

CUSTOMER: J & J Snack Foods
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HOST: Dennis Moore
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Operator: Welcome to the J & J Snack Foods First Quarter Earnings Conference Call. My name is Monica, 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 Gerry Shreiber. Mr. Shreiber, you may begin.

Gerald B. Shreiber: Thank you, Monica, and welcome to the J & J Conference Call. Let me start out with the obligatory statement. 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 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 11% for the quarter. Excluding sales resulting from the acquisition of the frozen handheld business of ConAgra Foods in May 2011, sales increased 3% for the quarter. For the quarter, our net earnings decreased by 23% to \$5.5 million, or \$0.29 a share, from \$17.1 million, or \$0.38 a share a year ago. Our EBITDA, earnings before interest, taxes, depreciation and amortization, and also before bargain gain for the past 12 months was \$105.4 million.

Food Service. Sales to Food Service customers increased 7% for the quarter. Without sales of handhelds, sales increased 1% for the quarter. Soft pretzel sales, however, were up 5%. Italian ice and

frozen juice bar and dessert sales increased 3% for the quarter. Churros sales were up 3% in the quarter. Bakery sales were up 4% in the quarter. A significant drop in funnel cakes sales, funnel fries, to two customers of \$2.9 million in the quarter had a large negative impact on Food Service sales.

Retail Supermarkets. Sales of products to retail supermarkets were up 48% for the quarter. Without sales of handhelds, sales were up 6% for the quarter. Soft pretzel sales were up 4% for the quarter, despite having a small case decline. Sales of our frozen juice bar and Italian ices were up 9% in the quarter on a case volume increase of 4%.

ICEE and Frozen Beverages. Frozen Beverages, including ICEE, Arctic Blast, SLUSH PUPPIE, and now Mix it Up and related product sales were up 7% in the quarter. Beverage-related sales alone were up 1% in the quarter. Domestic gallon sales were down 4% in our base ICEE business in the quarter. Service revenues for others was up 18% for the quarter, following an 18% increase in the fourth quarter of last year.

Consolidated. Gross profit as a percentage of sales in the quarter decreased to 26.9% from 29.6% last year. We were impacted by about \$5 million of higher ingredient and packaging cost in the quarter. Repeat, we were impacted by about \$5 million of higher ingredient and packaging cost in the quarter. We cannot project the impact or benefit of changes in ingredients and packaging costs going forward; however, there has been a very significant increase in the market costs of ingredients and packaging over the past 18 months. We have implemented price increases to defray the impact of a portion or all of the cost increases we anticipate over the balance of this fiscal year. Additionally, our overall gross profit percentage was impacted by the mid single gross profit margins of the handheld business. Total operating expense as a percentage of sales was 0.6 percentage points lower in the quarter because of our overall 11% sales increase. Our operating income was impacted by \$800,000 of cost for a sales and management meeting held in October. Historically, we hold this companywide meeting every five years.

Capital spending and cash flow. Our cash and investment securities balance increased \$10.7 million in the quarter to \$165.7 million. We continue to look for acquisitions as a use of our cash. Our capital spending was \$8.9 million in the quarter as we continue to invest in plant efficiencies and growing our business. We are presently estimating capital spending for this year to be in \$25-to-30 million. A cash dividend of \$0.13 a share was declared by our Board of Directors and paid on January the 5th, 2012. This was a 10.6% increase from the previous dividends. We did not buy back any of our stock in the quarter.

Commentary. Our sales growth of 3% this quarter before acquisitions was generally in line with the last two quarters. Sales of soft pretzels in Food Service were strong as we continue to make progress and inroads into the chain restaurant channel. Funnel cake product sales to two customers were down \$2.9 million in the quarter, and we expect sales to these customers to be down another 3.5 million through the balance of the year. Unit sales of soft pretzels in our Retail Supermarket segment were down for the quarter. Case sales of frozen ices and juices bars were up 4% in the quarter. We did not run any significant advertising programs during the quarter. In ICEE and Frozen Beverages, service revenue to others was up a very strong 18% in the quarter, and we hope to continue to show growth in this area. We were impacted by significantly higher gasoline costs in the quarter, and we expect to be impacted going forward. Prudent expense management, combined with strong service revenue growth, resulted in a \$1.6 million decrease in operating loss for ICEE in this seasonally money losing quarter. Our estimated income tax rate was at 38% for the quarter; we're estimating a rate of between 37.5% and 38.5% for next year. As previously reported, we do not expect the acquired handheld business to contribute operating income to the Company over the short-term. At this point, we have stabilized the business at an annual sales rate of approximately \$50 million. Improvements in operating income will come only as we grow sales and continue to move efficiencies in the plants. We have some potential sales in the pipeline, but nothing confirmed that will move the needle.

