

NATIONAL BEVERAGE CORP

Form 10-K

July 17, 2008

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**United States  
Securities and Exchange Commission  
Washington, D.C. 20549  
FORM 10-K**

**For the fiscal year ended May 3, 2008  
or**

**o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number 1-14170**  
**NATIONAL BEVERAGE CORP.**  
(Exact name of Registrant as specified in its charter)

Delaware 59-2605822  
(State of incorporation) (I.R.S. Employer Identification No.)  
One North University Drive, Ft. Lauderdale, FL 33324  
(Address of principal executive offices including zip code)  
Registrant's telephone number, including area code: (954) 581-0922  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 per share	NASDAQ Stock Market
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>	Non-accelerated filer <input type="radio"/>	Smaller reporting company <input type="radio"/>
(Do not check if a smaller reporting company)			

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of Registrant computed by reference to the closing sale price on October 26, 2007 was approximately \$91.1 million.

The number of shares of Registrant's common stock outstanding as of July 2, 2008 was 45,987,494.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A are incorporated by reference into Part III hereof.

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**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

National Beverage Corp. develops, manufactures, markets and distributes a complete portfolio of quality beverage products throughout the United States. Incorporated in Delaware in 1985, National Beverage Corp. is a holding company for various operating subsidiaries. In this report, the terms we, us, our, Company and National Beverage mean National Beverage Corp. and its subsidiaries.

We consider ourselves to be a leader in the development and sale of flavored beverage products in the United States, offering the widest selection of flavored soft drinks, juices, sparkling waters, energy drinks and nutritionally-enhanced waters. Our flavor development spans over 100 years originating with our flagship brands, Shasta® and Faygo®, each of which has over 50 flavor varieties. We also maintain a diverse line of flavored beverage products geared to the health-conscious consumer, including Everfresh®, Home Juice®, and Mr. Pure® 100% juice and juice-based products; LaCroix®, Mt. Shasta®, Crystal Bay® and ClearFruit® flavored, sparkling, and spring water products; and ÀSanté nutritionally-enhanced waters. In addition, we produce Rip It® energy drinks, Ohana® fruit-flavored drinks and St. Nick ® holiday soft drinks. Substantially all of our brands are produced in thirteen manufacturing facilities that are strategically located in major metropolitan markets throughout the continental United States. To a lesser extent, we develop and produce soft drinks for certain retailers and beverage companies.

We utilize various means to maintain our position as a cost-effective producer of beverage products. These include centralized purchasing of raw materials, vertical integration of the manufacturing process, close proximity to customer distribution centers, regionally targeted media promotions and the use of multiple distribution systems. The strength of our brands and location of our manufacturing facilities distinguish us as a national supplier of beverages to national and regional retailers, mass merchandisers, wholesalers and discount stores.

Our strategy emphasizes the growth of our products by offering a branded beverage portfolio of proprietary flavors; by supporting the franchise value of regional brands and expanding those brands with distinctive packaging and broader demographic emphasis; by developing and acquiring innovative products tailored toward healthy lifestyles; and by appealing to the quality-value expectations of the family consumer. We believe that the regional share dynamics of our brands perpetuate consumer loyalty within local regional markets, resulting in more retailer sponsored promotional activities.

**PRODUCTS**

Shasta and Faygo, our traditional soft drink brands that emphasize flavor variety and innovation, have been manufactured and marketed throughout the United States for a combined period of over 200 years. Established nearly 120 years ago and distributed nationally, Shasta is the largest of National Beverage's brands and includes multiple flavors as well as bottled spring and drinking waters. Established over 100 years ago, Faygo products are primarily distributed east of the Mississippi River and include a multi-flavored product line. We also produce and market other brands of soft drinks, juice and water products, including Ritz®, Everfresh, Mr. Pure, LaCroix,

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Crystal Bay, and Ohana. In addition, we offer Rip It energy drinks as well as ÀSanté nutritionally- enhanced waters. Our fantasy of flavors strategy emphasizes our distinctive flavored soft drinks, energy drinks, juices and other specialty beverages. Although cola drinks account for approximately 50% of the soft drink industry s domestic grocery channel volume, colas account for less than 20% of our total volume. We continue to emphasize expanding our beverage portfolio beyond traditional carbonated soft drinks through new product development inspired by lifestyle enhancement trends, innovative package enhancements, and, in recent years, the development of products designed to provide functional benefits to the consumer. These include our line of energy drinks and vitamin-enhanced waters. We intend to expand our product offerings through in-house development and/or acquisitions, to further our strategy within the evolving functional category geared toward health and wellness. Products currently being test marketed include Sundance® organic life/super-fruit blends, BODYWORX premium enhanced waters as well as powder and effervescent tablet beverage enhancers sold under the NutraFizz brand name.

## **MANUFACTURING**

Our thirteen plants are strategically located in major metropolitan markets across the continental United States, enabling us to efficiently manufacture and distribute beverages to substantially all geographic markets. Each plant is generally equipped to produce both canned and bottled beverage products in a variety of package sizes. We utilize numerous package types and sizes, including cans ranging from eight to sixteen ounces and bottles ranging from seven ounces to three liters.

We believe that ownership of our bottling facilities provides an advantage over certain of our competitors that rely upon independent third party bottlers to manufacture and market their products. Since we control the national production, distribution and marketing of our brands, we can more effectively manage product quality and customer service and respond quickly to changing market conditions.

We produce a substantial portion of the flavor concentrates used in our branded products. By controlling our own formulas throughout our bottling network, we assure manufacture of our products in accordance with uniform quality standards while tailoring flavors to regional taste preferences. We believe that the combination of a Company-owned bottling network servicing the United States, together with uniform standards for packaging, formulations, and customer service, provides us with a strategic advantage in servicing national retailers and mass-merchandisers. We also maintain research and development laboratories at multiple locations. These laboratories continually test products for compliance with our strict quality control standards as well as conduct research for new products and flavors.

## **DISTRIBUTION**

We utilize a hybrid distribution system to deliver our products through three primary distribution channels: take-home, convenience, and food-service.

The take-home distribution channel consists of national and regional grocery stores, warehouse clubs, mass-merchandisers, wholesalers and dollar stores. We distribute our products to this channel through the warehouse distribution system and the direct-store delivery system. Under the warehouse distribution system, products are shipped from our manufacturing facilities to the

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retailer's centralized distribution centers and then distributed by the retailer to each of its outlet locations with other goods. Products sold through the direct-store delivery system are distributed directly to the customer's retail outlets by our direct-store delivery fleet and by independent distributors.

We also distribute our products to the convenience channel through our own direct-store delivery fleet and those of independent distributors. The convenience channel consists of convenience stores, gas stations, and other smaller up-and-down-the-street accounts. Because of the higher retail prices and margins that typically prevail, we have undertaken several measures to expand convenience channel distribution in recent years. These include development of products specifically targeted to this market, such as ClearFruit, Crystal Bay, Rip It, ÀSanté and Sundance. Additionally, we have created proprietary and specialized packaging with distinctive graphics for these products. Our food-service division is responsible for sales to hospitals, schools, military bases, airlines, hotels and food-service wholesalers. Food-service products are distributed primarily through independent, specialized distributors. Additionally, our Company-owned direct-store distribution systems service certain schools and other institutions. Each of our take-home, convenience and food-service operations use vending machines and glass-door coolers as marketing and promotional tools for our brands. We provide vending machines and coolers on a placement or purchase basis to our customers. We believe that the placement of vending and cooler equipment provides not only increased beverage sales, but also the enhancement of brand awareness and the development of brand loyalty.

## **SALES AND MARKETING**

We sell and market our products through an internal sales force as well as select broker networks. Our sales force is organized to serve a specific market, focusing on one or more geographic territories, distribution channels or product lines. We believe that this focus allows our sales group to provide high level, responsive service and support to the customers and markets served.

Our sales and marketing programs are directed toward maintaining and enhancing consumer brand recognition and loyalty, and typically utilize a combination of regional advertising, special event marketing, endorsements and sponsorships, and consumer coupon distribution. We retain advertising agencies to assist with media advertising programs for our brands. Additionally, we offer numerous promotional programs to retail customers, including cooperative advertising support, in-store advertising materials and other incentives. We believe these elements allow us to tailor marketing and advertising programs to meet local and regional economic conditions and demographics. We also seek to maintain points of difference between our brands and those of our competitors by combining high product quality, flavor innovation, unique packaging designs, and, for some product lines, value pricing. Additionally, National Beverage sponsors special holiday promotions including St. Nick's, which features special holiday flavors and packaging.

Our regional share dynamics strategy emphasizes the acquisition and support of brands that have a significant regional presence. We believe that these types of products enjoy a regional identification that foster long-term consumer loyalty and make them less vulnerable to consumer switching. In addition, these types of home-town products often generate more aggressive retailer

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sponsored promotional activities and receive media exposure through community activities and other local events.

**RAW MATERIALS**

Our centralized procurement division maintains relationships with numerous suppliers of raw materials and packaging goods. By consolidating the purchasing function for our manufacturing facilities, we believe we are able to procure more competitive arrangements with our suppliers, allowing us to compete as a low-cost producer of beverages.

The products we produce and sell are made from various materials, including sweeteners, juice concentrates, carbon dioxide, water, glass and plastic bottles, aluminum cans and ends, paper, cartons and closures. Most of our low-calorie soft drink products use sucralose, aspartame or Acesulfame-K. We manufacture a substantial portion of our flavor concentrates and purchase remaining raw materials from multiple suppliers.

