

J&J SNACK FOODS CORP  
Form 10-Q  
July 29, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the period ended June 29, 2013

or

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

Commission File Number: 0-14616

J & J SNACK FOODS CORP.

(Exact name of registrant as specified in its charter)

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New Jersey 22-1935537  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

6000 Central Highway, Pennsauken, NJ 08109

(Address of principal executive offices)

Telephone (856) 665-9533

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer (X) Accelerated filer ( )

Non-accelerated filer ( ) Smaller reporting company ( )

(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

As July 22, 2013 there were 18,767,917 shares of the Registrant's Common Stock outstanding.

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**J & J SNACK FOODS CORP. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)

	<b>June 29,</b>	<b>September</b>
	2013	29,
	2012	
	<b>(unaudited)</b>	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 79,268	\$ 154,198
Marketable securities held to maturity	3,498	1,214
Accounts receivable, net	92,506	76,414
Inventories, net	75,313	69,761
Prepaid expenses and other	3,466	2,220
Deferred income taxes	4,433	4,261
Total current assets	258,484	308,068
Property, plant and equipment, at cost		
Land	2,496	2,496
Buildings	26,741	26,741
Plant machinery and equipment	178,040	172,529
Marketing equipment	242,156	233,612
Transportation equipment	5,805	4,879
Office equipment	15,865	14,987
Improvements	24,367	22,889
Construction in progress	10,298	5,740
	505,768	483,873
Less accumulated depreciation and amortization	359,274	342,329
	146,494	141,544
Other assets		
Goodwill	76,899	76,899
Other intangible assets, net	45,122	48,464
Marketable securities held to maturity	2,000	24,998
Marketable securities available for sale	107,512	-
Other	3,126	3,071
	234,659	153,432
	\$ 639,637	\$ 603,044
<b>Liability and Stockholder's Equity</b>		
Current Liabilities		
Current obligations under capital leases	\$ 257	\$ 340
Accounts payable	56,409	53,047
Accrued insurance liability	9,371	7,532

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Accrued income taxes	4,020	962
Accrued liabilities	3,766	4,027
Accrued compensation expense	12,213	13,151
Dividends payable	3,010	2,446
Total current liabilities	89,046	81,505
Long-term obligations under capital leases	164	347
Deferred income taxes	44,874	44,874
Other long-term liabilities	670	831
<b>Stockholders' Equity</b>		
Preferred stock, \$1 par value; authorized 10,000,000 shares; none issued	-	-
Common stock, no par value; authorized, 50,000,000 shares; issued and outstanding 18,756,000 and 18,780,000 respectively	40,358	43,011
Accumulated other comprehensive loss	(6,120 )	(3,132 )
Retained Earnings	470,645	435,608
	504,883	475,487
	\$ 639,637	\$ 603,044

The accompanying notes are an integral part of these statements

## J &amp; J SNACK FOODS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(in thousands, except per share amounts)

	Three months ended		Nine months ended	
	June 29,	June 23,	June 29,	June 23,
	2013	2012	2013	2012
Net Sales	\$237,036	\$226,335	\$629,770	\$588,575
Cost of goods sold <sup>(1)</sup>	161,714	153,828	442,162	415,675
Gross Profit	75,322	72,507	187,608	172,900
Operating expenses				
Marketing <sup>(2)</sup>	19,554	19,892	53,499	54,955
Distribution <sup>(3)</sup>	16,750	16,034	47,863	44,465
Administrative <sup>(4)</sup>	7,063	6,873	20,122	19,158
Other general income	(429 )	(183 )	(480 )	(305 )
	42,938	42,616	121,004	118,273
Operating Income	32,384	29,891	66,604	54,627
Other income (expense)				
Investment income	904	397	2,576	1,132
Interest expense & other	(29 )	11	(82 )	(32 )
Earnings before income taxes	33,259	30,299	69,098	55,727
Income taxes	12,087	11,627	25,040	21,147
NET EARNINGS	\$21,172	\$18,672	\$44,058	\$34,580
Earnings per diluted share	\$1.12	\$0.99	\$2.33	\$1.83
Weighted average number of diluted shares	18,913	18,947	18,890	18,917
Earnings per basic share	\$1.13	\$0.99	\$2.34	\$1.83
Weighted average number of basic shares	18,807	18,886	18,804	18,850

(1) Includes share-based compensation expense of \$134 and \$361 for the three months and nine months ended

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- June 29, 2013, respectively and \$75 and \$198 for the three months and nine months ended June 23, 2012.
- (2) Includes share-based compensation expense of \$186 and \$496 for the three months and nine months ended June 29, 2013, respectively and \$113 and \$297 for the three months and nine months ended June 23, 2012.
- (3) Includes share-based compensation expense of \$8 and \$23 for the three months and nine months ended June 29, 2013, respectively and \$8 and \$20 for the three months and nine months ended June 23, 2012.
- (4) Includes share-based compensation expense of \$214 and \$578 for the three months and nine months ended June 29, 2013, respectively and \$154 and \$404 for the three months and nine months ended June 23, 2012.

