J & J Snack Foods Third Quarter Earnings
J & J Snack Foods
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Dennis Moore
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Operator: *Good morning, ladies and gentlemen, and welcome to the J & J Snack Foods Third Quarter Earnings Conference 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 Gerry Shreiber, President and CEO. Mr. Shreiber, you may begin.

Gerald B. Shreiber: Thank you. Good morning, everybody, and welcome to our third quarter conference call. With me today is Dennis Moore, our Senior Vice President and Chief Financial Officer; and Vince Melchiorre, our Executive Vice President in charge of Sales and Marketing. Bob Radano, our Senior Vice President and COO, is participating from a remote location.

I will begin the conference call 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 managements' 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 2% for the quarter and 4% for the nine months. For the quarter, our net earnings increased by 38% to $14.9 million, or $0.80, from $10.8 million, or $0.57 a share, a year ago. For the nine months, our net earnings increased by 58%. That's 58% to $1.42 a share from $0.88 the year ago period. Our EBITDA for the past 12 months set a new record of $90.1 million.

Food Service. Sales to Food Service customers increased 2% for the quarter and 5% for the nine months. Soft pretzel sales were unchanged in the quarter and up less than 1% in the nine months as unit sales were flat in the quarter and down 5% for the nine months. Italian ice and frozen juice bars and dessert sales decreased 3% for the quarter and were flat for the nine months. Churro sales continue their strong gains with up 11% in the quarter and 29% in the nine months, primarily due to sales to one customer. Bakery sales, excluding biscuit and dumpling sales and fruit and fig bar sales, were down 3% in the quarter and were up 4% for the nine months. Biscuit and dumpling sales were up 27% in the quarter and up 8% for the nine months. Fruit and fig bar sales were up 9% and 18% as sales to dollar stores and discount grocery stores increased. Funnel cake sales were up 64% in the quarter and 54% for the nine months as we have introduced new varieties of the product which appear to be gaining successful trial. Maybe in the next few months, we may have something really to crow about. Despite the challenges of the economy, our balanced portfolio appeared to do very, very well for the period and the nine months.

Retail Supermarkets. Sales of product to retail supermarkets were up 22% for the quarter and 9% for the nine months. Soft pretzel sales were up 18% on a case volume increase of 6% for the quarter and up 6% on a case volume decline for the nine months. Sales of our frozen juice bars and Italian ices were up 28% on a case volume increase of 41% for the quarter and up 14% on a case volume increase of 21% for the nine months.

Frozen Beverages. ICEE frozen beverages, which include ARTIC BLAST and SLUSH PUPPIE and related product sales, were down 6% in the quarter and down less than 1% for the nine months. Beverage sales alone were down 2% in the quarter and up 1% for the nine months. The beverage dollar sales increased for the nine months resulted from a change in program structure for one customer which resulted in both higher sales and higher cost of sales and operating expenses. Gallon sales were down 3% in our base ICEE business, which kind of reflects what's going on in the overall beverage total category; although, we were down less than the major beverage producers and down 2% for the nine months. Service revenue for others were down 7% in the quarter and up 9% for the nine months. Sales of frozen carbonated beverage machines were down $1.4 million in the quarter and $3.1 million for the nine months reflecting the tighter economy particularly impacting the convenient store segment.

Consolidated. Gross profit as a percentage of sales increased to 34% from 31.5% last year and to 31.3% in the nine months from 29.1% a year ago. It was a gain of over 2 full percentage points. We benefited by over $6.0 million of lower commodity costs in the quarter. The nine months commodity costs were lower than last year by about $5 million, notwithstanding that commodity costs are still substantially higher than what they were two years ago. Total operating expense as a percentage of sales was 1.3 percentage points lower in the quarter, primarily due to lower fuel and transportation costs and lower selling expenses in our Food Service business and Frozen Beverage segments. Our operating income was impacted by about $2.3 million of higher workman's compensation and group health insurance costs for the nine months with about $1.5 million of the increase coming in the third quarter alone.