Substantially all of the materials and ingredients we purchase are presently available from several suppliers, although strikes, weather conditions, utility shortages, governmental control or regulations, national emergencies, price or supply fluctuations or other events outside our control could adversely affect the supply of specific materials. Our key raw materials, including aluminum cans, plastic bottles and high fructose corn syrup, are derived from commodities. Therefore, pricing and availability tend to fluctuate based upon worldwide market conditions. Our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. In certain cases, we elect to enter into multi-year agreements for the supply of these materials with one or more suppliers, the terms of which may include variable or fixed pricing, minimum purchase quantities, and/or the requirement to purchase all supplies for specified locations. Aluminum cans comprise a significant portion of our raw material purchases.

**SEASONALITY**

Our sales are seasonal with the highest volume typically realized during the summer months. We have sufficient production capacity to meet seasonal increases without maintaining significant quantities of inventory in anticipation of periods of peak demand. Sales volume may be affected by weather conditions.

**COMPETITION**

The beverage industry is highly competitive and our competitive position varies in each of our market areas. Our products compete with many varieties of liquid refreshments, including coffee, milk, tea and water. We compete with bottlers and distributors of national, regional, and private label products. Several competitors, including the two that dominate the soft drink industry, PepsiCo, Inc. and The Coca-Cola Company, have greater financial resources than we have and aggressive promotion of their products can adversely affect sales of our brands. Principal methods of competition in the beverage industry are price and promotional activity, advertising and marketing programs, point-of-sale merchandising, retail space management, customer service, product differentiation, packaging innovations and distribution methods. We believe our Company differentiates itself through a diversified product portfolio, strong regional brand recognition, innovative flavor variety, attractive packaging, efficient distribution methods, specialized advertising and, for some product lines, value pricing.

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**TRADEMARKS**

We maintain registered trademarks for our brands in the United States and abroad, which are significant to our business. Shasta, Faygo, Ritz, LaCroix, Everfresh, Big Shot, Mr. Pure, Home Juice, ClearFruit, Mt. Shasta, Crystal Bay, Rip It, ÀSanté, Sundance, NutraFizz, Ohana, and St. Nick's are among the trademarks of National Beverage. We intend to continue to maintain all registrations of our significant trademarks and use the trademarks in the operation of our businesses.

**GOVERNMENTAL REGULATION**

The production, distribution and sale of our products in the United States are subject to the Federal Food, Drug and Cosmetic Act; the Dietary Supplement Health and Education Act of 1994; the Occupational Safety and Health Act; the Lanham Act; various environmental statutes; and various other federal, state and local statutes regulating the production, transportation, sale, safety, advertising, labeling and ingredients of such products. Our management believes that we are in compliance in all material respects with such existing legislation.

Certain states and localities prohibit the sale of certain beverages unless a deposit or tax is charged for containers.

These requirements vary by each jurisdiction. Similar legislation has been proposed in certain other states and localities, as well as by Congress. We are unable to predict whether such legislation will be enacted or what impact its enactment would have on our business, financial condition or results of operations.

All of our facilities in the United States are subject to federal, state and local environmental laws and regulations.

Compliance with these provisions has not had any material adverse effect on our financial or competitive position. We believe that our current practices and procedures for the control and disposition of toxic or hazardous substances comply in all material respects with applicable law. However, compliance with or any violation of current and future laws or regulations could require material expenditures or otherwise have a material adverse effect.

**EMPLOYEES**

As of May 3, 2008, we employed approximately 1,300 people, of which approximately 300 are covered by collective bargaining agreements. We believe that relations with employees are good.

**AVAILABLE INFORMATION**

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and amendments to those reports are available free of charge on our internet website at [www.nationalbeverage.com](http://www.nationalbeverage.com) as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. In addition, our Code of Ethics is available on our internet website. The information on the Company's website is not part of this annual report on Form 10-K or any other report that we file with, or furnish to, the Securities and Exchange Commission.

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**ITEM 1A. RISK FACTORS**

In addition to other information in this Form 10-K, the following risk factors should be considered carefully in evaluating the Company's business. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. Additional risks and uncertainties, including risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also impair our business and results of operations.

**Changes in consumer preferences and taste.** There has been an increasing focus on health and wellness by beverage consumers, which may reduce demand for caloric carbonated soft drinks and increase the consumption of products perceived to deliver health, wellness and/or functionality. If we do not adequately anticipate and react to changing demographics, consumer trends, health concerns and product preferences, our results of operations and financial condition could be adversely affected.

**Competition.** The beverage industry is extremely competitive. Our products compete with a broad range of beverage products, most of which are manufactured and distributed by companies with substantially greater financial, marketing and distribution resources. In order to generate future revenues and profits, we must continue to sell products that appeal to our customers and consumers. Discounting and other competitive action may make it more difficult to sustain revenues and profits.

**Customer consolidation.** Our retail customer base has been consolidating over the last several years resulting in fewer customers with increased purchasing power. This increased purchasing power can limit our ability to increase pricing for our products with certain of our customers. Our inability to meet the demands of our larger customers could lead to a loss of business and adversely affect our results of operations and financial position.

**Raw materials and energy.** The production of our products is dependent on certain raw materials, including aluminum, resin, linerboard and corn, and the production and distribution of our products is dependent on energy sources, including natural gas, fuel and electricity. These items are subject to price volatility caused by numerous factors. Commodity price increases ultimately result in a corresponding increase in the cost of raw materials and energy. We may be limited in our ability to pass these increases on to our customers or may incur a loss in sales volume to the extent price increases are taken. In addition, strikes, weather conditions, governmental controls, national emergencies, natural disasters, supply shortages or other events could affect our continued supply of raw materials and energy. If raw materials or energy costs increase, or the availability is limited, our results of operations and financial condition could be adversely affected.

**Governmental regulation.** Our business and properties are subject to various federal, state and local laws and regulations, including those governing the production, packaging, quality, labeling and distribution of beverage products. New laws or regulations or changes in existing laws or regulations could negatively impact our financial results through higher operating costs to achieve compliance.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

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Our principal properties include thirteen production facilities located in eleven states, which aggregate approximately two million square feet. We own eleven production facilities in the following states: Arizona, California (2), Georgia, Kansas, Michigan (2), Ohio, Texas, Utah and Washington. Two production facilities, located in Maryland and Florida, are leased subject to agreements that expire through 2010. We believe our facilities are generally in good condition and sufficient to meet present needs. We periodically review the capabilities of our facilities and, on the basis of such review, may acquire additional facilities and/or dispose of existing facilities.

The production of beverages is capital intensive but is not characterized by rapid technological change. The technological advances that have occurred have generally been of an incremental cost-saving nature, such as the industry's conversion to lighter weight containers or improved blending processes that enhance ingredient yields. We are not aware of any anticipated industry-wide changes in technology that would adversely impact our current physical production capacity or cost of production.

We own and lease delivery trucks, other trucks, vans and automobiles used in the sale and distribution of our products. In addition, we lease office space, transportation equipment, office equipment, data processing equipment and certain plant equipment.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are a party to various litigation matters arising in the ordinary course of business. In our opinion, the ultimate disposition of such matters will not have a material adverse effect on our consolidated financial position or results of operations.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were voted upon during the fourth quarter of fiscal 2008.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The common stock of National Beverage Corp., par value \$.01 per share, ( Common Stock ) is listed on the NASDAQ Global Select Market under the symbol FIZZ . Prior to June 12, 2007, the Common Stock was listed on the American Stock Exchange under the symbol FIZ . The following table shows the range of high and low prices per share of the Common Stock for the fiscal quarters indicated:

	Fiscal 2008		Fiscal 2007	
	High	Low	High	Low
First Quarter	\$14.65	\$9.40	\$14.63	\$ 9.79
Second Quarter	\$10.59	\$7.95	\$14.42	\$ 9.08
Third Quarter	\$ 8.65	\$6.76	\$12.75	\$ 9.38
Fourth Quarter	\$ 8.25	\$7.01	\$15.02	\$10.71

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Of the estimated 5,000 holders of our Common Stock, including those whose securities are held in the names of various dealers and/or clearing agencies, there were approximately 700 shareholders of record at July 2, 2008, according to records maintained by our transfer agent.

On May 25, 2007, the Company declared a 20% stock dividend payable on June 22, 2007 to shareholders of record on June 4, 2007. On June 15, 2007, the Company declared a cash dividend of \$.80 per share payable on or before August 17, 2007 to shareholders of record on July 20, 2007. On December 23, 2005, the Company declared a cash dividend of \$1.00 per share (\$.83 per share adjusted for the 20% stock dividend), which was paid on January 27, 2006 to shareholders of record on January 5, 2006. The stock prices above have been restated to give retroactive effect to the 20% stock dividend. Currently, the Board of Directors has no plans to declare additional cash dividends. See Note 4 of Notes to Consolidated Financial Statements for certain restrictions on the payment of dividends.

**Performance Graph**

The following graph shows a comparison of the five-year cumulative returns of an investment of \$100 cash on May 3, 2003 in (i) our common stock, (ii) the NASDAQ Composite Index and (iii) a company constructed peer group consisting of Coca-Cola Enterprises, Inc., Coca-Cola Bottling Company Consolidated, Cott Corporation and PepsiAmericas, Inc. The graph assumes that all dividends have been reinvested.

