefit of the ICEE brand. So even though he’s still part of our, like our baseball team, our 25th man on our roster available for special pinch hitting and benefits, he’s not on the front nine.

**Brian Rasson:** What’s the product R&D in those frozen drinks relative to new flavors and new iterations or— I mean, I’m not a consumer of that; my kids are. What’s kind of the novelty there relative to menu selection?

**Gerry Shreiber:** We’re constantly developing new flavors. Sometimes we develop so many new flavors we put them together with something called mix it up where kids love that they can put four, five, six
flavors together. We’ve been experimenting and some of the flavors that we’ve been experimenting with don’t quite make it to the front of the store at a major chain or whatnot, but ICEE has a good traction with our syrup suppliers in developing new flavors.

**Brian Rasson:** Talk a little bit, Gerry, on PHILLY SWIRL and NEW YORK PRETZEL, kind of two recent acquisitions. What’s kind of the sales level momentum, maybe capex you’re putting in, anything you’re doing manufacturing wise?

**Gerry Shreiber:** We’re Not doing anything capex yet. We want to certainly—I mean, we knew the business and we wanted to make sure that it was a nice fit and integrated. They each had different reasons. NEW YORK PRETZEL was a manufacturer for some 60 years in the key critical markets of New York City and up through the northeast. We pretty much left that intact. We’ve added a couple of changes to benefit them and they are performing well.

PHILLY SWIRL, I think will be a diamond in the rough for us. We acquired them last May and it’s a very, very popular product with children and also young adults and we’re expanding its base. That business is on track. It is somewhere between $26 million and $30 million for us this coming year.

**Brian Rasson:** Yes. That PHILLY SWIRL, Gerry, versus say the Manhattan-based NEW YORK PRETZEL or the Upper East Coast, does PHILLY SWIRL give you more leverage in finding new distribution outlets across the country versus NEW YORK PRETZEL or is it [audio disruption]?

**Gerry Shreiber:** PHILLY SWIRL is primarily to grocery and to some of the warehouse clubs. NEW YORK PRETZEL was made a good product and they were in a key area, which kind of improves our strengths in the northeast corridor with a like—no longer a competitive product.
**Brian Rasson:** You talked a little bit about certainly great performance on the grocery side, Gerry. Yes, give us a little sense of the combat in the competition shelving or shelf location, couponing, maybe encroachments with grocer private label. What’s the battle like in the grocery store?

**Gerry Shreiber:** Interesting point that you bring up. We have added a person to our staff—actually the person had been with us number of years but we have now a couple of people doing nothing but that; improving the sets at the major chains and whatnot. And of course, that’s a long, hard process to do so, but we have people that are feet in the street in the store.

**Brian Rasson:** I will just ask one more and get back in line. Gerry, if you look at your business and you've got elasticity with a consumer, fairly value sensitive, somewhat of a tepid economy, you guys certainly have fluctuation impacts from weather. If you looked at, kind of three characteristics, manufacturing efficiency, new distribution outlets, new end customers or back to the R&D stunt works, where you’re developing new flavors in that, where is really the secret forward for your business?

**Gerry Shreiber:** It’s combination of each of the things that you’ve mentioned, but basically it is sales, sales, generating sales. We continue to put an emphasis on sales, complemented by strong marketing and R&D initiatives and I think we benefit from that. And I’m confident we will continue to benefit from that.

**Brian Rasson:** And then you talked a little bit about some of the deal side. You guys have been very, very good at restructuring turnarounds. In some cases, private equity doesn’t necessarily chase that. Are the multiples as high on—maybe they got bankruptcies, but liquidations, some of these turnarounds or are you still seeing some deals on areas where business is maybe somewhat weaker.
**Gerry Shreiber:** While you are right about the private equity structure and what their function is and we have been pretty much resolute at not taking too much risk. But we believe in good business sense and good business risk but we have been outbid on some of our multiples. But more recently, I am pleased that the things that we’re looking at and even getting down to the bid process, it’s not because we’re being significantly outbid, that’s really because for one reason or the other, ownership has decided to pull back. But we stay in touch with these people. We have a relationship with these people. So one of these, we are hopeful that one of them will certainly come due and pretty soon we’ll have something to crow about.

**Operator:** Our next question comes from Robert Costello.

**Robert Costello:** Could you be a little bit more specific on the cash and what you’re invested in and what you were invested in that you took the loss on?

**Gerry Shreiber:** I’m going to give this one to Dennis, but we have lots of cash and we continue to generate somewhere between $12 million and $14 million in net cash a month in there. And we invested some in some mutual fund with a pretty good yield, roughly 3.5%, but Dennis, why don’t you now explain why we decided to take the loss in this last quarter?