Capital Spending and Cash Flow. Our cash and investment securities' balance increased $19.1 million in the quarter to $101.6 million. Let me repeat that, we are sitting on over $100 million in cash. Our capital spending was $7.4 million in the quarter, and we estimate that capital spending for the year will be in the $22-to-24 million range as we continue to invest in plant efficiencies and in growing our business and business segments. A cash dividend of $0.0975 a share was declared by our Board of Directors and paid on July 7, 2009. Our Board of Directors authorized a million share buyback in February 2008. We bought back and retired 586,000 shares through the end of June. We did not buyback any stock in the June quarter.

Commentary. Our sales growth of 2% in the quarter resulted from a combination of limited pricing, unit volume increases and decreases and increased trade spending in our Retail Supermarket segment related to the introduction of WHOLE FRUIT frozen fruit bars as well as increased couponing in our Retail Supermarket segment. In Food Service, soft pretzel unit volume was flat, which is a significant improvement from the first six months of the year when unit volume was down 7%. And just as an added commentary, far be it for me or anybody in J & J management to be satisfied with flat growth, and we're not, but a flat growth represents a pick up from the previous couple of periods that at least we believe were n the right track. Churros, biscuits and dumpling, fruit and fig bar, and funnel cake had strong positive unit growth due to new products and customers increased distribution. Other bakery item sales were down in the quarter due primarily to lower unit volume to two customers. Unit sales of soft pretzels in our Retail Supermarket segment were up 18% in the quarter, which was a significant improvement from last quarter when case sales were down 6%. Some of this may be due to timing and some of this may be economically related as more families are snacking at home. Case sales of frozen ice and juice bars were up 41% in the quarter compared to being up 18% in the second quarter. Operating income in this segment was impacted by higher grocery slotting costs of $466,000 in the quarter and $1.1 million for the nine months as we introduced new products. We also began running a TV commercial in June at a cost of about $200,000 in the quarter and $500,000 for the nine months. Additionally, we increased couponing in the third quarter to help sustain and build volume. Gallon sales in our ICEE business were down 3% in the quarter after having been up 1% in the second quarter. Our service revenue to others fell this quarter by 7%, but we should note that last year's service revenue which was up 44% from the year before included significant one-time revenue from the installation of beverage machines at a major fast food restaurant. We expect our investment income to be lower over the short-term even though our balance of investment securities and cash and cash equivalents is higher than a year ago. We have invested in lower risk investments since mid September and we have lost the benefit from our holdings of higher yielding auction market preferred stock amps. Additionally, the drop in interest rates in general were - - will impact our investment income. Our estimated income tax rate was 39% for this year compared to 40% last year. We expect our income tax rate to remain in the 39% range.

Our Company finished 2008 with a theme of Standing Strong. We are now standing stronger after three quarters of fiscal year 2009. We are continually driven to do our best to make these gains sustainable. Our fundamentals are strong and getting stronger. The future remains bright. Our financial condition is pristine. We have no debt. Our management team is experienced, accomplished, and seasoned. Surely, we have something to cheer about for the quarter, and we look forward to repeating the success next quarter.

Thank you for your continued interest. I now turn it back to you 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're using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if there are any questions, press star then one on your touchtone phone.*

Our first question comes from Mitch Pinheiro. Please go ahead.

Mitch Pinheiro: Yeah, hey. Good morning, everybody.

Gerald B. Shreiber: Good morning, Mitch.

Mitch Pinheiro: **So it was interesting quarter in the sense that on the top line, it was probably one of your weaker performances going back five-plus years; and then on the margin side, the 13.6% operating margin was I guess could've**

been the best in the last 10 years. So with that as background and then with your sort of closing remarks saying that your fundamentals are strong and getting stronger, what exactly - - so what exactly do you mean by the fundamentals getting stronger? Do you think the margins that you posted are sustainable? Do you think your sales growth has bottomed and we're going to see stronger growth? Could you elaborate?