I thank you for your continued interest, and I just realized I did not introduce my team that is with me. Bob Radano, our Senior Vice President and COO; Dennis Moore, our Chief Financial Officer and Senior Vice

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President; Ted Shepherd, our CED; Bob Pape, our Senior Vice President of Sales; and Jerry Law, our Senior Vice President of Sales and personal assistant to me. And now I will move it back to the listeners for any questions or 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, for any questions please press star then one on your touchtone phone. Our first question comes from Akshay Jagdale. Please go ahead.*

Akshay Jagdale: Thank you. Good morning.

Gerald B. Shreiber: Good morning, Akshay.

Akshay Jagdale: How are you doing, Gerry?

Gerald B. Shreiber: I'm doing good. How are you doing?

Akshay Jagdale: Hanging in there. **So, I just wanted to talk a little bit about obviously the growth in the quarter was not that great. Can you put into perspective this quarter in terms of how you feel about it? Obviously the stock's down a bit because you - - it was a disappointing quarter in my opinion, so can you put that into perspective in how you're managing the Company through what I would call difficult times for the food industry in general but certainly for J & J?**

Gerald B. Shreiber: Well, we're going to keep and remain our focus on the long view for J & J and its shareholders. Quite frankly, I didn't look at the stock; I'm not surprised that it may adjust down, but we have a lot of good things happening in our business. There is nothing fundamentally that has changed,

and quite frankly, and I'm not saying this because Bob Pape is here, but we remain bullish on our Company for this year and beyond.

Akshay Jagdale: Okay. **And can you talk a little bit about your balance sheet? Obviously you continue to accumulate cash. I know your tendency or your preference is to invest back into the business through acquisitions, but have you given more thought to maybe paying a special dividend or anything of that sort? And if not, can you just give us your latest thoughts on the acquisition environment for you guys?**

Gerald B. Shreiber: Well, let me answer these questions in part. Every dividend that we pay is special and we're happy to pay it and we've been increasing, you know we started paying it I think seven years ago and we've consistently paid it and consistently increased it, and that's a pretty good track record. Yes, we're accumulating cash. Yes, we are looking for things. Be patient, and I know all of you have been patient; we're all long-term investors, including everybody with me in this room, but we're seeking things. We're not going to... You know, we've been very careful and prudent, we're going to continue to be careful and prudent, but just be a little more patient with us and we'll see what happens.

Akshay Jagdale: Okay. **And just focusing more then on organic growth, I mean I thought your - - I think your pretzel business looks like it's gaining some momentum, but yet your overall Food Service volume was pretty weak. I know part of that is related to the funnel fries business at Burger King, but you guys make no excuses. So what are you doing differently now or what's the plan? Like can you help us understand strategically what you're doing such that volume growth - - you know we start to see some volume growth in the Food Service business because I may be wrong, but I think that's what's going to drive at least the organic growth in your business?**

Gerald B. Shreiber: Well, you're right about that; you're essentially right. And you know soft pretzels have been growing in the mid single digits now for the last couple of quarters in Food Service, and that's

fairly significant. So, we're going to continue to put the emphasis on that and continue to broaden its business base, which includes the fast food and restaurant channels, and we are looking at other strategies to excite the rest of the business. We lost a fair amount of business with the specialty funnel fries that were sold to two significant customers - not because the product was bad, not because there was any issues with it, but just because for one reason or the other, whether it was an in and out volume or the company was sold and they had a different marketing type of strategy, but it was - - we just didn't pick that up right away. But we are, and our team is out there thinking our products and developing our products every day, and we are hopeful of getting back to satisfactory full step gains very quickly.

