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J&J SNACK FOODS CORP  
Form 10-Q  
January 25, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the period ended December 30, 2006

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-14616

J & J SNACK FOODS CORP.

(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of  
incorporation or organization)

22-1935537  
(I.R.S. Employer  
Identification No.)

6000 Central Highway, Pennsauken, NJ 08109  
(Address of principal executive offices)

Telephone (856) 665-9533

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

Yes

No

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

Yes

No

As of January 22, 2007, there were 18,540,788 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

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

ASSETS

	December 30, 2006	September 30, 2006
	-----	-----
	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 22,042	\$ 17,621
Marketable securities	53,125	59,000
Accounts receivable, net	44,449	53,663
Inventories	42,691	37,790
Prepaid expenses and other	1,793	1,457
Deferred income taxes	2,743	2,713
	-----	-----
	166,843	172,244
	-----	-----
Property, plant and equipment, at cost		
Land	556	556

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Buildings	4,497	4,497
Plant machinery and equipment	109,619	108,682
Marketing equipment	190,953	189,925
Transportation equipment	2,074	2,013
Office equipment	9,364	9,219
Improvements	16,294	16,264
Construction in progress	3,105	2,682
	-----	-----
	336,462	333,838
Less accumulated depreciation and amortization	250,843	248,391
	-----	-----
	85,619	85,447
	-----	-----
Other assets		
Goodwill	57,948	57,948
Other intangible assets, net	22,191	22,669
Prepaid acquisition costs	2,841	--
Other	2,644	2,500
	-----	-----
	85,624	83,117
	-----	-----
	\$338,086	\$340,808
	=====	=====

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS - Continued  
(in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 30, 2006	September 30, 2006
	(unaudited)	
Current liabilities		
Accounts payable	\$ 38,241	\$ 40,835
Accrued liabilities	7,846	8,502
Accrued compensation expense	5,363	8,367
Dividends payable	1,574	1,385
	-----	-----
	53,024	59,089
	-----	-----
Deferred income taxes	18,211	18,211
Other long-term liabilities	614	635
	-----	-----
	18,825	18,846
	-----	-----
Stockholders' equity		
Capital stock		
Preferred, \$1 par value; authorized, 10,000 shares; none issued	--	--
Common, no par value; authorized 50,000 shares; issued and		

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outstanding, 18,515 and 18,468 shares, respectively	41,375	40,315
Accumulated other comprehensive loss	(1,891)	(1,964)
Retained earnings	226,753	224,522
	-----	-----
	266,237	262,873
	-----	-----
	\$338,086	\$340,808
	=====	=====

All share amounts reflect the 2-for-1 stock split effective January 5, 2006.

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)  
(in thousands, except per share amounts)

	Three Months Ended	
	December 30, 2006	December 24, 2005
	-----	-----
Net Sales	\$114,142	\$108,571
Cost of goods sold(1)	78,894	75,454
	-----	-----
Gross profit	35,248	33,117
	-----	-----
Operating expenses		
Marketing(2)	14,539	13,697
Distribution(3)	10,941	10,356
Administrative(4)	4,650	4,795
Other general (income) expense	(17)	72
	-----	-----
	30,113	28,920
	-----	-----
Operating income	5,135	4,197
Other income (expenses)		
Investment income	987	703
Interest expense and other	(31)	(29)
	-----	-----
Earnings before income taxes	6,091	4,871
Income taxes	2,286	1,861
	-----	-----
NET EARNINGS	\$ 3,805	\$ 3,010
	=====	=====
Earnings per diluted share	\$ .20	\$ .16
	=====	=====
Weighted average number of diluted shares	18,895	18,697
	=====	=====
Earnings per basic share	\$ .21	\$ .16
	=====	=====
Weighted average number of basic shares	18,539	18,328

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- (1) Includes share-based compensation expense of \$48 and \$59 for the three months ended December 30, 2006 and December 24, 2005, respectively.
- (2) Includes share-based compensation expense of \$141 and \$115 for the three months ended December 30, 2006 and December 24, 2005, respectively.
- (3) Includes share-based compensation expense of \$10 and \$5 for the three months ended December 30, 2006 and December 24, 2005, respectively.
- (4) Includes share-based compensation expense of \$111 and \$81 for the three months ended December 30, 2006 and December 24, 2005, respectively.

All share amounts reflect the 2-for-1 stock split effective January 5, 2006.