Gerald B. Shreiber: Well surely. I certainly don't think that our sales growth has flattened and bottomed out and we are cautiously optimistic. I mean the fact that we were able to gain a couple of points in this kind of economy, I'm reasonably satisfied with that. We had particular segments that were significantly off. I mean the major - - some of the major chains and mass merchandisers, without mentioning name, had declines of mid single digits; certain - - some of the convenient stores also had similar declines; leisure and theme parks were off. With all that, I think that our expanding and balanced portfolio gave us some other gains to offset that and our continued efficiencies in managing and running the business and being a low cost producer and expanding our distribution network have added value and driven to the bottom line. I think that we are poised to continue these gains and I have - - in some ways, I've never felt better about the business, and I have a high degree of confidence in my teams ability to execute.

Mitch Pinheiro: **So, Gerry, so in that regard on the sales line, I didn't mean to suggest that things are bottoming here, but are - - I guess is your - - you do have - - you said you were cautiously optimistic on the sales growth, so perhaps the 1.7% sales growth in the quarter might be the low point for the year and maybe for the next several quarters you see yourself working off that rate to a higher level?**

Gerald B. Shreiber: I would hope so, but who knows? We have an unemployment rate out there, depending on who you talk to that is somewhere between 10% and a lot higher. I think it's… We're an impulse item; and if people are not going to a theme park or to a ballpark, our local team excluded because we're showing up in record numbers here in Philadelphia, but when people are not there, it's hard for us to get our 1 in 10 or 1 in 20 sales from traffic. However if you look at retail, I mean more people are shopping, perhaps they're snacking at home, and we noticed a little bit of driven (inaudible) our retail grocery portfolio. And certainly the success that we've had with the Dollar Store segment in the past two years is significant. That's a business segment we weren't even in some 2.5/3 years ago and now it's driving what amounts to be a fair amount of sales. But I think that we've always been balanced. And I think I didn't mention, our school business has been a little bit challenged too as they're dealing with their budget woes and some of the staff adjustments and overall general issues. But given that, we've always been recession resistant. I could never say "recession proof," but we've been recession resistant and we continue to work with our customer partners and doing everything we can to, one, be a good partner and to help out and develop and drive product sales.

Mitch Pinheiro: **How much, if any, did weather have an impact on Q3? Any… I mean it's hard to gauge, but we certainly had a cool start to the summer on the East Coast.**

Gerald B. Shreiber: You know what, you're right and I'm going to say this on behalf of my people. They know that I never like to accept a weak excuse for weather. I don't give a d**n if it snows in June, I will not accept weather. But I got to tell you something, it did have some impact. We were a little bit slowed in our retail drive with some of our new products, and it certainly had an impact on ICEE and SLUSH PUPPIE in there, so I think that the team did an outstanding job given we had a lot of rain; we had a lot of cool weather, but it happens, and generally it balances out over the long run and we're certainly long run people.

Mitch Pinheiro: **As you look… How about as you're into this fourth quarter now, I mean have you seen and weather seems to have normalized, have you seen any change in the gallon sales or in FCB?**

Gerald B. Shreiber: Too early, Mitch. We're three weeks in. All right, today's nice; yesterday it rained so…

Mitch Pinheiro: Okay. **Now just getting back to the margin question. So is there… Are you at all… Do you feel you are at all under spending on the marketing side? You clearly shifted some of your consumer spending to couponing and trade promotion to offer value; but do you feel, and you did increase advertising modestly, but do you feel that you're spending enough to support your business or will we see maybe next year in 2010 that - - the marketing line ramping up?**

Gerald B. Shreiber: Marketing people are crazy and I love them. So depending when I talk to Vince either early in the morning or late at night, I'll either accuse them of spending too much or spending too little. But let me Vince answer that. He's sitting right here.

Vincent A. Melchiorre: I think, Mitch, we're - - this year we're spending and we're learning and we're testing and we're limiting the geography. If we're successful and we see sales growth from it, we will expand it next year.