Akshay Jagdale: And one last one on cost. **I mean is there - - I know you've been a very lean Company throughout, but is there any special programs or anything you're doing on the cost side to maybe reduce your costs even more given that in the short-term you really aren't - - your business is not showing much in terms of organic growth? I mean a lot of other companies are doing restructuring and cost savings programs, et cetera. I mean how are you attacking the cost side any differently, if at all?**

Gerald B. Shreiber: Well, we've always been - - I believe we've always been running lean and hungry and mean, and I think it would be premature to talk about any carving into our substance here. I think we're more confident that we can certainly grow the business, and I don't want to create artificial share improvement by reducing headcount, no matter how big the head, and body count.

Akshay Jagdale: Okay, well I'll get back in line. Thank you for taking my questions.

Operator: *The next question comes from Mitchell Pinheiro. Please go ahead.*

Mitchell Pinheiro: Yeah, hey, good morning, everyone.

Gerald B. Shreiber: Good morning, Mitch.

Mitchell Pinheiro: Hey, so, Gerry, you mentioned you have a lot of good things happening in your business, could you just give us an example of one or two that you're excited about, things that you see that maybe we can't see?

Gerald B. Shreiber: Well, first of all, I have to be, you know I can't, but we're expanding our St. Louis plant and it will be done the end of February and we expect to hit the ground rolling with what's being done in there. That's all I can say at this point. And we have been very, very busy over the past year, which doesn't show yet, in new products and R&D coming out of different facilities, and we have a horizon of perhaps early summer, late summer, of these products coming to fruition.

Mitchell Pinheiro: Okay. In terms of pricing, which are the segments or lines that you're having maybe the most difficulty in achieving higher prices?

Gerald B. Shreiber: Well, you know the handheld, when we made the handheld acquisition in May, middle of May, we knew that it would not be accretive for a while, and we tried to make everybody aware of that. A business that was largely ignored and had some issues in the field, our first - - we thought that our first duty was to stabilize it, make nice nice to the customers and prove the logistics routes, all right, which ranged anywhere from didn't get there to pony express, so we have absorbed some of the costs and the pitfalls with that. Now we're going to be taking some of - - we're going to be taking a look at some of that pricing and margins and that has been a little bit more difficult for - - not more difficult than what we assume, but it takes a little bit more work because it had other priorities first in front of it. But we've taken some pricing very, very recently, which as we sit here is going into effect. And that's across the Food Service and Retail, and in-store bakery, and you'll probably see the benefits of that in early Q3.

Mitchell Pinheiro: Was that a mid single digit type of increase?

Gerald B. Shreiber: It ranged from low single digits up to mid single digits.

Mitchell Pinheiro: Okay. **So, there isn't one area, one channel, whether it be club stores, food service operators, restaurants that are problematic in terms of pricing? Is it just general pressure among all those channels?**

Gerald B. Shreiber: Well, you know nobody presents us with a pink bouquet when we walk in with prices, all right. And the overall economy sets up some at least breezes and barriers to that. But fundamentally, Mitch, you know there's - - you know fundamentally there's nothing that's changed with the business. Our market share remains substantial. Our team is certainly capable and committed so...

Mitchell Pinheiro: Okay, just another question on the handhelds. **What, I mean - - so I mean obviously you're getting your arms around the business, you're making the right whatever changes you had to make, where - - if you look out three years, five years, I mean should the handheld business achieve a gross margin in line with your other operations or is there a challenge to that?**

Gerald B. Shreiber: Well, when you say "to the other operations," probably it's not going to achieve a gross margin that we may get in some of the areas in there, but we expect if we wanted to say three years, you know, we can be a \$75-to-80 million business there with lots of potential and throwing off contributions to the bottom line - operating income.

Mitchell Pinheiro: Okay. **In terms of the mild winter that we're having, has that helped your FCB business at all or really has it had a tangible impact?**

Gerald B. Shreiber: Well, since winter just began on December 21st, you know FCB has, first of all, they had a good year and they had an excellent quarter, even though it's a losing quarter for them. But we

haven't seen any strong volume gains in that business in there, so I don't think it's been not insignificant in one way or the other. What we really want is a nice spring and summer and then we can rejoice in the weather.

Mitch Pinheiro: Okay, just two more quick questions. **Advertising and marketing expense, that was up in the quarter and, if so, by how much pure advertising?**

Gerald B. Shreiber: Insignificant. We're doing some billboards; we're doing some outdoor advertising, but it's insignificant.