**Dennis Moore:** Well, Bob, as Gerry said, we’ve been invested in these mutual funds, which have been yielding roughly 3.5%, 4% and continue to, the ones that we continue to own. However, although we are getting a good return, they’re a little volatile and we were sitting with unrealized losses on our books. So, we decided to reduce our holdings, and in doing so we generated losses and we still have unrealized losses on our books we will generate as we move forward.
We’ve taken the funds and we are now investing some of it in corporate bonds with basically maturity dates in 2019, 2020, which eliminates for the most part the risk, to the principal as long as we hold them to maturity, which we expect to do. We’ve also invested some of our money in bank, preferred stock, which has a fixed to floating yield, and aside from the fact that the yield is good but it also is a tax advantaged so a 5% yields on those is really equivalent to about a 7% pre-tax yields.

**Gerry Shreiber:** But further, Bob, we let our cash build and build and build, and it behooved us to invest some of it as opposed to getting 10 or 20 basis points with cash earning nothing and putting it in these funds gave us a decent return. And overall, over the past couple years, we have made some money, but we also understand that is not the primary purpose of our business. Our businesses continue to grow the business and grow our earnings.

**Robert Costello:** What about two years ago? I guess, August, September, you doubled the dividend and is it reviewed quarterly, annually, what do you normally, what is your strategy with regards to the dividend policy?

**Gerry Shreiber:** Well, I go way back, maybe eight years ago when the tax law was changed and we started generating a dividend for the first time. Since then we’ve increased the dividend every year. Now it’s roughly $1.43. Correct, Dennis, am I right, $1.43 a share? $1.44 a share. We look at it every Board of Directors meeting. There is no set time to change it, but I think that—

**Robert Costello:** In the last couple of years, it’s always been in the September quarter in ’12, in ’13, in ’14 and I just wondered if that’s your general policy.
Gerry Shreiber: We will be looking at it again, and given our cash position and even if there was a big acquisition, we have plenty of live cap available to us, but I would look at that as a distinct possibility going forward.

Robert Costello: One other question, with the consolidation in the dollar store business, what impact, if any, do you see going in on your company?

Gerry Shreiber: So far, we have not seen any and that still represents to us a growing part of our business as we put new products, packaged a little bit differently, into the dollar channel.

Robert Costello: Yes, I’ve seen some of your products recently in the back of the frozen novelty section. Is that something relatively new for you?

Gerry Shreiber: Well, two things. It’s relatively new and when you see in the back of the frozen novelty section, help us out and move it to the front.

Robert Costello: Well, no. The Dollar Tree puts it in the back of the store. I mean, that’s just their layout of the store but obviously that’s new for you in the novelty category, right?

Gerry Shreiber: Yes, it’s one of our newer initiatives, maybe not in the last couple years.

Operator: Our next question comes from Francesco Pellegrino.

Francesco Pellegrino: First off, I want to hit on the retail supermarkets. Past, going back to Q3 2014, it’s been pretty decent double-digit growth and in the first quarter and second quarter of this year, coupon
redemption was going up significantly. In the first quarter, it was up 58%. Second quarter, it was up 35% and then there was a dip. It was down 40% year-over-year in the third quarter.

Gerry, could you maybe just talk about where you're seeing the American consumer and sort of dipping into utilizing coupons, or you guys offering less coupons out there? Because when I look at the handheld business, I would think that more coupon redemption would be used to sort of get that business up. But you know what, you sort of turned that business around slightly and it wasn't at the expense of coupon. That coupon number seemed to just jump out. I mean, I was just wondering if you had any commentary on your end.

**Gerry Shreiber:** For our major brands like SUPERPRETZEL, where we're getting a little bit better pull. As far as handhelds, everything we're doing is private-label. So, we're not couponing it and the grocery channel, who we private label for, is not putting out a coupon of its own. We've been impacted a little bit in that business and we spoke about it before where the decline in general with some of the handheld products like Nestlé's Hot Pockets.

**Francesco Pellegrino:** Question I'm about to ask, most of the time it's answered with it's rather unpredictable, but are the sales of the beverage machines, past couple of quarters it's been relatively strong. With the relative decent releases of movies this summer, is there any downstream insight into maybe where additional beverage machine sales will be for the upcoming quarters? Or it's still going to be unpredictable going forward?

**Gerry Shreiber:** It follows no defined path. When it goes up, we wonder why we can't spot a trend in there, but basically our overall ICEE frozen beverage business grows. Because it grows, people need more drink machines or beverage machines. We're in the business, so we benefit from it. But we have
been very, very pleased and proud of ICEE’s contribution to sales and earnings and their managed service for other seems to be benefiting both equipment and beverage sales.