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NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**

(In thousands, except per share amounts)

	Fiscal Year Ended				
	May 3, 2008 (1)	April 28, 2007	April 29, 2006	April 30, 2005	May 1, 2004
<b>SUMMARY OF OPERATIONS:</b>					
Net sales	\$ 566,001	\$ 539,030	\$ 516,802	\$ 495,572	\$ 512,061
Cost of sales (2)	393,420	365,793	349,131	340,206	343,316
Gross profit	172,581	173,237	167,671	155,366	168,745
Selling, general and administrative expenses	138,447	137,212	135,090	130,037	139,058
Interest expense	109	106	105	106	132
Other income net	1,053	2,587	2,416	1,199	544
Income before income taxes	35,078	38,506	34,892	26,422	30,099
Provision for income taxes	12,598	13,824	12,666	9,536	11,408
Net income	\$ 22,480	\$ 24,682	\$ 22,226	\$ 16,886	\$ 18,691
<b>PER SHARE DATA:</b>					
Basic net income (3)	\$ .49	\$ .54	\$ .49	\$ .37	\$ .42
Diluted net income (3)	.49	.54	.48	.37	.41
Closing stock price (3)	8.05	13.13	12.80	5.92	7.57
Cash dividends paid (4)	.80		.83		.83
<b>BALANCE SHEET DATA:</b>					
Working capital	\$ 89,396	\$ 97,684	\$ 75,025	\$ 81,962	\$ 64,967
Property net	57,639	57,369	56,027	62,879	59,535
Total assets	239,122	257,632	218,339	224,587	205,378
Deferred income taxes net	16,624	15,217	17,783	15,958	14,930
Shareholders equity (4)	144,625	157,361	130,860	143,296	125,376

- (1) Fiscal 2008 consisted of 53 weeks.
- (2) Fiscal 2006 cost of sales includes a fructose settlement gain of \$8.4 million.
- (3) Basic net income per share is

computed by dividing earnings applicable to common shares by the weighted average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock options. Net income per share and the closing stock price have been adjusted for the 100% stock dividend distributed on March 22, 2004 and the 20% stock dividend distributed on June 22, 2007.

- (4) In January 2006 and April 2004, the Company paid a cash dividend of \$1.00 per share (\$.83 per share after adjusting for the 20% stock dividend), aggregating \$38.0 million and \$38.4 million, respectively. In addition, in August 2007, the Company paid a cash dividend of \$.80 per share, aggregating

\$36.7 million.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OVERVIEW**

National Beverage Corp. develops, manufactures, markets and distributes a complete portfolio of quality beverage products throughout the United States. Incorporated in Delaware in 1985, National Beverage Corp. is a holding company for various operating subsidiaries. In this report, the terms we, us, our, Company and National Beverage mean National Beverage Corp. and its subsidiaries.

We consider ourselves to be a leader in the development and sale of flavored beverage products in the United States, offering the widest selection of flavored soft drinks, juices, sparkling waters and energy drinks. Our flavor development spans over 100 years originating with our flagship brands, Shasta® and Faygo®, each of which has over 50 flavor varieties. We also maintain a diverse line of flavored beverage products geared to the health-conscious consumer, including Everfresh®, Home Juice®, and Mr. Pure® 100% juice and juice-based products; and LaCroix®, Mt. Shasta®, Crystal Bay® and ClearFruit® flavored, sparkling, and spring water products; and ÀSanté nutritionally-enhanced waters. In addition, we produce Rip It® energy drinks, Ohana® fruit-flavored drinks and St. Nick ® holiday soft drinks. Substantially all of our brands are produced in thirteen manufacturing facilities that are strategically located in major metropolitan markets throughout the continental United States. To a lesser extent, we develop and produce soft drinks for certain retailers and beverage companies ( allied brands ).

Our strategy emphasizes the growth of our products by offering a branded beverage portfolio of proprietary flavors; by supporting the franchise value of regional brands and expanding those brands with distinctive packaging and broader demographic emphasis; by developing and acquiring innovative products tailored toward healthy lifestyles; and by appealing to the quality-price expectations of the family consumer. We believe that the regional share dynamics of our brands perpetuate consumer loyalty within local regional markets, resulting in more retailer sponsored promotional activities.

Over the last several years, we have focused on increasing penetration of our brands in the convenience channel through Company-owned and independent distributors. The convenience channel consists of convenience stores, gas stations, and other smaller up-and-down-the-street accounts. Because of the higher retail prices and margins that typically prevail, we have undertaken several measures to expand convenience channel distribution in recent years. These include development of products specifically targeted to this market, such as ClearFruit, Crystal Bay, Rip It, ÀSanté and Sundance®. Additionally, we have created proprietary and specialized packaging with distinctive graphics for these products. We intend to continue our focus on enhancing growth in the convenience channel through both specialized packaging and innovative product development.

Beverage industry sales are seasonal with the highest volume typically realized during the summer months.

Additionally, our operating results are subject to numerous factors, including fluctuations in the costs of raw materials, changes in consumer preference for beverage products and competitive pricing in the marketplace.

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**RESULTS OF OPERATIONS**

**Net Sales**

Net sales for fiscal 2008 increased 5.0% to \$566.0 million compared to fiscal 2007. The net sales increase reflects case volume growth of 9% for our energy drinks, juices and waters along with the effect of a 11% improvement in unit pricing due to product mix and price increases instituted to recover higher raw material costs. These increases were partially offset by a 6% decline in branded carbonated soft drink volume as well as the phase out of certain allied brands.

Net sales for fiscal 2007 increased 4.3% to \$539.0 million compared to fiscal 2006. Led by higher sales of Rip It, the case volume of our energy drinks, juices and waters increased 12%. The volume improvement in higher margin products along with the effect of price increases instituted to recover raw material cost increases resulted in a 9% improvement in unit pricing. This increase was partially offset by a 7% decrease in carbonated soft drink volume, due primarily to a 21% volume decline in allied brands.

**Gross Profit**

Gross profit approximated 30.5% of net sales for fiscal 2008 and 32.1% of net sales for fiscal 2007. The decline in gross margin was due to higher manufacturing and raw material costs and the effect of lower volume. This was partially offset by the higher unit pricing noted above and a \$1.4 million business interruption insurance recovery. Cost of goods sold per unit increased approximately 14%.

Gross profit approximated 32.1% of net sales for fiscal 2007 and 30.8% of net sales for fiscal 2006, after excluding an \$8.4 million fructose settlement gain recorded in cost of sales in fiscal 2006. The gross margin improvement is primarily the result of the increase in unit pricing noted above, partially offset by higher manufacturing and raw material costs. Excluding the fructose settlement, cost of goods sold per unit increased approximately 7%. See Note 10 of Notes to Consolidated Financial Statements.

Shipping and handling costs are included in selling, general and administrative expenses, the classification of which is consistent with many beverage companies. However, our gross margin may not be comparable to companies that include shipping and handling costs in cost of sales. See Note 1 of Notes to Consolidated Financial Statements.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses were \$138.4 million or 24.5% of net sales for fiscal 2008 compared to \$137.2 million or 25.5% of net sales for last year. The increase in expenses is due primarily to higher distribution costs, which were affected by increases in fuel and energy costs.

Selling, general and administrative expenses were \$137.2 million or 25.5% of net sales for fiscal 2007 compared to \$135.1 million or 26.1% of net sales for last year. The \$2.1 million increase is due to higher marketing costs primarily related to new product introductions associated with energy drinks and increased cooperative advertising.

**Interest Expense and Other Income-Net**

Interest expense is comprised of financing costs related to maintaining lines of credit. Other income includes interest income of \$1,218,000 for fiscal 2008, \$1,701,000 for fiscal 2007, and \$1,450,000 for fiscal 2006. The decline in interest income for fiscal 2008 is due to lower investment yields and average invested balances, reflecting the effects of declining rates and the \$36.7 million dividend

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paid in August 2007. The increase in interest income for fiscal 2007 is due to an increase in investment yields and average invested balances. In addition, other income includes gains related to a contract settlement with a customer of \$895,000 for fiscal 2007 and \$1.1 million for fiscal 2006. See Note 6 of Notes to Consolidated Financial Statements.

### **Income Taxes**

Our effective tax rate was approximately 35.9% for fiscal 2008 and fiscal 2007, and 36.3% for fiscal 2006. The difference between the effective rate and the federal statutory rate of 35% was primarily due to the effects of state income taxes, nondeductible expenses, and nontaxable interest income. See Note 7 of Notes to Consolidated Financial Statements.

## **LIQUIDITY AND FINANCIAL CONDITION**

### **Capital Resources**

Our current sources of capital are cash flow from operations and borrowings under existing credit facilities. A subsidiary of the Company maintains unsecured revolving credit facilities aggregating \$45 million, of which \$2.7 million is utilized for standby letters of credit at May 3, 2008. We believe that existing capital resources are sufficient to meet our capital requirements and those of the parent company for the foreseeable future.

On June 22, 2007, the Company distributed a 20% stock dividend to shareholders of record on June 4, 2007. On August 17, 2007, the Company paid a cash dividend of \$.80 per share, aggregating \$36.7 million, to shareholders of record on July 20, 2007.

### **Cash Flows**

During fiscal 2008, \$34 million was provided from operating activities, which was partially offset by \$12.7 million used for investing activities. Cash provided by operating activities increased \$1.2 million due primarily to a favorable change in deferred income taxes. Cash used in investing activities increased \$1.8 million due to a net increase in marketable securities purchased. Cash used in financing activities aggregated \$35.4 million in fiscal 2008 and was comprised of a \$36.7 million dividend payment partially offset by proceeds and tax benefits from stock options exercised.