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited) (in thousands)

	Three Months Ended	
	December 30, 2006	December 24, 2005
	-----	-----
Operating activities:		
Net earnings	\$ 3,805	\$ 3,010
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	5,625	5,651
Amortization of intangibles and deferred costs	592	400
Share-based compensation	310	260
Deferred income taxes	(30)	(11)
Other	(24)	4
Changes in assets and liabilities, net of effects from purchase of companies		
Decrease in accounts receivable	9,251	2,779
Increase in inventories	(4,799)	(2,980)
Increase in prepaid expenses	(336)	(296)
(Decrease) increase in accounts payable and accrued liabilities	(6,275)	3,830
	-----	-----
Net cash provided by operating activities	8,119	12,647
	-----	-----
Investing activities:		
Purchase of property, plant and equipment	(5,985)	(4,709)
Payments for purchases of companies, net of cash acquired	(2,841)	--
Purchase of marketable securities	(7,000)	(13,325)

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Proceeds from sale of marketable securities	12,875	5,900
Proceeds from disposal of property and equipment	212	145
Other	(395)	(150)
	-----	-----
Net cash used in investing activities	(3,134)	(12,139)
	-----	-----
Financing activities:		
Proceeds from issuance of stock	748	338
Payments of cash dividend	(1,385)	(1,142)
	-----	-----
Net cash used in financing activities	(637)	(804)
	-----	-----
Effect of exchange rate on cash and cash equivalents	73	53
	-----	-----
Net increase (decrease) in cash and cash equivalents	4,421	(243)
	-----	-----
Cash and cash equivalents at beginning of period	17,621	15,795
	-----	-----
Cash and cash equivalents at end of period	\$22,042	\$ 15,552
	=====	=====

See accompanying notes to the consolidated financial statements.

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J & J SNACK FOODS CORP. AND SUBSIDIARIES  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 (unaudited)

Note 1 In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position and the results of operations and cash flows. Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported net earnings.

The results of operations for the three months ended December 30, 2006 and December 24, 2005 are not necessarily indicative of results for the full year. Sales of our retail stores are generally higher in the first quarter due to the holiday shopping season. Sales of our frozen beverages and frozen juice bars and ices are generally higher in the third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended September 30, 2006.

Note 2 We recognize revenue from Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage products at the time the products

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are shipped to third parties. When we perform services under service contracts for frozen beverage dispenser machines, revenue is recognized upon the completion of the services on specified machines. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors.

Note 3 Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights arising from acquisitions are amortized by the straight-line method over periods ranging from 4 to 20 years.

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Note 4 Our calculation of earnings per share in accordance with SFAS No. 128, "Earnings Per Share," is as follows (all share amounts reflect the 2-for-1 stock split effective January 5, 2006):

	Three Months Ended December 30, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	\$3,805	18,539	\$ .21
Effect of Dilutive Securities Options	--	356	(.01)
	-----	-----	-----
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	\$3,805	18,895	\$ .20
	=====	=====	=====

108,200 anti-dilutive shares have been excluded from the computation of diluted EPS because the options' exercise price is greater than the average market price of the common stock.

	Three Months Ended December 24, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except per share amounts)		
Basic EPS			
Net Earnings available to common stockholders	\$3,010	18,328	\$.16
Effect of Dilutive Securities Options	--	369	--
	-----	-----	-----
Diluted EPS			
Net Earnings available to common stockholders plus assumed conversions	\$3,010	18,697	\$.16

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146,471 anti-dilutive shares have been excluded from the computation of diluted EPS because the options' exercise price is greater than the average market price of the common stock.

Note 5 The Company follows FASB Statement No. 123(R), "Share-Based Payment". Statement 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued.

Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

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

At December 30, 2006, the Company has two stock-based employee compensation plans. Share-based compensation of \$144,000, net of a tax benefit of \$166,000, or \$.01 per share, was recognized for the three months ended December 30, 2006. Share-based compensation of \$171,000, net of a tax benefit of \$89,000, or \$.01 per share, was recognized for the three months ended December 24, 2005. The Company anticipates that share-based compensation will not exceed \$1,200,000, net of tax benefits, or approximately \$.065 per share for the year ending September 29, 2007.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2007 and 2006: expected volatility of 26% and 34%; risk-free interest rates of 4.53% and 4.37%; dividend rate of .92% and 1.0% and expected lives ranging between 5 and 10 years.

During the 2007 and 2006 first quarters, the Company granted 108,200 and 152,471 stock options, respectively. The weighted-average grant date fair value of these options was \$12.02 and \$10.04, respectively.

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Expected volatility for both years is based on the historical volatility of the price of our common shares over the past 53 months for 5 year options and 10 years for 10 year options. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.



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Note 6 In June 2006, the FASB issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (SFAS 109).

FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FIN 48 also provides guidance on financial reporting and classification of differences between tax positions taken in a tax return and amounts recognized in the financial statements.

FIN 48 is effective for fiscal years beginning after December 15, 2006; earlier application is encouraged. We are currently evaluating the provisions of FIN 48 to determine its impact on our financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB 108 was issued to provide consistency between how registrants quantify financial statement misstatements.

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Historically, there have been two widely used methods for quantifying the effects of financial statement misstatements. These methods are referred to as the "roll-over" and "iron curtain" method. The roll-over method quantifies the amount by which the current year income statement is misstated. Exclusive reliance on an income statement approach can result in the accumulation of errors on the balance sheet that may not have been material to any individual income statement, but which may misstate one or more balance sheet accounts. The iron curtain method quantifies the error as the cumulative amount by which the current year balance sheet is misstated. Exclusive reliance on a balance sheet approach can result in disregarding the effects of errors in the current year income statement that results from the correction of an error existing in previously issued financial statements. We currently use the roll-over method for quantifying identified financial statement misstatements.

SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatement on each of the company's financial statements and the related financial statement disclosures. This approach is commonly referred to as the "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods.

SAB 108 allows registrants to initially apply the dual approach either by (1) retroactively adjusting prior financial statements as if the dual approach had always been used or by (2) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of October 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Use of this "cumulative effect" transition method requires detailed disclosure of the nature and amount of each individual error being corrected through

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the cumulative adjustment and how and when it arose.

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We do not expect to record any such cumulative adjustment.

Note 7 Inventories consist of the following:

	December 30, 2006	September 30, 2006
	-----	-----
	(unaudited)	
	(in thousands)	
Finished goods	\$22,407	\$18,398
Raw materials	5,705	5,415
Packaging materials	4,244	3,803
Equipment parts & other	10,335	10,174
	-----	-----
	\$42,691	\$37,790
	=====	=====

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

### Food Service

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

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### Retail Supermarkets

The primary products sold to the retail supermarket industry are soft pretzel products, including SUPERPRETZEL, LUIGI'S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, ICEE frozen novelties and TIO PEPE'S Churros. Within the retail supermarket industry, our frozen and prepackaged products are purchased by the consumer for

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consumption at home.

### The Restaurant Group

We sell direct to the consumer through our Restaurant Group, which operates BAVARIAN PRETZEL BAKERY and PRETZEL GOURMET, our chain of specialty snack food retail outlets.

### Frozen Beverages

We sell frozen beverages to the food service industry, including our restaurant group, primarily under the names ICEE, SLUSH PUPPIE and ARCTIC BLAST in the United States, Mexico and Canada.

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

	Three Months Ended	
	December 30, 2006	December 24, 2005
	(unaudited) (in thousands)	
Sales to external customers:		
Food Service	\$ 75,480	\$ 74,616
Retail Supermarket	8,288	7,236
The Restaurant Group	970	1,238
Frozen Beverages	29,404	25,481
	-----	-----
	\$114,142	\$108,571
	=====	=====
Depreciation and Amortization:		
Food Service	\$ 3,464	\$ 3,511
Retail Supermarket	--	--
The Restaurant Group	18	33
Frozen Beverages	2,735	2,507
	-----	-----
	\$ 6,217	\$ 6,051
	=====	=====
Operating Income (Loss):		
Food Service(1)	\$ 5,836	\$ 5,628
Retail Supermarket (2)	575	257
The Restaurant Group	122	1
Frozen Beverages (3)	(1,398)	(1,689)
	-----	-----
	\$ 5,135	\$ 4,197

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	=====	=====
Capital Expenditures:		
Food Service	\$ 2,331	\$ 2,670
Retail Supermarket	--	--
The Restaurant Group	1	--
Frozen Beverages	3,653	2,039
	-----	-----
	\$ 5,985	\$ 4,709
	=====	=====
Assets:		
Food Service	\$217,868	\$217,979
Retail Supermarket	--	--
Restaurant Group	959	1,052
Frozen Beverages	119,259	93,242
	-----	-----
	\$338,086	\$312,273
	=====	=====

- (1) Includes share-based compensation expense of \$226 and \$184 for the three months ended December 30, 2006 and December 24, 2005, respectively.
- (2) Includes share-based compensation expense of \$11 and \$13 for the three months ended December 30, 2006 and December 24, 2005, respectively.
- (3) Includes share-based compensation expense of \$73 and \$63 for the three months ended December 30, 2006 and December 24, 2005, respectively.