**Francesco Pellegrino:** And just wanted to touch on the egg situation a little bit. Is there a volume number that you guys do on a quarterly basis just to get our minds wrapped around with how volatile egg prices are? I mean, I think you can see 50%, 60% swings over the course of 30 to 40 days based upon if you are going from, on the fall period to the winter. What type of volume numbers are you really using for eggs on a quarterly basis?

**Gerry Shreiber:** Well, I don’t have these figures in front of me but I would give you an idea. We were paying roughly $0.70, $0.72 a pound for liquid eggs and when the price started going up and it wasn’t walking up like a treadmill, it rocked up. Now it’s running roughly $2.30 a pound for liquid eggs. Although we are doing some experimenting with egg substitutes and making sure that we don’t do anything to suffer in quality and whatnot or in appearance in there, we don’t have a substitute yet which would give us any type of significant release.

**Francesco Pellegrino:** That was going to be my next question about egg alternatives out there and I know companies like Hampton Creek are sort of getting a little bit of a windfall from this avian influenza situation. What have been some of the problems that you have been running into when sort of experimenting with these egg alternative products?

**Gerry Shreiber:** Well, that’s an R&D question and that’s ongoing. We wanted to make sure that we certainly had a supply of egg products and our people have done a good job with that. The next burden for us to tackle would be the price of it. We have raised some of our product’s pricing. We use eggs in our cookies. We use them in our churro mix. Fortunately, we don’t use eggs in our ICEE or in our pretzel
products, but you can predict when your costs go up like that and you don’t have insulator or barrier to protect those costs, it creates some burdens but we believe we’re equal to that.

Francesco Pellegrino: Right, and it seems as if the avian influenza situation has died down a bit since the--

Gerry Shreiber: Well, the chickens, right—

Francesco Pellegrino: Since the peak of June, there is talk about sort of popping up again this fall when the birds start migrating south. Can you just talk a little bit about what your sourcement [ph] is because— are you able to lock into contract terms? Is there any way that you can sort of get consistent supply over the next— I don’t know, four to six quarters based upon the unpredictability of just sort of—

Gerry Shreiber: I’ll tell you what happened, though. They declared—

Dennis Moore: Force Majeure.

Gerry Shreiber: Force Majeure. And there is not too much we could do. I mean, the birds were destroyed. All right. The suppliers declared on. All right. And we either had to absorb the pricing and take care of our customers for today and tomorrow, or make a different decision in there and we opted to absorb the pricing on a short-term. We have gone out to the field announcing an increase in there, but we still think that our business decisions that we made is best for the long run of J&J Snack Foods.

Francesco Pellegrino: So, you were previously on contract term.

Gerry Shreiber: Right, but these contracting terms have been terminated suddenly.
Operator: Our next question comes from Akshay Jagdale.

Akshay Jagdale: So just to follow up on what I had asked before, and I apologize I couldn't hear everything you said, so if you have to repeat, I apologize. But basically, what I heard on the restaurant side is it’s a combination of some customers taking stuff off the menu, others adding, and then, so can you just talk to like what’s the plan, like how does it look going forward? Is it fully penetrated in terms of getting on all of restaurants that you had expected to get on and from hereon it’s more about adding more products or how should we think of the long-term evolution of growth in that channel? Is there still plenty of opportunity or sort of what inning are we in baseball terms in that regard?

Gerry Shreiber: Well, that’s a good question and we believe there is plenty of opportunity, we hear about it every day. Of course, we have to kind of rinse this opportunity and make a determination on what is immediate, what is two and three years out. And some of these chains, we’re literally working on their menu plans for January, not of 2016 but 2017. We’ve bolstered our R&D efforts and our marketing efforts and complemented that with our sales initiatives. So we’re looking forward to this business over the next two and three years. We believe it will continue to grow.

Akshay Jagdale: And just going back to your commentary on the disappointing food service results, even last quarter before this egg cost issue came up, you had a disappointing profit performance in food service. So, you’ve mentioned a couple of times the startup issues. What are these startup issues, what are you starting up and why is it sort of lingering still? So can you give us some perspective there?

Gerry Shreiber: The startup issues have to do with one of our plants nearby, which we put in new lines and we had some issues, which we’re working through with automation and whatnot. But a lot of it was school food service mix, perhaps a year ago, and I don’t think that the issues are related at all.
If you take a look at food service for this most recent quarter, I mean, sales were good, sales were strong. We had the few with eggs, [indiscernible] 100% impact delegated to food service, but it continues to be a strong business, perhaps our strongest business.

Akshay Jagdale: And just to be clear, so what lines did you add that you’re referring to?