Gerald B. Shreiber: We're certainly not going to starve our brands. We spent too long a time in building them and so we have some really successful brands, leading brands and good, good brands in there, so we want to invest wisely.

Mitch Pinheiro: **And just a couple more questions. One, staying on the margin question, other than some unusual spikes in commodity costs and staying in a pattern that we're seeing now in terms of what the economy's doing to the Food Service business and those type of - - sort of those inputs, are the margins that you delivered in this quarter and the improving margins you saw through the year, would you expect to be able to on an annual basis be able to maintain the type of margin that you're doing in fiscal 2009, do you think it's sustainable in 2010?**

Gerald B. Shreiber: We would hope so. We're going to do our best.

Mitch Pinheiro: Okay. **So there's nothing out there that you see I mean product mix-wise or channel mix or anything that would have an impact on your margins in the upcoming quarters?**

Gerald B. Shreiber: Right now our major commodities and packaging and for that matter energy are - - seemed to have stabilized. We went through something a year/year and a half ago which was unprecedented. I hope we don't have to go through that again where we're going to have our raw material commodity costs increased by

60/80% suddenly and without warning, and really for no reason, but we dealt with that. We had to pass on some pricing. We never got ahead of the curve; we never passed on enough to make up for what we lost, but we seem to have managed that crisis well. We had a very profitable year last year, even though it was down against the year before, but this is all part of thinking wisely and managing for the long-term. So we're comfortable now and we're watching the commodities closer. We're booked out till what amounts to almost calendar year-end; and to the extent that stability remains stability, we'll be fine.

Mitch Pinheiro: Okay. **I do have one last question; I'm sorry. When I do look at your third and fourth quarters throughout the years going back, they typically have been very close to one another and I just was curious if you could comment on why, if any, there'd be a difference between the third quarter this year and the upcoming and the quarter you're in now, the fourth quarter?**

Gerald B. Shreiber: Well I think what you're trying to do, you're trying to say, "Let's see, now they earned now $1.42/$1.43 for the year, if I put in $0.80 on that…" Well that would be - - that would really be a strong, strong quarter. We have some things that are happening this quarter that we didn't have last year like some increased advertising, which is all written off during the quarter. We also had some slotting. We expect to have another good quarter. But as you know, Mitch, we don't give guidance. Hopefully the economy… The way things are now, we're managing and we will continue to manage how far it waivers into the different aisles.

Mitch Pinheiro: Okay, thank you.

Gerald B. Shreiber: Thank you, Mitch.

Operator: 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. Give us a sense, Gerry, in the grocery stores, the warehouse clubs, how dynamic is the battle for shelf space? Are you guys finding out that you're defending territory or are you able to crowd out other brands?**

Gerald B. Shreiber: Well, I wouldn't exactly be over confident; but by the same token, our people are defensively offensive and offensively defensive too. The supermarkets struggle fight is an ongoing one and we seem to have reasonably good presence in our core brands and we've done an outstanding job in getting trial, and we think successful trial with our WHOLE FRUIT lineup. Club stores, which is on a store-by-store basis bigger volume and lesser skus in there, we're also doing a fine job and there's all these other people looking at it. But we make a good quality niche product and we're the low cost producer and we're lien, efficient, and sometimes mean, so we're going to protect our turf and our values as best as we can.

Brian Rafn: Okay. **Relative to some of the - - when you guys come out with line extensions and new flavorings and formulations, you're cobranded stuff on the MINUTE MAID, you originally came out with those little juice triangles. I think you had a grape, cherry, and orange offering. Now you come out with**

green apple, mango, and fruit punch. When you come out with new flavors, Gerry, does that give you more penetration in sales or do the new flavors cannibalize and the group as a whole, six flavors versus three, are really about the same.

Gerald B. Shreiber: Well it's interesting. It's something we're studying now because this is a new product line. Overall, we have higher sales, but there is some cannibalization because if you'll look at some the flavors in there and it's something that we're looking at what we can do so we can have more sales but less cannibalization.