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Note 9 We follow SFAS No. 142 "Goodwill and Intangible Assets." SFAS No. 142 includes requirements to test goodwill and indefinite lived intangible assets for impairment rather than amortize them; accordingly, we no longer amortize goodwill.

Our four reporting units, which are also reportable segments, are Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverages.

The carrying amount of acquired intangible assets for the Food Service, Retail Supermarkets, The Restaurant Group and Frozen Beverage segments as of December 30, 2006 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	-----	-----	-----
	(in thousands)		
FOOD SERVICE			
Amortized intangible assets			
Licenses and rights	\$ 9,013	\$ 3,311	\$ 5,702
	=====	=====	=====
RETAIL SUPERMARKETS			
Amortized intangible assets			
Licenses and rights	\$ --	\$ --	\$ --
	=====	=====	=====
THE RESTAURANT GROUP			
Amortized intangible assets			

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Licenses and rights	\$ --	\$ --	\$ --
	=====	=====	=====
FROZEN BEVERAGES			
Indefinite lived intangible assets Licenses and rights	\$ 8,960	\$ --	\$ 8,960
Amortized intangible assets Licenses and rights	\$ 8,175	\$ 646	\$ 7,529
	-----	-----	-----
	\$17,135	\$ 646	\$16,489
	=====	=====	=====

Licenses and rights are being amortized by the straight-line method over periods ranging from 4 to 20 years and amortization expense is reflected throughout operating expenses. There were no changes in the gross carrying amount of intangible assets for the three months ended December 30, 2006. Aggregate amortization expense of intangible assets for the 3 months ended December 30, 2006 and December 24, 2005 was \$478,000 and \$283,000, respectively.

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Estimated amortization expense for the next five fiscal years is approximately \$1,900,000 in 2007, \$1,800,000 in 2008, \$1,600,000 in 2009 and 2010 and \$1,500,000 in 2011. The weighted average amortization period of the intangible assets is 10.2 years.

Goodwill

The carrying amounts of goodwill for the Food Service, Retail Supermarket, Restaurant Group and Frozen Beverage segments are as follows:

	Food Service	Retail Supermarket	Restaurant Group	Frozen Beverages	Total
	-----	-----	-----	-----	-----
	(in thousands)				
Balance at December 30, 2006	\$22,225	\$ -	\$386	\$35,337	\$57,948
	=====	====	=====	=====	=====

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Our current cash and marketable securities balances and cash expected to be provided by future operations are our primary sources of liquidity. We believe that these sources, along with our borrowing capacity, are sufficient to fund future growth and expansion.

The Company's Board of Directors declared a regular quarterly cash dividend of \$.085 per share of its common stock payable on January 4, 2007 to shareholders of record as of the close of business on December 15, 2006.

In the quarters ended December 30, 2006 and December 24, 2005 fluctuations in the valuation of the Mexican peso caused an increase of \$73,000 and an

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increase of \$53,000 in stockholders' equity, respectively, because of the translation of the net assets of the Company's Mexican frozen beverage subsidiary.

On January 31, 2006, we acquired the stock of ICEE of Hawaii. ICEE of Hawaii, headquartered in Waipahu, Hawaii, distributes ICEE frozen beverages and related products throughout the Hawaiian islands. Annual sales are approximately \$2.3 million.

On May 26, 2006, The ICEE Company, our frozen carbonated beverage distribution company, acquired the SLUSH PUPPIE branded business from Dr. Pepper/Seven Up, Inc., a Cadbury Schweppes Americas Beverages Company for \$18.1 million plus approximately \$4.3 million in working capital. SLUSH PUPPIE, North America's leading brand for frozen non-carbonated beverages, is sold through an existing established distributor network to over 20,000 locations in the United States and Canada as well as to certain international markets. Sales of the SLUSH PUPPIE business were approximately \$18 million in 2005.

On January 9, 2007 we acquired the assets of Hom/Ade Foods, Inc., a manufacturer and distributor of biscuits and dumplings sold under the MARY B's and private label store brands to the supermarket industry. Hom/Ade, headquartered in Pensacola, Florida, has annual sales of approximately \$30 million. Included in other assets on the December 30, 2006 Balance Sheet is a \$2.8 million deposit made toward the purchase price. The deposit is also included in Payments for purchases of companies, net of cash acquired on the Consolidated Statement of Cash Flows for the three months ended December 30, 2006.

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These acquisitions were and will be accounted for under the purchase method of accounting, and their operations are and will be included in the consolidated financial statements from their respective acquisition dates.