During fiscal 2007, \$32.8 million was provided from operating activities, which was partially offset by \$10.9 million used for investing activities. Cash provided by operating activities increased \$4.3 million due primarily to an increase in earnings and accounts payable. Cash used in investing activities increased \$5.8 million due to an increase in net capital expenditures. Cash provided by financing activities aggregated \$1.5 million in fiscal 2007 and was comprised of proceeds and tax benefits from stock options exercised.

### **Financial Position**

During fiscal 2008, our working capital decreased \$8.3 million to \$89.4 million due to the August 2007 cash dividend payment. Trade receivables decreased \$2.8 million due to changes in customer mix and timing of customer payments. Inventory decreased \$5.3 million due to the elimination of certain inventory items and improved inventory management. Prepaid and other assets increased \$2.3 million due to an increase in income tax refund receivable. At May 3, 2008 and April 27, 2007, the current ratio was 2.3 to 1.

During fiscal 2007, our working capital increased \$22.7 million to \$97.7 million primarily due to cash provided from operations. Trade receivables increased \$3.7 million due to higher sales in

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April 2007. Inventory increased \$9.6 million due to the effects of new products and cost increases. At April 28, 2007, the current ratio was 2.3 to 1 compared to 2.2 to 1 at April 29, 2006.

**Liquidity**

Although we continually evaluate capital projects designed to expand capacity, enhance packaging capabilities and improve efficiencies at our manufacturing facilities, the Company did not have any material capital expenditure commitments as of May 3, 2008. We anticipate that fiscal 2009 expenditures will be comparable to historical amounts.

On May 25, 2007, the Company declared a 20% stock dividend payable on June 22, 2007 to shareholders of record on June 4, 2007. On June 15, 2007, the Company declared a cash dividend of \$.80 per share payable on or before August 17, 2007 to shareholders of record on July 20, 2007. On January 27, 2006, the Company paid a cash dividend of \$1.00 per share (\$.83 per share adjusted for the 20% stock dividend).

In January 1998, the Board of Directors authorized the purchase of up to 800,000 shares of National Beverage common stock of which 502,060 shares have been purchased. There were no shares purchased during the last three fiscal years.

Pursuant to a management agreement, we incurred a fee to Corporate Management Advisors, Inc. ( CMA ) of approximately \$5.7 million for fiscal 2008, \$5.4 million for fiscal 2007, and \$5.2 million for fiscal 2006. At May 3, 2008, we owed \$2.7 million to CMA for unpaid fees. See Note 5 of Notes to Consolidated Financial Statements.

**CONTRACTUAL OBLIGATIONS**

Long-term contractual obligations at May 3, 2008 are payable as follows:

(In thousands)

	Total	2009	2010- 2011	2012- 2013	Thereafter
Operating leases	\$ 17,516	\$ 6,122	\$ 7,289	\$ 3,822	\$ 283
Purchase commitments	65,629	47,504	18,125		
Total	\$ 83,145	\$ 53,626	\$ 25,414	\$ 3,822	\$ 283

We have guaranteed the residual value of certain leased equipment in the amount of \$11.3 million. Management believes that the net realizable value of such equipment will be in excess of the guaranteed amount when the lease terminates in July 2012.

We contribute to certain pension plans under collective bargaining agreements based on hours worked and to a discretionary profit sharing plan, none of which have any long-term contractual funding requirements. Contributions were \$2.2 million for fiscal 2008, fiscal 2007, and fiscal 2006.

We maintain self-insured and deductible programs for certain liability, medical and workers compensation exposures. Other long-term liabilities include known claims and estimated incurred but not reported claims not otherwise covered by insurance, based on actuarial assumptions and historical claims experience. Since the timing and amount of claims settlement varies significantly, we are not able to reasonably estimate future payments for the periods indicated.

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We have standby letters of credit aggregating \$2.7 million related to our self-insurance programs, which expire in fiscal 2009. We expect to renew these standby letters of credit until they are no longer required.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition.

**CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results. We believe that the critical accounting policies described in the following paragraphs affect the most significant estimates and assumptions used in the preparation of our consolidated financial statements. For these policies, we caution that future events rarely develop exactly as estimated, and the best estimates routinely require adjustment.

**Credit Risk**

We sell products to a variety of customers and extend credit based on an evaluation of each customer's financial condition, generally without requiring collateral. Exposure to credit losses varies by customer principally due to the financial condition of each customer. We monitor our exposure to credit losses and maintain allowances for anticipated losses based on specific customer circumstances, credit conditions, and historical write-offs.

**Impairment of Long-Lived Assets**

All long-lived assets, excluding goodwill and intangible assets not subject to amortization, are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting future cash flows. Goodwill and intangible assets not subject to amortization are evaluated for impairment annually or sooner in accordance with SFAS No. 142. An impairment loss is recognized if the carrying amount, or for goodwill, the carrying amount of its reporting unit, is greater than its fair value.

**Income Taxes**

Our effective income tax rate and the tax bases of assets and liabilities are based on estimates of taxes which will ultimately be payable. Deferred taxes are recorded to give recognition to temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. Valuation allowances are established when it is deemed, more likely than not, that the benefit of deferred tax assets will not be realized.

**Insurance Programs**

We maintain self-insured and deductible programs for certain liability, medical and workers' compensation exposures. Accordingly, we accrue for known claims and estimated incurred but not reported claims not otherwise covered by insurance, based on actuarial assumptions and historical claims experience.

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### **Sales Incentives**

We offer various sales incentive arrangements to our customers, which require customer performance or achievement of certain sales volume targets. In those circumstances when the incentive is paid in advance, we amortize the amount paid over the period of benefit or contractual sales volume. When the incentive is paid in arrears, we accrue the expected amount to be paid over the period of benefit or expected sales volume. The recognition of these incentives involves the use of judgment related to performance and sales volume estimates that are made based on historical experience and other factors. Sales incentives are accounted for as a reduction of revenues and actual amounts may vary from reported amounts.

### **NEW ACCOUNTING STANDARDS**

See Note 1 of Notes to Consolidated Financial Statements for information about recently issued accounting standards.

### **FORWARD-LOOKING STATEMENTS**

National Beverage and its representatives may from time to time make written or oral statements relating to future events or results relative to our financial, operational and business performance, achievements, objectives and strategies. These statements are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, and include statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our stockholders. Certain statements including, without limitation, statements containing the words believes, anticipates, intends, plans, expects, and estimates constitute forward-looking statements and involve and unknown risk, uncertainties and other factors that may cause the actual results, performance or achievements of our Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the following: general economic and business conditions; pricing of competitive products; success in acquiring other beverage businesses; success of new product and flavor introductions; fluctuations in the costs of raw materials and packaging supplies, and the ability to pass along any cost increases to our customers; our ability to increase prices for our products; labor strikes or work stoppages or other interruptions or difficulties in the employment of labor; continued retailer support for our products; changes in consumer preferences and our success in creating products geared toward consumers' tastes; success of implementing business strategies; changes in business strategy or development plans; government regulations; unseasonably cold or wet weather conditions; and other factors referenced in this Form 10-K. We disclaim an obligation to update any such factors or to publicly announce the results of any revisions to any forward-looking statements contained herein to reflect future events or developments.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Commodities**

We purchase various raw materials, including aluminum cans, plastic bottles, high fructose corn syrup, and various juice concentrates, the prices of which fluctuate based on commodity market conditions. Our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate.

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**Interest Rates**

We had no outstanding debt or debt related interest rate exposure during fiscal 2008. Our investment portfolio is comprised of highly liquid securities consisting primarily of short-term money market instruments, the yields of which fluctuate based largely on short-term Treasury rates. If the yield of these instruments had changed by 100 basis points (1%), interest income for fiscal 2008 would have changed by approximately \$400,000.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

**AS OF MAY 3, 2008 AND APRIL 28, 2007**

(In thousands, except share amounts)

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and equivalents	\$ 51,497	\$ 65,579
Marketable securities	3,000	
Trade receivables net of allowances of \$266 (2008) and \$325 (2007)	49,186	51,976
Inventories	38,754	44,062
Deferred income taxes net	2,895	2,209
Prepaid and other assets	12,009	9,681
Total current assets	157,341	173,507
Property net	57,639	57,369
Goodwill	13,145	13,145
Intangible assets net	1,899	1,899
Other assets	9,098	11,712
	\$ 239,122	\$ 257,632
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 49,803	\$ 54,333
Accrued liabilities	17,965	19,271
Income taxes payable	177	2,219
Total current liabilities	67,945	75,823
Deferred income taxes net	16,624	15,217
Income tax liability	3,166	
Other liabilities	6,762	9,231
Shareholders' equity:		
Preferred stock, 7% cumulative, \$1 par value, aggregate liquidation preference of \$15,000 - 1,000,000 shares authorized; 150,000 shares issued; no shares outstanding	150	150
Common stock, \$.01 par value authorized 75,000,000 shares; issued 49,982,838 shares (2008) and 49,538,370 shares (2007); outstanding 45,950,054 shares (2008) and 45,505,586 shares (2007)	500	496
Additional paid-in capital	26,508	24,847
Retained earnings	135,467	149,868
Treasury stock at cost:		
Preferred stock 150,000 shares	(5,100)	(5,100)
Common stock 4,032,784 shares	(12,900)	(12,900)
Total shareholders' equity	144,625	157,361

\$ 239,122      \$ 257,632

See accompanying Notes to Consolidated Financial Statements.