Brian Rafn: Okay, okay. **Do you need more flavors in that business or more new formulations just to keep the brand fresh?**

Gerald B. Shreiber: Well it's not… You need to offer a variety of flavors and then there's trends. I mean some of the new flavors are Hispanic. Some of the new flavors are - - mango appears to be a popular flavor now and so we've made some adjustments that way. The basic red, blue, and other flavors are always going to be there, but it was the first new flavor offerings in the MINUTE MAID box label for supermarkets in a number of years and we're reasonably satisfied; although, we're looking for ways that we can goose it some more.

Brian Rafn: Okay. All right. **From the standpoint of you looked at - - you made acquisitions the last few years, the WHOLE FRUIT sorbet, the FRUIT-A-FREEZE, DADDY RAY'S, and you had some numbers in sales in the K last year, can you tell us… Hom/Ade, the biscuits and the dumplings was about a $30 million business when you bought it. Are you incrementally adding**

sales in those new products? Are you holding sales? Are they meeting your revenue plan?

Gerald B. Shreiber: We're adding sales. That business is being well managed by Greg Lowery, who was part of - - who's president of the unit for us and running it and it continues to grow in sales and expand its geography.

Brian Rafn: **Okay, would you characterize those new products, Gerry, as still regional brands, or are they pushing nationally?**

Gerald B. Shreiber: It's predominately in the south/southeast, which would be predominant biscuit and dumpling geography.

Brian Rafn: Okay. Okay. **Anything on the pretzel fills? You guys were certainly looking at different fill flavorings, coatings, and that type of thing. Give us a sense… Because you did see a case good change to the positive in the pretzel area, anything on some of the permutations to that area?**

Gerald B. Shreiber: Actually we're in the process of taking a look at one of them, at one of the fill products in there because it should be doing better. So we're… Yeah, we have. Vince has under him an innovation and R&D team and we're looking at ways to make the product better and make it more satisfying to eat both the taste profile and then flavor in there, so we're not happy with the overall sales in a couple of other - - in a couple of instances so we're looking for ways to further that.

Brian Rafn: Okay. Okay. **Gerry, you talked about baseball and stadiums and arena sales, the movie docket, cinema, theaters have been pretty good. It's been**

good product. Have you guys noticed any change or delta change in sales of maybe ICEE into that area?

Gerald B. Shreiber: Theaters has been a positive growth for us this year. A couple reasons I guess. Good movies attracts people, and I think people may be - - they're not moving around as much this year and staying at home and going out to the movie and that. So to the extent that our pretzels and our ICEE and some of our other products are in there, yes, we benefit.

Brian Rafn: Okay. ***Wall Street Journal* ran an article a couple of days ago, Gerry, on obesity with children and that. It was buried in one of the second sections. When you go out and look at trends in school systems and food service and sugar in vending machines, when you look at those statistics in the article, it looked like the Gulf Coast, the obesity was much higher than say up in the Pacific Northwest. When you look at school systems across the country or food service across the country, do you guys see differences in trends in health or nutrition or is it kind of a blanket like across the country?**

Gerald B. Shreiber: Well you have some of the leading states. California is always a leading state with rules and regs than some of the others. Obesity in children, I mean I'm a big believer, kids should play in gym and that belongs in schools. I had… I've grown three children, outstanding children in there that were always busy and active and took gym in there and I wonder maybe are we sometimes do we worry too much on what they're eating and not enough on what they're doing. They're sedentary and sitting working on a computer and watching TV and video games in there, the metabolism is going to change. Our products are formulated. Our products, our cookies have been reformulated with sugar out and trans fats out. Our juice bars have been reformulated so that WHOLE FRUIT contains no sugar. So we have been on the leading edge with that to support the school food service system. However, have we seen an appreciable increase in our business? The answer to that is: No, we have not; although, our sales are by and large holding. Yet we understand they're going through some serious issues with budget, with staffing, with spending in there, so that's part of the problems that we have to help our partners, in this case the school food service system nationally, and do a good job with it. We have a good team with that.