Our general-purpose bank credit line provides for up to a \$50,000,000 revolving credit facility. The agreement contains restrictive covenants and requires commitment fees in accordance with standard banking practice. There were no outstanding balances under this facility at December 30, 2006.

### Results of Operations

Net sales increased \$5,571,000 or 5% to \$114,142,000 for the three months ended December 30, 2006 compared to the three months ended December 24, 2005. Approximately \$2,900,000 of the sales increase resulted from the acquisitions of ICEE of Hawaii in January 2006 and SLUSH PUPPIE in May 2006. Excluding these sales, sales increased approximately 2.5%.

### FOOD SERVICE

Sales to food service customers increased \$864,000 or 1% in the first quarter to \$75,480,000. Soft pretzel sales increased \$123,000 or about 1/2 of one percent from last year to \$23,831,000 in this year's quarter. Italian ice and frozen juice treat and dessert sales increased 14% to \$7,692,000 in the three months primarily due to increased sales to school food service. Churro sales to food service customers increased 7% to \$5,241,000 in the quarter with about 1/2 of the sales increase going to one customer. Sales of bakery products decreased 2% to \$37,426,000 from \$38,021,000 last year due primarily to decreased sales to a varied range of private label customers and to school food service accounts. The changes in sales throughout the food service segment were

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from a combination of volume changes and price increases.

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### RETAIL SUPERMARKETS

Sales of products to retail supermarkets increased \$1,052,000 to \$8,288,000 or 15% in the first quarter. Soft pretzel sales for the first quarter were up 10% to \$5,676,000 due to volume and pricing. Sales of frozen juices and ices increased 23% to \$2,834,000 in the quarter primarily due to the introduction of several new products in 2006.

### THE RESTAURANT GROUP

Sales of our Restaurant Group decreased 22% to \$970,000 in the first quarter. The sales decrease was caused primarily by the closing of unprofitable stores in fiscal year 2006. Sales of stores open for both years' quarter were up about 1%. Operating income benefitted this year compared to last year in that last year included \$60,000 of store closing and related costs compared to none this year.

### FROZEN BEVERAGES

Frozen beverage and related product sales increased \$3,923,000 or 15% to \$29,404,000 in the first quarter. Excluding the impact of the ICEE of Hawaii and SLUSH PUPPIE acquisitions, sales were up 4%. Beverage sales alone were up 14% to \$19,585,000 for the quarter but up only 1% on a 5% decline in gallons excluding sales from the acquisitions. Service revenue increased 23% to \$6,536,000 in this year's first quarter with two customers accounting for about 1/2 of the increase. Overall profitability in the quarter was impacted by seasonal operating losses in the SLUSH PUPPIE business of about \$250,000.

### CONSOLIDATED

Gross profit as a percentage of sales increased to 30.88% from last year's 30.50% as cost decreases in group health insurance, property and casualty insurance and utilities totalling approximately \$900,000 and pricing offset higher commodity costs of approximately \$1,500,000 and general cost increases.

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Total operating expenses increased \$1,193,000 in the first quarter but as a percentage of sales decreased 1/4 of one percent to 26% from 27% last year. Marketing expenses were 13% of sales in both years' quarters. Distribution expenses were 10% of sales in both years' quarters. Administrative expenses as a percent of sales decreased about 1/3 of one percent and were 4% of sales for both years.

Operating income increased 22% to \$5,135,000 this year from \$4,197,000 a year ago.

Operating income was impacted by approximately \$600,000 of costs for the Company's National Sales meeting held this quarter. The Company did not have a comparable meeting in fiscal year 2006.

Investment income increased by \$284,000 to \$987,000 due to an increase in

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the general level of interest rates and higher investable balances of cash and marketable securities.

The effective income tax rate has been estimated at 38% in both years' first quarter.

Net earnings increased 26% to \$3,805,000 in this year's first quarter compared to net earnings of \$3,010,000 in the year ago period.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's assessment of its sensitivity to market risk since its presentation set forth, in item 7a. "Quantitative and Qualitative Disclosures About Market Risk," in its 2006 annual report on Form 10-K filed with the SEC.

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### Item 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer of the Company (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of December 30, 2006, that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

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## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

#### a) Exhibits

31.1 & 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

99.5 & 99.6 Certification Pursuant to the 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K - Reports on Form 8-K were filed on November 8, 2006 and November 21, 2006.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

J & J SNACK FOODS CORP.

Dated: January 23, 2007

/s/ Gerald B. Shreiber

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Gerald B. Shreiber  
President

Dated: January 23, 2007

/s/ Dennis G. Moore

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Dennis G. Moore  
Senior Vice President and  
Chief Financial Officer