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**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE FISCAL YEARS ENDED MAY 3, 2008, APRIL 28, 2007 AND APRIL 29, 2006**

(In thousands, except per share amounts)

	2008	2007	2006
Net sales	\$ 566,001	\$ 539,030	\$ 516,802
Cost of sales	393,420	365,793	349,131
Gross profit	172,581	173,237	167,671
Selling, general and administrative expenses	138,447	137,212	135,090
Interest expense	109	106	105
Other income net	1,053	2,587	2,416
Income before income taxes	35,078	38,506	34,892
Provision for income taxes	12,598	13,824	12,666
Net income	\$ 22,480	\$ 24,682	\$ 22,226
Net income per share			
Basic	\$ .49	\$ .54	\$ .49
Diluted	\$ .49	\$ .54	\$ .48
Average common shares outstanding			
Basic	45,894	45,763	45,367
Diluted	46,109	46,073	45,946

See accompanying Notes to Consolidated Financial Statements.

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**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE FISCAL YEARS ENDED MAY 3, 2008, APRIL 28, 2007 AND APRIL 29, 2006**

(In thousands)

	2008	2007	2006
<b>Number of Common Shares Issued</b>			
Beginning of year	49,538	41,511	41,019
Stock options exercised (1)	444	443	492
20% stock dividend		7,584	
End of year	49,982	49,538	41,511
<b>Preferred Stock</b>			
Beginning and end of year	\$ 150	\$ 150	\$ 150
<b>Common Stock</b>			
Beginning of year	496	415	410
Stock options exercised	4	5	5
20% stock dividend		76	
End of year	500	496	415
<b>Additional Paid-In Capital</b>			
Beginning of year	24,847	23,033	19,679
Stock options exercised	329	319	1,000
Stock-based compensation	311	318	1,254
Stock-based tax benefits	1,021	1,177	1,100
End of year	26,508	24,847	23,033
<b>Retained Earnings</b>			
Beginning of year	149,868	125,262	141,057
Net income	22,480	24,682	22,226
Cash dividends paid	(36,711)		(38,021)
FIN 48 adoption	(170)		
20% stock dividend		(76)	
End of year	135,467	149,868	125,262
<b>Treasury Stock-Preferred</b>			

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Beginning and end of year	(5,100)	(5,100)	(5,100)
<b>Treasury Stock-Common</b>			
Beginning and end of year	(12,900)	(12,900)	(12,900)
<b>Total Shareholders Equity</b>	\$ 144,625	\$ 157,361	\$ 130,860

(1) Includes  
issuance of  
deferred  
delivery shares  
of 288 (2008),  
343 (2007) and  
39 (2006).

See accompanying Notes to Consolidated Financial Statements.

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**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED MAY 3, 2008, APRIL 28, 2007 AND APRIL 29, 2006**

(In thousands)

	2008	2007	2006
<b>Operating Activities:</b>			
Net income	\$ 22,480	\$ 24,682	\$ 22,226
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,584	11,650	13,587
Deferred income tax (benefit) provision	1,254	(2,835)	1,644
Loss (gain) on disposal of property, net	196	9	(51)
Stock-based compensation	311	318	291
Changes in assets and liabilities:			
Trade receivables	2,790	(3,740)	(2,101)
Inventories	5,308	(9,633)	(4,691)
Prepaid and other assets	(2,824)	(3,193)	(4,675)
Accounts payable	(4,530)	16,292	29
Accrued and other liabilities, net	(2,581)	(715)	2,293
Net cash provided by operating activities	33,988	32,835	28,552
<b>Investing Activities:</b>			
Marketable securities purchased	(302,195)	(524,980)	(352,775)
Marketable securities sold	299,195	524,980	352,775
Property additions	(9,725)	(10,975)	(7,964)
Proceeds from sale of assets	12	99	2,890
Net cash used in investing activities	(12,713)	(10,876)	(5,074)
<b>Financing Activities:</b>			
Common stock cash dividend	(36,711)		(38,021)
Proceeds from stock options exercised	333	324	1,005
Stock-based tax benefits	1,021	1,177	1,100
Net cash provided by (used in) financing activities	(35,357)	1,501	(35,916)
<b>Net Increase (Decrease) in Cash and Equivalents</b>	<b>(14,082)</b>	<b>23,460</b>	<b>(12,438)</b>
<b>Cash and Equivalents Beginning of Year</b>	<b>65,579</b>	<b>42,119</b>	<b>54,557</b>
<b>Cash and Equivalents End of Year</b>	<b>\$ 51,497</b>	<b>\$ 65,579</b>	<b>\$ 42,119</b>

**Other Cash Flow Information:**

Interest paid	\$	107	\$	106	\$	105
Income taxes paid		13,767		13,325		10,754
See accompanying Notes to Consolidated Financial Statements.						

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**NATIONAL BEVERAGE CORP. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

National Beverage Corp. develops, manufactures, markets and distributes a complete portfolio of multi-flavored soft drinks, juice drinks, water and specialty beverages throughout the United States. Incorporated in Delaware in 1985, National Beverage Corp. is a holding company for various operating subsidiaries. When used in this report, the terms we, us, our, Company and National Beverage mean National Beverage Corp. and its subsidiaries.

**1. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The consolidated financial statements include the accounts of National Beverage Corp. and all subsidiaries. All significant intercompany balances have been eliminated. Our fiscal year ends the Saturday closest to April 30<sup>th</sup> and, as a result, an additional week is added every five or six years. Fiscal 2008 consists of 53 weeks while fiscal 2007 and 2006 consist of 52 weeks.

**Cash and Equivalents**

Cash and equivalents are comprised of cash and highly liquid securities (consisting primarily of short-term money-market investments) with an original maturity of three months or less.

**Fair Value of Financial Instruments**

The fair values of financial instruments including marketable securities, trade receivables and accounts payable are estimated based on market rates. The carrying amounts of financial instruments reflected in the balance sheets approximate their fair values.

**Impairment of Long-Lived Assets**

All long-lived assets, excluding goodwill and intangible assets not subject to amortization, are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting future cash flows. Goodwill and intangible assets not subject to amortization are evaluated for impairment annually or sooner in accordance with SFAS No. 142. An impairment loss is recognized if the carrying amount, or for goodwill, the carrying amount of its reporting unit, is greater than its fair value.

**Income Taxes**

We account for income taxes under Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes ( SFAS 109 ). Under SFAS 109, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

At the beginning of fiscal 2008, we adopted the Financial Accounting Standards Board's ( FASB ) Interpretation Number 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 clarified the accounting for uncertainty in an enterprise's financial statements by prescribing a

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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 requires us to evaluate our open tax positions that exist on the date of initial adoption in each jurisdiction.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, we believe it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as income tax expense in the statement of operations.

### **Insurance Programs**

We maintain self-insured and deductible programs for certain liability, medical and workers compensation exposures. Accordingly, we accrue for known claims and estimated incurred but not reported claims not otherwise covered by insurance, based on actuarial assumptions and historical claims experience.

### **Intangible Assets**

Intangible assets as of May 3, 2008 and April 28, 2007 consisted of nonamortizable trademarks aggregating \$1,899,000. Amortization expense related to relinquished distribution rights was \$285,000 for fiscal 2006.

### **Inventories**

Inventories are stated at the lower of first-in, first-out cost or market. Inventories at May 3, 2008 are comprised of finished goods of \$20,913,000 and raw materials of \$17,841,000. Inventories at April 28, 2007 are comprised of finished goods of \$24,356,000 and raw materials of \$19,706,000.

### **Marketable Securities**

Marketable securities are income yielding securities that generally can be readily converted into cash. All of our marketable securities are classified as trading securities and are reported as current assets at their estimated fair market values. The reported fair value is based on a variety of factors and assumptions including quoted market prices when available. Accordingly, the fair value may not represent actual value of the securities that could have been realized as of May 3, 2008, or that will be realized in the future and do not include expenses that could be incurred in an actual sale or settlement.

### **Marketing Costs**

We are involved in a variety of marketing programs, including cooperative advertising programs with customers, to advertise and promote our products to consumers. Marketing costs are expensed when incurred, except for prepaid advertising and production costs which are expensed when the advertising takes place. Marketing costs, which are included in selling, general and administrative

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expenses, were \$39.5 million in fiscal 2008, \$42.4 million in fiscal 2007, and \$37.9 million in fiscal 2006.

### **Net Income Per Share**

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Included in average common shares outstanding are shares of common stock of which option holders have elected to defer physical delivery following the exercise of stock options. Diluted net income per share is calculated in a similar manner, but include the dilutive effect of stock options, which amounted to 215,000 shares (2008), 310,000 shares (2007), and 579,000 shares (2006). Net income per share and average common shares outstanding have been adjusted for the 20% stock dividend paid on June 22, 2007 (see note 5).

### **New Accounting Standards**

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2009 fiscal year. However, as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis, the FASB deferred the effective date of SFAS 157 until the beginning of our 2010 fiscal year. We are currently evaluating the impact of adopting SFAS 157 on our financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 are effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact of adopting SFAS 159 on our financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (SFAS 141R), and SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 are effective as of the beginning of our 2010 fiscal year. We are currently evaluating the impact of adopting SFAS 141R and SFAS 160 on our financial statements.