Brian Rafn: **Yeah, do you think you're giving you - - they're not - - you think they're at least giving you the benefit or the credibility of those reformulations even though they're not - - you're not seeing incremental sales? I mean are they acknowledging to you guys: Yeah, you are giving us a better product, healthier product?**

Gerald B. Shreiber: Yes, they do, and we do; and we have people that work with them very, very closely and we're known to be very high on their list as a good partner and a good provider.

Brian Rafn: Okay. **What trends… You talked, Gerry, commodity prices, although still up versus three years ago plus, are trends continuing into the fourth quarter here are the same, kind of a decline?**

Gerald B. Shreiber: I mentioned commodity prices up from two years ago, but commodity prices have stabilized, to some degree softened, and hopefully that trend will continue or even improve.

Brian Rafn: Okay.

Gerald B. Shreiber: So we're comfortable right now.

Brian Rafn: Okay. **Give me a sense, Gerry, your level of importance as the CEO relative to incremental sales growth, delta change in sales from new products, new flavorings, new formulations versus new penetration in the different distribution channels?**

Gerald B. Shreiber: Let me defer you to Vince.

Vincent A. Melchiorre: I think new penetration in distribution channels is always first for us. Got to build sales…

Brian Rafn: Okay.

Vincent A. Melchiorre: Innovation will give some growth, but it's always - - you got to grow the core items first, and whether it's channels or programs or whatever, but you got to grow the core business first.

Brian Rafn: Okay. Okay. **Gerry, you've always been the master in the M&A side. Let me ask you, in looking down kind of the - - across about 15 or 20 year plants in the K Pennsauken, Bellmawr, Norwalk, Atlantic, Scranton, you got a whole list. You certainly have latent capacity.**

Gerald B. Shreiber: I only have 11 plants.

Brian Rafn: Oh 11…

Gerald B. Shreiber: (Inaudible)… they all give me headaches from time-to-time, so you got me up to 15 to 20, we'll get there.

Brian Rafn: Oh okay, I apologize. **But from the standpoint you guys you still have internal capacity, when you're looking at deals, Gerry, do you ever see in the package foods area the ability to buy a product line, a flavoring without getting the attached property plant and equipment in the plant or are most of the deals that you see with hard assets with them?**

Gerald B. Shreiber: Most of the deals that we see are with hard assets. Occasionally we'll see something that has no hard assets with them with the exception of point of sale equipment like when we bought SLUSH PUPPIE…

Brian Rafn: Right.

Gerald B. Shreiber: …but it varies, and we have a constant flows of things that we're looking at; and I think for the first time in a couple of years, we could actually say that some of the values have come back down to earth. Maybe they haven't touched ground yet, but they're no longer sailing too far above our head to make it a wise acquisition. So Dennis and I, Vince are busy looking at a few things now and we've made some acquisitions in the past, and I don't want to comment on that too much right now, except chances are we'll be making some acquisitions in the future.

Brian Rafn: Okay. **So the multiples on EBITDA are getting a little more rational from your side?**

Gerald B. Shreiber: A little more rational.

Brian Rafn: A little more… All right. Okay. Superb job, Ger. Thanks again.

Gerald B. Shreiber: Thank you.

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

Robert Costello: Hello, Gerry.

Gerald B. Shreiber: Hi, Bob.

Robert Costello: Hi. **A couple quick questions. One, you mentioned on the Wendy's chain and you're in Six Flags with the financial problems they have as well as Anheuser-Busch…**

Gerald B. Shreiber: Bob, excuse me. I don't think I mentioned Wendy's chain at all.

Robert Costello: Well, I know they're in with the ICEE. I've been in them and I don't know… Hello.

Gerald B. Shreiber: Yeah, but I don't think I've mentioned the Wendy's chain. Do you mean Wendy's?