Mitch Pinheiro: Okay. **And then - - and how would you characterize your acquisition pipeline, is it full; are there quality potential ideas out there?**

Gerald B. Shreiber: Mitch, are we close? I can't say that, all right. We are busy working at it; we've made acquisitions in the past. I would say we'll probably be making acquisitions in the future, but apart from that, no comment.

Mitch Pinheiro: Okay, all right, well thank you.

Gerald B. Shreiber: Thank you, Mitch.

***Operator:** Once again, for any questions, please press star then one on your touchtone phone. Our next question comes from Bob Costello's line, please go ahead.*

Robert Costello: Hello, Gerry.

Gerald B. Shreiber: Hey, Bob, how are you?

Robert Costello: Good. I have a couple questions. **I read about Wawa going to Florida, are you going to be following them or no?**

Gerald B. Shreiber: We are engaged in conversation with Wawa and they'll be opening a few stores in 2012 and more stores beyond that and we hope to be part of that.

Robert Costello: **Trying to get a parallel here; you made the acquisition at CALIFORNIA CHURROS a couple of years ago....**

Gerald B. Shreiber: About a year and a half ago.

Robert Costello: Right. **Since the acquisition, how have sales done relative to your expectations of what you thought you could do with the business?**

Gerald B. Shreiber: They've done fine; they've done well. Sales are (inaudible)....

Robert Costello: **Do you see - - I see a lot of opportunity for like Food Service sales in that business that I just don't see the distribution with the ethnic product out there like with Starbucks or what not. What do you see is the opportunity going forward with that product?**

Gerald B. Shreiber: We have lots of potential opportunities with churros, and keep in mind, the restaurant industry and fast food industry, with very, very few exceptions, is not exactly robust right now. And even though we are presenting churros to the users and to the restaurants and it's not an automatic. Now, we have grown that business and strong single digits over the past several years, so it's still a growing part of our business, and hopefully it will be expanding more and more with fast food restaurants.

Robert Costello: Right. **When do you see the product being introduced in the club stores more because I've yet to see it where I see your frozen food right next, you know for instance in BJ's? It's still not in there.**

Gerald B. Shreiber: Well, it's in the food court, you're aware of that.

Robert Costello: Right, but I can't buy it and take it home and that's what I want to do, that's my question.

Gerald B. Shreiber: So you're talking about a freezer...

Robert Costello: You know a product you can put in the toaster oven and use them for breakfast.

Gerald B. Shreiber: Well, if truth be known, we were testing that product for take home consumption in the West Coast with some retailers and we had a test back East and it didn't meet the velocity or threshold to stay. Our people are looking at it again to see what we can do for price point and graphics to reintroduce it this spring.

Robert Costello: Okay. **Two other questions, your tax rate, it's lower than it's been say historically in the last five years, do you expect it to stay there?**

Gerald B. Shreiber: I think it's roughly the same, isn't it, Dennis?

Robert Costello: **Isn't it over 40?**

Dennis Moore: Well (inaudible) yes, we would expect it to stay at this level, as long as there are no tax law changes.

Robert Costello: The equipment sales, how are you getting these increases at the growth rates you're doing? Obviously the comparison is lower, but what have you been able to implement to get the sales, you know the numbers up so much?

Gerald B. Shreiber: You're talking about sales, you talking about our sales increase?

Robert Costello: Yeah, you mentioned an 18% increase in this quarter versus a, you know, a couple quarters in a row on equipment sales.

Gerald B. Shreiber: Oh, I'm sorry, I see, I wasn't following you, Bob. Just how things fall sometimes, and our people at ICEE have been involved in this managed service part of the business now going on 10 years, and they continue to perform. They have a good reputation, as a matter of fact I'll change it, they have an excellent reputation, and we continue to examine that, we continue to expand that portion of the business.

Robert Costello: If you subtract the cash out of the business off the - - and you divide the shares outstanding into your current stock price today, you're selling at one of the lowest valuations just on a pure earnings basis that's out there. I know you're a big shareholder in the Company and that's been the barrier to anybody trying to look at you, but it's got to be an issue from time to time that you confront, would that be fair to say? I mean now with \$165 million and you take it off the stock price, you know you're selling it maybe....