### **Property**

Property is recorded at cost. Property additions, replacements and betterments are capitalized, while maintenance and repairs that do not extend the useful life of an asset are expensed as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of 7 to 30 years for buildings and improvements, and 3 to 15 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the improvement. When assets are retired or otherwise disposed, the cost and accumulated depreciation are removed from the respective accounts and any related gain or loss is recognized.

### **Revenue Recognition**

Revenue from product sales is recognized when title and risk of loss passes to the customer, which generally occurs upon delivery. Our policy is not to allow the return of products once they have been accepted by the customer. However, on occasion, we have accepted returns or issued credit to

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customers, primarily for damaged goods. The amounts have been immaterial and, accordingly, we do not provide a specific valuation allowance for sales returns.

### **Sales Incentives**

We offer various sales incentive arrangements to our customers which require customer performance or achievement of certain sales volume targets. In those circumstances when the incentive is paid in advance, we amortize the amount paid over the period of benefit or contractual sales volume. When the incentive is paid in arrears, we accrue the expected amount to be paid over the period of benefit or expected sales volume. The recognition of these incentives involves the use of judgment related to performance and sales volume estimates that are made based on historical experience and other factors. Sales incentives are accounted for as a reduction of revenues and actual amounts may vary from reported amounts.

### **Segment Reporting**

We operate as a single operating segment for purposes of presenting financial information and evaluating performance. As such, the accompanying consolidated financial statements present financial information in a format that is consistent with the internal financial information used by management. We do not accumulate revenues by product classification and, therefore, it is impractical to present such information.

### **Shipping and Handling Costs**

Shipping and handling costs are reported in selling, general and administrative expenses in the accompanying statements of income. Such costs aggregated \$45.3 million in fiscal 2008, \$43.2 million in fiscal 2007, and \$44.1 million in fiscal 2006. Although our classification is consistent with many beverage companies, our gross margin may not be comparable to companies that include shipping and handling costs in cost of sales.

### **Stock-Based Compensation**

At the beginning of the fourth quarter of fiscal 2006, we adopted SFAS No. 123R Stock-Based Compensation pursuant to the modified prospective application and, accordingly, prior period amounts have not been restated. Stock-based compensation expense was recorded based on the fair value method for all awards granted on or after the date of adoption and for the portion of previously granted awards that remained unvested at the date of adoption. Prior to the fourth quarter of fiscal 2006, we applied the provisions of APB No. 25, Accounting for Stock Issued to Employees, as permitted under SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. Under APB 25, stock-based compensation expense was generally not recognized unless the exercise price of options granted was less than the market price on the date of grant. Had compensation cost for options granted to employees been recorded based on the fair value method under SFAS No. 123, Accounting for Stock-Based Compensation prior to the adoption date, net income and net income per share would have been impacted on a pro forma basis by less than \$200,000 and \$.01 per share for fiscal 2006.

### **Trade Receivables**

We record trade receivables at net realizable value, which includes an appropriate allowance for doubtful accounts. We extend credit based on an evaluation of each customer's financial condition, generally without requiring collateral. Exposure to credit losses varies by customer principally due to the financial condition of each customer. We monitor our exposure to credit losses and maintain

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allowances for anticipated losses based on specific customer circumstances, credit conditions, and historical write-offs. Activity in the allowance for doubtful accounts was as follows:

	(In thousands)		
	2008	2007	2006
Balance at beginning of year	\$ 325	\$ 562	\$ 585
Charged (credited) to expense	91	(244)	227
Net recoveries (charge-offs)	(150)	7	(250)
Balance at end of year	\$ 266	\$ 325	\$ 562

As of May 3, 2008 and April 28, 2007, we did not have any customer that comprised more than 10% of trade receivables. No one customer accounted for more than 10% of net sales during any of the last three fiscal years.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and anticipated future actions, actual results may vary from reported amounts.

**2. PROPERTY**

Property as of May 3, 2008 and April 28, 2007 consisted of the following:

	(In thousands)	
	2008	2007
Land	\$ 8,954	\$ 8,915
Buildings and improvements	41,697	38,898
Machinery and equipment	124,797	123,556
Total	175,448	171,369
Less accumulated depreciation	(117,809)	(114,000)
Property net	\$ 57,639	\$ 57,369

Depreciation expense was \$9,247,000 for fiscal 2008, \$9,525,000 for fiscal 2007, and \$10,147,000 for fiscal 2006.

**3. ACCRUED LIABILITIES**

Accrued liabilities as of May 3, 2008 and April 28, 2007 consisted of the following:

	(In thousands)	
	2008	2007
Accrued promotions	\$ 5,340	\$ 5,710
Accrued compensation	5,065	4,427
Accrued insurance	2,783	1,919
Other	4,777	7,215
Total	\$ 17,965	\$ 19,271

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**4. DEBT**

At May 3, 2008, a subsidiary of the Company maintained unsecured revolving credit facilities with banks aggregating \$45 million (the "Credit Facilities"). The Credit Facilities expire through December 2009 and bear interest at 12% below the banks' reference rate or .6% above LIBOR, at the subsidiary's election. At May 3, 2008, \$2.7 million of the Credit Facilities was used for standby letters of credit and \$42.3 million was available for borrowings.

The Credit Facilities require the subsidiary to maintain certain financial ratios and contain other restrictions, none of which are expected to have a material impact on our operations or financial position. Significant financial ratios and restrictions include: fixed charge coverage; net worth ratio; and limitations on incurrence of debt. At May 3, 2008, we were in compliance with all loan covenants and approximately \$25 million of retained earnings were restricted from distribution.

In June 2008, the Credit Facilities were increased to \$75 million and the maturity date extended through December 2013.

**5. CAPITAL STOCK AND TRANSACTIONS WITH RELATED PARTIES**

On May 25, 2007, the Company declared a 20% stock dividend payable on June 22, 2007 to shareholders of record on June 4, 2007. On June 15, 2007, the Company declared a cash dividend of \$.80 per share payable on or before August 17, 2007 to shareholders of record on July 20, 2007. Net income per share, average common shares outstanding and share amounts have been restated to give retroactive effect to the 20% stock dividend.

On January 27, 2006, the Company paid a cash dividend of \$1.00 per share (\$.83 per share adjusted for the 20% stock dividend) to shareholders of record on January 5, 2006, including holders of deferred shares.

In January 1998, the Board of Directors authorized the purchase of up to 800,000 shares of National Beverage common stock of which 502,060 shares have been purchased. There were no shares purchased during the three fiscal years ended May 3, 2008.

The Company is a party to a management agreement with Corporate Management Advisors, Inc. ("CMA"), a corporation owned by our Chairman and Chief Executive Officer. Under the agreement, the employees of CMA provide us with corporate finance, strategic planning, business development and other management services for an annual base fee equal to one percent of consolidated net sales plus incentive compensation based on certain factors to be determined by the Compensation Committee of our Board of Directors. In July 2005, in connection with providing services under the management agreement, CMA became a twenty percent joint owner of an aircraft used by the Company. We incurred fees to CMA of \$5.7 million for fiscal 2008, \$5.4 million for fiscal 2007, and \$5.2 million for fiscal 2006. No incentive compensation has been incurred or approved under the management agreement since its inception. Included in accounts payable at May 3, 2008 and April 28, 2007 were amounts due CMA of \$2.7 million and \$2.5 million, respectively.

**Table of Contents****6. OTHER INCOME**

Other income consisted of the following:

	(In thousands)		
	2008	2007	2006
Interest income	\$ 1,218	\$ 1,701	\$ 1,450
Gain on contract settlement		895	1,143
Gain (loss) on disposal of property, net	(196)	(9)	51
Other income (loss), net	31		(228)
Total	\$ 1,053	\$ 2,587	\$ 2,416

**7. INCOME TAXES**

The provision for income taxes consisted of the following:

	(In thousands)		
	2008	2007	2006
Current	\$ 11,344	\$ 16,659	\$ 11,022
Deferred	1,254	(2,835)	1,644
Total	\$ 12,598	\$ 13,824	\$ 12,666

Deferred taxes are recorded to give recognition to temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. Valuation allowances are established when it is deemed, more likely than not, that the benefit of deferred tax assets will not be realized. Deferred tax assets and liabilities as of May 3, 2008 and April 28, 2007 consisted of the following:

	(In thousands)	
	2008	2007
Deferred tax assets:		
Accrued expenses and other	\$ 4,704	\$ 4,215
Inventory and amortizable assets	359	269
Total deferred tax assets	5,063	4,484
Deferred tax liabilities:		
Property	18,703	17,426
Intangibles and other	89	66
Total deferred tax liabilities	18,792	17,492
Net deferred tax liabilities	\$ 13,729	\$ 13,008
Current deferred tax assets net	\$ 2,895	\$ 2,209
Noncurrent deferred tax liabilities net	\$ 16,624	\$ 15,217

The reconciliation of the statutory federal income tax rate to our effective tax rate was as follows:

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	2008	2007	2006
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	2.8	3.0	2.9
Other differences	(1.9)	(2.1)	(1.6)
Effective income tax rate	35.9%	35.9%	36.3%

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In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which provides guidance on the financial statement recognition, measurement, reporting and disclosure of uncertain tax positions taken or expected to be taken in a tax return. We adopted FIN 48 at the beginning of fiscal 2008 and recorded a \$703,000 increase in liabilities for uncertain tax positions, a \$533,000 decrease in deferred tax liability and a \$170,000 decrease to retained earnings.