Robert Costello: **No, I'm just saying. I'm just asking is with the changes in management in these different organizations with what's gone on, is there any affect on your business with - - in the amusement park or in the food store business positive or negative?**

Gerald B. Shreiber: Let me comment on the second part of the question first or on the third part of the question second, whatever, but I'll comment on the amusement park business; you mentioned Six Flags, and I think you're perhaps alluding the - - perhaps the financial credit problems.

Robert Costello: **Right, right, and they're offering buy one/get one to get into this summer.**

Gerald B. Shreiber: Well hopefully the buy one/get one will get more people in there; and if there's more people in there, that should have a positive effect on us on sales. However, it's no secret that the leisure and the theme park industry has been sagging a little bit on attendance the past 90 to 120 days. That does impact us, so this quarter when we're comparing our sales and sales were a little bit tepid like just up a little bit in there, part of that was attendance driven at leisure and theme parks, which would mean the amusement parks, as well as the baseball stadiums. So it does have a little bit of impact there. We kind of our - - always have managed our receivables well and we put in some measures in there to make sure that we don't get too badly exposed. There was only one year and that was about 10 years ago when all of the movie theaters went through some adjustments and they went through some of them bankruptcy filings that we had to write off any kind of significant dollars, so we're confident that we'll continue to manage through there. There's been no management changes within the major amusement parks that have impacted our business. And with the exception of attendance when most of the parks are down a little bit in there, we continue to sell them one or several of our products including ICEE and soft pretzels and some of our juice bars and frozen novelties and churros and funnel cake.

Robert Costello: Right. **What about on the Wendy's side?**

Gerald B. Shreiber: Well you keep saying Wendy's and if we're in a few Wendy's, they're probably - - it's being done by our ICEE group…

Robert Costello: Right.

Gerald B. Shreiber: And I don't know if it's… I don't believe it's part of a national program, so I'm not aware…

Robert Costello: It's down in the South Jersey, Gerry; that's where they're at. (Inaudible), they're in ICEE is in the chain.

Gerald B. Shreiber: Okay, well that might be. And again, Dan Fachner runs the ICEE group and he's probably as capable as any of my managers and he runs it autonomously and if we have several Wendy's units in there and it's a test, it's good for ICEE; it's good for Dan; it's good for me, and I appreciate the question. I don't mean to sound like I don't know what's going on because I think I generally do, but I'll have to check that one out.

Robert Costello: **All right, other question. You mentioned about the price changes in commodity costs over the last two years. Are you behind the curve still**

over the last two years or ahead of the curve in price changes versus commodity overall…

Gerald B. Shreiber: Well, I think (inaudible)…

Robert Costello: **...if you looked at it over a two-year period?**

Gerald B. Shreiber: Well, we're not back to where we were two years, but we're in better shape than we were a year ago.

Robert Costello: So you still have a little further to go. **What about distribution of some of the products in like club stores. You have very good distribution it seems in the frozen novelty, but your other products that you mentioned, is there opportunity you see near-term for more distribution in some of these end markets than you currently have given the penetration you have with other products that you can cross-sell there?**

Gerald B. Shreiber: Well yes, but it's not an automatic putting a product in club stores, and we have good distribution with pretzels in club stores and in churros and in some of our frozen novelties like ICEE. Some of the other products, we have cookies in some of the club stores, but it's not an automatic and even though we may have real aggressive ambitious plans to put all of our products in each place every where all the time, it has to be part of the customer's plan and add value for everybody.

Richard Costello: **Last question. If you go into the club stores that if you watch the prices, there's been pretty significant increases in a lot of the commodity, a lot of the snack good items over the last year/year and a half. Do you think that**

that has had some impact on sales given that the prices are - - there's been in many cases double-digit increases over the last two years and that it's an impulse item like you mentioned and that that could have some impact near-term on demand?