Gerald B. Shreiber: Bob, Bob, if anybody's been an investor with J & J, and I don't know what the stock price is, somebody said it went down today, but if you look at it overall, we went public at a split-adjusted number of \$4, today would be close to \$300 in there; we pay a dividend, all right. We have an impeccable, a sterling reputation in there. I don't know if our shareholders or our long time shareholders

are looking to see if the Company can be acquired by somebody else to make maybe a stipend more than what they have been making over the years. And I'm certainly not interested in doing that and we're not going to let....

Robert Costello: No, I'm not saying that. I'm saying that the stock is so undervalued because of the cash on the balance sheet relative to what the earnings the company is throwing off.

Gerald B. Shreiber: Right.

Robert Costello: And I just think it's amazing that....

Gerald B. Shreiber: Well we certainly (inaudible) and our EBITDA is excellent, and even this quarter was close to \$106 million for the past 12 months, but I will take your statement and I will applaud you for having the insight to bring that up, but let's move on to something else.

Robert Costello: All right, thanks.

Gerald B. Shreiber: Thank you, Robert.

Operator: *Once again, for any questions, please press star then one on your touchtone phone. Our next question comes from Darrin Mainstain's line. Please go ahead.*

Darrin Mainstain: Hi, thank you for taking the call. I'm sorry?

Gerald B. Shreiber: I'm sorry; I didn't get your name.

Darrin Mainstain: My name is Darrin Mainstain.

Gerald B. Shreiber: Okay, Darrin, are you an analyst or shareholder?

Darrin Mainstain: Yeah, I'm an analyst at AMI Asset Management. **My question centers around your gross margin line. It looks like aside from your ingredient inflation, gross margins are significantly impacted by this ConAgra acquisition. You said in the Q that it was sort of a mid single digit gross margin business. Are there any one time sort of integration charges in there or is this a margin that we can look to settle into for the short run and then look to expand, like you said, in the three and five year timeframe?**

Gerald B. Shreiber: Dennis.

Dennis Moore: Yes, this is Dennis. Yes, the margin is in the mid single digits, and that will increase primarily as sales volume increases.

Darrin Mainstain: Okay, so there's no sort of one time integration margins in there that are... I'm sorry.

Dennis Moore: No, there's no one time integration issues, it's just a matter of that's where the number is and the way to increase that is by increasing sales volume.

Darrin Mainstain: Okay.

Gerald B. Shreiber: And if we start increasing sales and galloping into the sunset, those margins will go up too.

Darrin Mainstain: Okay, thank you.

***Operator:** Once again, for any questions, please press star then one on your touchtone phone. Our next question comes from Tim Urquhart's line. Please go ahead.*

Tim Urquhart: Good morning, thanks for taking the call.

Gerald B. Shreiber: Hi.

Tim Urquhart: Hi. **A question on pricing, and I apologize if I missed this earlier, was pricing positive or was it down in the quarter, and can you talk about any competitive pressures in that area, maybe they are a one time or any structural changes?**

Gerald B. Shreiber: Well, when you say "was pricing positive," what exactly do you mean?

Tim Urquhart: Yeah, are you able to push through increased pricing to your customers given any higher input with the costs you had....

Gerald B. Shreiber: Yes, you're right, and there is a pricing going through right as we speak right now.

Tim Urquhart: Okay. **And are you passing it on dollar for dollar, the increase input cost, or is it less than dollar for dollar or more?**

Gerald B. Shreiber: Well, it varies a little bit by business sector. When we were originally passing it on, we thought we had certainly enough to cover dollar for dollar plus a margin in there, and sometimes that doesn't always work out as commodities start running ahead.

Tim Urquhart: Okay, great. **And are you able - - are you hedging any of your input costs or is it all spot market?**

Gerald B. Shreiber: We buy out as far as six months, sometimes a little bit longer in there. But we don't go into a, what we call an AHP, an Absolute Hedging Program, we buy 90 days or so out on flour as an example .

Tim Urquhart: Okay. Thank you.

Gerald B. Shreiber: Thank you.

***Operator:** Once again, for any questions, please press star then one on your touchtone phone. I am showing no further questions in queue at this time. I will now turn the call over to the speakers.*

Gerald B. Shreiber: Well, I want to thank everybody for participating in the call, and we look forward to having you all on the call next quarter too. Thank you, bye.

***Operator:** Thank you, ladies and gentleman. 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.