As of May 3, 2008, the gross amount of unrecognized tax benefits was approximately \$3.2 million, of which approximately \$424,000 was recognized as tax expense in fiscal 2008. If we were to prevail on all uncertain tax positions, the net effect would be to reduce our tax expense by approximately \$2.6 million. A reconciliation of the changes in the gross balance of unrecognized tax benefits amounts during fiscal 2008 follows:

	(In thousands)
Beginning balance	\$ 2,694
Increases due to current period tax positions	630
Decreases due to lapse of statute of limitations	(158)
Ending balance	\$ 3,166

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of May 3, 2008, we had accrued \$393,000 in interest related to unrecognized tax benefits, of which approximately \$90,000 was recognized as tax expense in fiscal 2008.

We file annual income tax returns in the United States and in various state and local jurisdictions. A number of years may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our unrecognized tax benefits reflect the most probable outcome. We adjust these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances. The resolution of any particular uncertain tax position could require the use of cash and an adjustment to our provision for income taxes in the period of resolution. The Internal Revenue Service has concluded its examination of our federal income tax returns through fiscal 2004 and income tax returns for subsequent fiscal years are subject to examination.

Generally, the income tax returns for the various state jurisdictions are subject to examination for fiscal years ending on or after fiscal 2003.

**8. STOCK-BASED COMPENSATION**

The 1991 Omnibus Incentive Plan (the Omnibus Plan ) provides for compensatory awards consisting of (i) stock options or stock awards for up to 4,800,000 shares of common stock, (ii) stock appreciation rights, dividend equivalents, other stock-based awards in amounts up to 4,800,000 shares of common stock and (iii) performance awards consisting of any combination of the above. The Omnibus Plan is designed to provide an incentive to the officers (including those who are also directors) and certain other key employees and consultants by making available to them an opportunity to acquire a proprietary interest or to increase such interest in National Beverage. The number of shares or options which may be issued under stock-based awards to an individual is limited to 1,680,000 during any year. Awards may be granted for no cash consideration or such minimal cash consideration as may be required by law. Options generally vest over a five-year period and expire after ten years.

Pursuant to a Special Stock Option Plan, National Beverage has authorized the issuance of options to purchase up to an aggregate of 1,800,000 shares of common stock. Options may be granted for

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such consideration as determined by the Board of Directors. The Board of Directors also authorized the issuance of options to purchase up to 120,000 shares of common stock to be issued at the direction of the Chairman.

The Key Employee Equity Partnership Program ( KEEP Program ) provides for the granting of stock options to purchase up to 240,000 shares of common stock to key employees, consultants, directors and officers. Participants who purchase shares of stock in the open market receive grants of stock options equal to 50% of the number of shares purchased, up to a maximum of 6,000 shares in any two-year period. Options under the KEEP Program are automatically forfeited in the event of the sale of shares originally acquired by the participant. Options are granted at an initial exercise price of 60% of the purchase price paid for the shares acquired and the exercise price reduces to the stock par value at the end of the six-year vesting period.

The fair value of option grants was estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions: weighted average expected life of 7.6 years for fiscal 2008, 8 years for 2007, and 7.7 years for 2006; weighted average expected volatility of 36.3% for fiscal 2008, 33.2% for 2007, and 30.5% for 2006; weighted average risk free interest rates of 4.6% for fiscal 2008, 5% for 2007, and 4.5% for 2006; and no expected dividend payments. Subsequent to adopting SFAS No. 123R, forfeitures were estimated based on historical experience. Prior to adoption, forfeitures were recorded as they occurred. The expected life of stock options was estimated based on historical experience. The expected volatility was estimated based on historical stock prices for a period consistent with the expected life of stock options. The risk free interest rate was based on the U.S. Treasury constant maturity interest rate whose term is consistent with the expected life of stock options.

The following is a summary of stock option activity for fiscal 2008:

	Shares	Price (a)
Options outstanding, beginning of year	835,207	\$4.23
Granted	41,200	8.85
Exercised	(156,468)	2.13
Cancelled	(43,020)	6.06
Options outstanding, end of year	676,919	4.47
Options exercisable, end of year	361,848	3.24

(a) Weighted  
average exercise  
price.

Stock-based compensation expense for fiscal 2008, fiscal 2007 and fiscal 2006 was \$311,000, \$318,000, and \$291,000, respectively. The total fair value of shares vested for fiscal 2008, fiscal 2007 and fiscal 2006 was \$292,000, \$258,000, and \$218,000, respectively. The total intrinsic value for stock options exercised during fiscal 2008, fiscal 2007 and fiscal 2006 was \$1.2 million, \$1.1 million, and \$2.7 million, respectively. The weighted average fair value for stock options granted in fiscal 2008, fiscal 2007 and fiscal 2006 was \$7.02, \$13.84, and \$5.18, respectively.

As of May 3, 2008, unrecognized compensation expense related to the unvested portion of our stock options was \$1.3 million, which is expected to be recognized over a weighted average period of 3.2 years. The weighted average remaining contractual term and the aggregate intrinsic value for options outstanding as of May 3, 2008 was 5.3 years and \$2.4 million, respectively. The weighted average remaining contractual term and the aggregate intrinsic value for options exercisable as of May 3, 2008 was 3.5 years and \$1.7 million, respectively.

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For fiscal 2008, net cash proceeds from the exercise of stock options were \$333,000 and stock based income tax benefits aggregated \$1 million.

We have a stock purchase plan which provides for the purchase of up to 1,536,000 shares of common stock by employees who (i) have been employed for at least two years, (ii) are not part-time employees and (iii) are not owners of five percent or more of National Beverage common stock. As of May 3, 2008, no shares have been issued under the plan.

**9. COMMITMENTS AND CONTINGENCIES**

We lease buildings, machinery and equipment under various non-cancelable operating lease agreements expiring at various dates through 2017. Certain of these leases contain scheduled rent increases and/or renewal options.

Contractual rent increases are taken into account when calculating the minimum lease payment and recognized on a straight-line basis over the lease term. Rent expense under operating lease agreements totaled approximately \$8.3 million for fiscal 2008, \$8.2 million for fiscal 2007, and \$8.5 million for fiscal 2006.

Our minimum lease payments under non-cancelable operating leases as of May 3, 2008 are as follows:

	(In thousands)
Fiscal 2009	\$ 6,122
Fiscal 2010	4,246
Fiscal 2011	3,043
Fiscal 2012	2,278
Fiscal 2013	1,544
Thereafter	283
Total minimum lease payments	\$ 17,516

We have guaranteed the residual value of certain leased equipment in the amount of \$11.3 million. No liability has been recorded as management believes that the net realizable value of such equipment will be in excess of the guaranteed amount when the lease terminates in July 2012 and that the fair market value of the guarantee is immaterial.

The Company contributes to certain pension plans under collective bargaining agreements based on hours worked and to a discretionary profit sharing plan, neither of which have any long-term contractual funding requirements. Contributions were \$2.2 million for fiscal 2008, fiscal 2007, and fiscal 2006.

We enter into various agreements with suppliers for the purchase of raw materials, the terms of which may include variable or fixed pricing and minimum purchase quantities. As of May 3, 2008, we had purchase commitments for raw materials of \$65.6 million.

From time to time, we are a party to various litigation matters arising in the ordinary course of business. In our opinion, the ultimate disposition of such matters will not have a material adverse effect on our consolidated financial position or results of operations.

**Table of Contents****10. FRUCTOSE SETTLEMENT**

In June 2005, we received a partial payment of \$7.7 million from the settlement of our claim in a class action lawsuit known as *In re: High Fructose Corn Syrup Antitrust Litigation* Master File No. 95-1477 in the United States District Court for the Central District of Illinois. The lawsuit related to purchases of high fructose corn syrup made by the Company and others. The settlement amount was allocated to each class action recipient based on the proportion of its purchases to total purchases by all class action recipients. The amount received, less offsets and expenses of \$.5 million, was recorded as a reduction in cost of sales in the first quarter of fiscal 2006. In November 2005, we received \$1.2 million, representing the final payment due under the settlement. Such amount was recorded in the third quarter of fiscal 2006 as a reduction in cost of sales.

**11. QUARTERLY FINANCIAL DATA (UNAUDITED)**

(In thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2008 (1)				
Net sales	\$ 151,764	\$ 143,528	\$ 123,182	\$ 147,527
Gross profit	46,391	44,525	37,669	43,996
Net income	7,185	6,477	3,254	5,564
Net income per share basic	\$ .16	\$ .14	\$ .07	\$ .12
Net income per share diluted	\$ .16	\$ .14	\$ .07	\$ .12
Fiscal 2007				
Net sales	\$ 150,136	\$ 135,818	\$ 117,123	\$ 135,953
Gross profit	49,955	43,913	37,841	41,528
Net income	9,759	5,749	3,034	6,140
Net income per share basic (2)	\$ .21	\$ .13	\$ .07	\$ .13
Net income per share diluted (2)	\$ .21	\$ .12	\$ .07	\$ .13

(1) Fiscal 2008 fourth quarter included fourteen weeks while other quarters included thirteen weeks.

(2) Net income per share has been adjusted for the 20% stock dividend distributed on June 22, 2007.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

National Beverage Corp.