Gerald B. Shreiber: Well one of the things I learned in marketing from my marketing people was any time you move price, it has some impact on volume, and I know club stores do a masterful job in delivering value and managing their business and I think we… So to the extent that they have to move pricing in there, I'm sure they do it very, very reluctantly, we haven't passed on any increases in 2009 to anybody and we don't expect to, so to the extent that…

Robert Costello: **So this is a year of… This is a year you're saying of digesting what's happened?**

Gerald B. Shreiber: Well, I'm not saying that; I'm just saying that we value our partners and our relationships and we do everything we can to establish and maintain popular pricing competitive value. That's the one of the reasons we waited as long as we did last year when we finally had to pass some of this on. But club stores deliver a great value and I think that… I mean their business model, they sell memberships so that's some cash flow and revenue, but I think their model is to pass on just a percent for profitability and they do a real good job managing that. Now to the extent that traffic may be down or people are being in there less frequently, that's another issue. That may be just a reflection on what's happening in the overall economy.

Robert Costello: Right. **Last question. When you talk about the pipeline, so obviously with $100 million of cash on the balance sheet now, the incentive or the imperative to try to utilize that instead of earning low interest government bond returns is more imperative than in the recent past. So this is the pipeline you're saying just it's thicker versus thinner than in the past so you have more opportunity to look at things or is it still the same as it was say a year ago, opportunities?**

Gerald B. Shreiber: Dennis, you want to comment.

Dennis G. Moore: I think… Well first of all, the fact that we have more funds available isn't going to push us to make an acquisition.

Robert Costello: **No, I'm not… I'm just saying that obviously you've got to dig deeper though because you don't want to keep accumulating cash if you want to find something.**

Dennis G. Moore: If the alternative is a bad investment, we'd rather accumulate cash.

Robert Costello: I agree with you. Find some more fruit… Find some more frozen fruit companies and we'll all be happy.

Dennis G. Moore: All right.

Gerald B. Shreiber: I think what Dennis is saying and Dennis wears several hats and he wears them well and part of - - in addition to being a confidant, he's a controller and advisor and we've got to pass the litmus tests and these asset tests in here, and the one thing we like about Dennis on the acquisitions is that he really holds our feet to the fire, not only Vince and myself, but all of our other capable managers too so that by the time we make an acquisition in there, we have been through the process and we are controlled and confident and witnessed that by over the years, we've done some little acquisitions and some of them not so little. Some of them were fix-me-uppers, some of them were existing. All of them turned out to be little pieces of coal that we're able to find and polish and work and most of them are shinning now. We never had to get rid of an acquisition because of a drain on cash and losing money and so I think we're proud of that, so we continue to work on that pride with discipline.

Robert Costello: Thanks a lot.

Gerald B. Shreiber: Thank you.

Operator: Our next question comes from Sarah Lester. Please go ahead.

Sarah Lester: Good morning.

Gerald B. Shreiber: Good morning, Sarah.

Dennis G. Moore: Good morning, Sarah.

Sarah Lester: I'm sorry.

Gerald B. Shreiber: Dennis move closer.

Sarah Lester: **I saw that I guess you had requested, and I guess it was approved, a zoning change for the DADDY RAY'S plant, and I was wondering if you had any comments about that.**

Gerald B. Shreiber: Well DADDY RAY'S is in Moscow Mills, Missouri, and we're going to put up a night club right next to it… No, I'm only kidding. No, we're looking at the possibility of expanding that plant consistent with the business as it's growing, and so the only comment on that is that, and that falls under Gerry Law that we have some plans in there that we're looking at to double its capacity. Now mind you, that was a business that we bought oh roughly two and a half year ago; it was doing about $15 million. It was an 80,000 square foot building on 11 acres and I thought we had room forever. Guess what? We've doubled our business. We've used up part of the grounds and now we're providing for a zoning change in there so that we can deal with an environmental issue and also expand the facility, so that's a good problem.

Sarah Lester: Yep. Okay that was all. Thank you.

Operator: We have no further questions at this time.

Gerald B. Shreiber: I want to thank everybody for participating and attending in the call, and I look forward to discussing with you again in three months from now equally as well on another good quarter forthcoming. Bye now.

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

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