Gerry Shreiber: Multiple pretzel lines or pretzel rolls.

Akshay Jagdale: And then these increases in the liquid egg cost, what product categories do they impact the most and once you get the pricing through, how are you thinking about the impact it might have on volumes?

Gerry Shreiber: Well, it impacts our cookie business, which is not insignificant, and our churro business and always takes you longer to get the pricing passed on and accepted and approved than it does to be hit on the other side. And the long run over the next year, it may have as much as a $9 million or $10 million impact in cost. We think we’re going to able to offset that with increased sales and pricing.

Akshay Jagdale: And just going back to this topic of capital allocation, obviously, we applaud you for being proactive in managing your cash. I think you did the right thing there but why not buy back shares like it seems as though—I mean clearly the argument could be made that in today’s interest rate environment, your balance sheet is not as efficient as it could be. You’ve talked about the dividend, it seems like there is a decent chance that might grow again. But can you talk a little about share repurchases and why you haven’t been more active than what we’ve seen in recent quarters?
Gerry Shreiber: Although it’s not a high rule with us, we tend to buyback an equal number of shares for what we give out as stock options each year, and that has ranged from roughly 150,000 to 180,000 shares. I personally believe in, and again I have shareholders that I represent on my board. I just think that we had a fit enough float as it is, as you’re aware, and buying back shares is an artificial way to increase earnings per share. And I’d much rather concentrate on growing the business aggressively and increasing sales and earnings and perhaps making acquisitions.

Akshay Jagdale: Yes, I don’t in theory disagree with anything that you said but essentially, and correct me if I’m wrong, Dennis, but essentially with the balance sheet that you have, I mean, and the cash that you have on your balance sheet, if you wanted to, you have ability to buy something or several businesses, even more you could spend $500 million you could raise easily, it seems as though, and your large the acquisitions have never been anywhere close to that. So there seems to be a lot of cushion on your balance sheet to do things like share buyback, which would be more accretive and more shareholder friendly than just holding the cash on the balance sheets.

Gerry Shreiber: I want Dennis to answer that, Akshay, but I want to look at Dennis when he answers.

Dennis Moore: I will not disagree with you, Akshay. However, as Gerry said, I think our goal is to kind of maintain stable share count at this time, and we don’t see a major benefit of buying a significant number of shares back.

Gerry Shreiber: But keep in mind over the years, we have bought back a fair number of shares [indiscernible]. We have less than 19 million shares outstanding and probably insiders and funds hold a major portion of that. Until there is a major acquisition or perhaps two or more, we think it’s prudent to let the cash build, return some to shareholders and otherwise use it for our business needs.
Operator: Our next question comes from Brian Rasson again. Please go ahead.

Brian Rasson: Your capex for the year, you said $45 million to $50 million. If you haven’t done budgets for next year, where have you been kind of putting your capex; different plants, refrigerators, fill lines, where has some of that been invested?

Gerry Shreiber: Well, we put out equipment. Our ICEE business, which has been growing significantly, puts out drink machines, ICEE machines and that can be depending on an accounts, $20,000 or more for each location or maybe as little as half of that. We continue to invest in plant efficiencies where we can drive cost down and, again, we’re looking for other uses of the cash, including acquisitions.

Brian Rasson: If you look at your factory production, your footprints, are you running any plants with three shifts or plants with significant overtime, where you might be building out a footprint in the future?

Gerry Shreiber: Yes, and yes, but not to the extent, an alarming extent. We are going to be visiting one of our plants today that we’ve expanded probably 3 times in the last 10 or 12 years. It seems like a lot, but we’re going to be looking at some capital plants that they have to further improve efficiency.

Brian Rasson: One more question, if you look at some of your end customer markets, how tough is it for your people to get sales penetration, say the difference between convenience stores, warehouse clubs, grocery supermarkets, movie theater chains, do any of these stand out or are they all triage operations?

Gerry Shreiber: They’re all challenging and we have various and sundry different sales responsibilities for them. Somebody mentioned earlier, the dollar channel. Five years ago we weren’t in there at all. Now we’re trying to penetrate them further and further. We’ve had a big initiative with the convenience stores and that business has grown for us.
I remember back in the late 90s movie theaters, how were we going to put machines in movie theaters and how were we going to benefit from that? Well, obviously that's been a big part of ICEE's growth and success but we continue to look for new markets and new customers to sell our existing and new products.

**Operator:** We have no further questions at this time.

**Gerry Shreiber:** I want to thank everybody for joining us for this conference call and we look forward to talking to you again three months from now. Thank you.

**Operator:** Thank you. Ladies and gentlemen, this concludes today’s conference. Thank you for participating. You may now disconnect.