We have audited the accompanying consolidated balance sheets of National Beverage Corp. as of May 3, 2008 and April 28, 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the two-year period ended May 3, 2008. We also have audited National Beverage Corp.'s internal control over financial reporting as of May 3, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). National Beverage Corp.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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As discussed in Notes 1 and 7 to the consolidated financial statements, in fiscal 2008 the Company changed its method of accounting for uncertainty in income taxes.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Beverage Corp. as of May 3, 2008 and April 28, 2007, and the results of its operations and its cash flows for each of the years in the two-year period ended May 3, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, National Beverage Corp. maintained, in all material respects, effective internal control over financial reporting as of May 3, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ McGladrey & Pullen, LLP

Ft. Lauderdale, Florida

July 17, 2008

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**REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM**

To the Shareholders of  
National Beverage Corp.

In our opinion, the consolidated statements of income, shareholders' equity and cash flows for the year ended April 29, 2006 present fairly, in all material respects, the results of operations and cash flows of National Beverage Corp. and its subsidiaries for the year ended April 29, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Ft Lauderdale, Florida

July 28, 2006, except for information presented in Note 5 to the consolidated financial statements related to the retroactive effect of the stock dividend transaction, as to which the date is July 10, 2007

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective to ensure information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of May 3, 2008.

Management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

**Attestation Report of the Registered Public Accounting Firm**

McGladrey & Pullen, LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

**Changes in Internal Controls**

There were no changes in our internal control over financial reporting during the quarter ended May 3, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Not applicable.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information concerning directors, executive officers and corporate governance will be included under the captions

Election of Directors , Information as to Nominees and Other Directors , Information Regarding Meetings and Committees of the Board and Section 16(a) Beneficial Ownership Reporting Compliance in the Company's 2008 Proxy Statement and is incorporated herein by reference.

The following table sets forth certain information with respect to the officers of the Registrant as of May 3, 2008.

Name	Age	Position with Company
Nick A. Caporella (1)	72	Chairman of the Board and Chief Executive Officer
Joseph G. Caporella (2)	48	President
Edward F. Knecht (3)	73	Executive Vice President Procurement
George R. Bracken (4)	63	Senior Vice President Finance
Dean A. McCoy (5)	51	Senior Vice President and Chief Accounting Officer

(1) Mr. Nick A. Caporella has served as Chairman of the Board, Chief Executive Officer, and Director since the Company's inception in 1985. Also, he serves as Chairman of the Nominating Committee. Since January 1, 1992, Mr. Caporella's services have been provided to the Company by Corporate Management Advisors, Inc., a company which he owns.

- (2) Mr. Joseph G. Caporella has served as President since September 2002 and, prior to that, as Executive Vice President and Secretary since January 1991. Also, he has served as a Director since January 1987. Joseph G. Caporella is the son of Nick A. Caporella.
- (3) Mr. Edward F. Knecht was named Executive Vice President Procurement in August 2005 and, prior to that date, served as President of Shasta Sweetener Corp., a wholly-owned subsidiary of the Company.
- (4) Mr. George R. Bracken was named Senior Vice President Finance in October 2000 and, prior to that date, served as Vice President and Treasurer since October 1996.

(5)

Mr. Dean A. McCoy was named Senior Vice President and Chief Accounting Officer in October 2003 and, prior to that date, served as Senior Vice President Controller since October 2000. Prior to October 2000, he served as Vice President Controller since July 1993.

All officers serve until their successors are chosen and may be removed at any time by the Board of Directors. Officers are normally appointed each year at the first meeting of the Board of Directors after the annual meeting of shareholders.

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**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning executive compensation will be included under the captions Executive Compensation and Other Information and Compensation Committee Interlocks and Insider Participation in the Company's 2008 Proxy Statement and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information concerning security ownership of certain beneficial owners and management and related stockholder matters will be included under the captions Security Ownership and Equity Compensation Plan Information in the Company's 2008 Proxy Statement and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information concerning certain relationships and related transactions and director independence will be included under the captions Certain Relationships and Related Party Transactions and Information Regarding Meetings and Committees of the Board in the Company's 2008 Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information concerning principal accountant fees and services will be included under the caption Independent Auditors in the Company's 2008 Proxy Statement and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this report:

	Page
1. Financial Statements	
Consolidated Balance Sheets	18
Consolidated Statements of Income	19
Consolidated Statements of Shareholders' Equity	20
Consolidated Statements of Cash Flows	21
Notes to Consolidated Financial Statements	22
Report of Independent Registered Public Accounting Firm	33
Report of Independent Registered Certified Public Accounting Firm	35
2. Financial Statement Schedules	
Not applicable	
3. Exhibits	
See Exhibit Index which follows.	

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**EXHIBIT INDEX**

Exhibit No.	Description
3.1	Restated Certificate of Incorporation (1)
3.2	Amended and Restated By-Laws (1)
10.1	Management Agreement between the Company and Corporate Management Advisors, Inc. (2)
10.2	National Beverage Corp. Investment and Profit Sharing Plan (1)
10.3	National Beverage Corp. 1991 Omnibus Incentive Plan (2)
10.4	National Beverage Corp. 1991 Stock Purchase Plan (2)
10.5	Credit Agreement, dated as of September 23, 1993, between NewBevCo, Inc. and the lender therein (3)
10.6	First Amendment to Credit Agreement, dated November 10, 1994, between NewBevCo and lender therein (4)
10.7	Second Amendment to Credit Agreement, dated November 21, 1995, between NewBevCo and lender therein (5)
10.8	Third Amendment to Credit Agreement, dated February 29, 1996, between NewBevCo and lender therein (6)
10.9	Fourth Amendment to Credit Agreement, dated April 24, 1996, between NewBevCo and lender therein (6)
10.10	Fifth Amendment to Credit Agreement, dated November 14, 1996, between NewBevCo and lender therein (7)
10.11	Amendment No. 1 to the National Beverage Corp. Omnibus Incentive Plan (6)
10.12	Special Stock Option Plan (8)
10.13	Amendment No. 2 to the National Beverage Corp. Omnibus Incentive Plan (9)
10.14	Key Employee Equity Partnership Program (9)
10.15	Amended and Restated Credit Agreement, dated December 10, 1998, between NewBevCo and lender therein (10)
10.16	Tenth Amendment to Credit Agreement, dated April 26, 2002, between NewBevCo and lender therein (11)
10.17	Amendment No. 4 to Amended and Restated Credit Agreement, dated April 26, 2002, between NewBevCo and lender therein (11)

21.1	Subsidiaries of Registrant (12)
23.1	Consent of Independent Registered Public Accounting Firm (12)
23.2	Consent of Independent Registered Certified Public Accounting Firm (12)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (12)
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (12)
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (12)
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (12)

(1) Previously filed with the Securities and Exchange Commission as an exhibit to the Form S-1 Registration Statement (File No. 33-38986) on February 19, 1991 and is incorporated herein by reference.

(2) Previously filed with the Securities and Exchange Commission as an exhibit to Amendment No. 1 to Form S-1 Registration Statement (File No. 33-38986) on July 26, 1991 and is incorporated herein by reference.

- (3) Previously filed with the Securities and Exchange Commission as an exhibit to Quarterly Report on Form 10-Q for the fiscal period ended October 30, 1993 and is incorporated herein by reference.

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- (4) Previously filed with the Securities and Exchange Commission as an exhibit to Quarterly Report on Form 10-Q for the fiscal period ended October 29, 1994 and is incorporated herein by reference.
- (5) Previously filed with the Securities and Exchange Commission as an exhibit to Quarterly Report on Form 10-Q for the fiscal period ended January 27, 1996 and is incorporated herein by reference.
- (6) Previously filed with the Securities and Exchange Commission as an exhibit to Annual Report on Form 10-K for the fiscal year ended April 27, 1996 and is incorporated herein by reference.

- (7) Previously filed with the Securities and Exchange Commission as an exhibit to Quarterly Report on Form 10-Q for the fiscal period ended January 25, 1997 and is incorporated herein by reference.
- (8) Previously filed with the Securities and Exchange Commission as an exhibit to Registration Statement on Form S-8 (File No. 33-95308) on August 1, 1995 and is incorporated herein by reference.
- (9) Previously filed with the Securities and Exchange Commission as an exhibit to Annual Report on Form 10-K for the fiscal year ended May 3, 1997 and is incorporated herein by reference.

(10) Previously filed with the Securities and Exchange Commission as an exhibit to Annual Report on Form 10-K for the fiscal year ended May 1, 1999 and is incorporated herein by reference.

(11) Previously filed with the Securities and Exchange Commission as an exhibit to Annual Report on Form 10-K for the fiscal year ended April 27, 2002 and is incorporated herein by reference.

(12) Filed herein.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

**National Beverage Corp.**

(Registrant)

By: /s/ Dean A. McCoy  
Dean A. McCoy  
Senior Vice President and  
Chief Accounting Officer  
Date: July 17, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Nick A. Caporella

Nick A. Caporella  
Chairman of the Board and  
Chief Executive Officer  
Date: July 17, 2008

/s/ Samuel C. Hathorn, Jr.

Samuel C. Hathorn, Jr.  
Director  
Date: July 17, 2008

/s/ Joseph G. Caporella

Joseph G. Caporella  
President and Director  
Date: July 17, 2008

/s/ S. Lee Kling

S. Lee Kling  
Director  
Date: July 17, 2008

/s/ George R. Bracken

George R. Bracken  
Senior Vice President Finance  
(Principal Financial Officer)  
Date: July 17, 2008

/s/ Joseph P. Klock, Jr.

Joseph P. Klock, Jr.  
Director  
Date: July 17, 2008