See accompanying notes to the consolidated financial statements



## J&amp;J SNACK FOODS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)

	Three months ended		Nine months ended	
	June 29, 2013	June 23, 2012	June 29, 2013	June 23, 2012
Net Earnings	\$21,172	\$18,672	\$44,058	\$34,580
Foreign currency translation adjustments	(947 )	(880 )	(500 )	(105 )
Unrealized holding loss on marketable securities	(2,780 )	-	(2,488 )	-
Tax effect	108	-	-	-
Total Other Comprehensive Loss, net of tax	(3,619 )	(880 )	(2,988 )	(105 )
Comprehensive Income	\$17,553	\$17,792	\$41,070	\$34,475

## J &amp; J SNACK FOODS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

	Nine months ended	
	June 29,	June 23,
	2013	2012
Operating activities:		
Net earnings	\$44,058	\$34,580
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of fixed assets	21,298	19,332
Amortization of intangibles and deferred costs	3,577	3,572
Share-based compensation	1,458	919
Deferred income taxes	(167 )	(122 )
Other	(118 )	(155 )
Changes in assets and liabilities net of effects from purchase of companies		
Increase in accounts receivable	(16,104 )	(8,207 )
Increase in inventories	(5,462 )	(9,785 )
(Increase) decrease in prepaid expenses	(1,248 )	969
Increase in accounts payable and accrued liabilities	6,408	11,388
Net cash provided by operating activities	53,700	52,491
Investing activities:		
Payments for purchases of companies, net of cash acquired	-	(7,900 )
Purchases of property, plant and equipment	(26,954 )	(30,077 )
Purchases of marketable securities	(113,352)	(68,450)
Proceeds from redemption of marketable securities	23,958	81,023
Proceeds from disposal of property and equipment	782	645
Other	(19 )	(962 )
Net cash used in investing activities	(115,585)	(25,721 )
Financing activities:		
Payments to repurchase common stock	(7,198 )	-
Proceeds from issuance of stock	2,899	2,568
Payments on capital leases	(267 )	(210 )
Payment of cash dividend	(8,457 )	(7,092 )
Net cash used in financing activities	(13,023 )	(4,734 )
Effect of exchange rate on cash and cash equivalents	(22 )	(34 )
Net (decrease) increase in cash and cash equivalents	(74,930 )	22,002
Cash and cash equivalents at beginning of period	154,198	87,479
Cash and cash equivalents at end of period	\$79,268	\$109,481

See accompanying notes to the consolidated financial statements.

J & J SNACK FOODS CORP. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

The results of operations for the three months and nine months ended June 29, 2013 and June 23, 2012 are not necessarily indicative of results for the full year. Sales of our frozen beverages and frozen juice bars and ices are generally higher in the third and fourth quarters due to warmer weather.

While we believe that the disclosures presented are adequate to make the information not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes included in the Company's Annual Report on Form 10-K for the fiscal year ended September 29, 2012.

Note 2 We recognize revenue from our products when the products are shipped to our customers. Repair and maintenance equipment service revenue is recorded when it is performed provided the customer terms are that the customer is to be charged on a time and material basis or on a straight-line basis over the term of the contract when the customer has signed a service contract. Revenue is recognized only where persuasive evidence of an arrangement exists, our price is fixed or estimable and collectability is reasonably assured. We record offsets to revenue for allowances, end-user pricing adjustments, trade spending, coupon redemption costs and returned product. Customers generally do not have the right to return product unless it is damaged or defective. We provide an allowance for doubtful receivables after taking into consideration historical experience and other factors. The allowance for doubtful receivables was \$853,000 and \$685,000 at June 29, 2013 and September 29, 2012, respectively.

Note 3 Depreciation of equipment and buildings is provided for by the straight-line method over the assets' estimated useful lives. Amortization of improvements is provided for by the straight-line method over the term of the lease or the assets' estimated useful lives, whichever is shorter. Licenses and rights, customer relationships and non compete agreements arising from acquisitions are amortized by the straight-line method over periods ranging from 3 to 20 years. Depreciation expense was \$7,434,000 and \$6,620,000 for the three months ended June 29, 2013 and June 23, 2012, respectively, and for the nine months ended June 29, 2013 and June 23, 2012 was \$21,298,000 and \$19,332,000, respectively



Note 4 Basic earnings per common share (EPS) excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted EPS takes into consideration the potential dilution that could occur if securities (stock options) or other contracts to issue common stock were exercised and converted into common stock. Our calculation of EPS is as follows:

	Three Months Ended June 29, 2013		
	Income	Shares	Per Share
	(Numerator)		(Denominator) Amount
	(in thousands, except per share amounts)		
<b>Basic EPS</b>			
Net Earnings available to common stockholders	\$21,172	18,807	\$ 1.13
<b>Effect of Dilutive Securities</b>			
Options	-	106	(.01 )
<b>Diluted EPS</b>			
Net Earnings available to common stockholders plus assumed conversions	\$21,172	18,913	\$ 1.12
	Nine Months Ended June 29, 2013		
	Income	Shares	Per Share
	(Numerator)		(Denominator) Amount
	(in thousands, except per share amounts)		
<b>Basic EPS</b>			
Net Earnings available to common stockholders	\$44,058	18,804	\$ 2.34
<b>Effect of Dilutive Securities</b>			
Options	-	86	(.01 )
<b>Diluted EPS</b>			
Net Earnings available to common stockholders plus assumed conversions	\$44,058	18,890	\$ 2.33



	Three Months Ended June 23, 2012		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
	(in thousands, except per share amounts)		
<b>Basic EPS</b>			
Net Earnings available to common stockholders	\$ 18,672	18,886	\$ 0.99
<b>Effect of Dilutive Securities</b>			
Options	-	61	-
<b>Diluted EPS</b>			
Net Earnings available to common stockholders plus assumed conversions	\$ 18,672	18,947	\$ 0.99

	Nine Months Ended June 23, 2012		
	Income	Shares	Per Share
	(Numerator)		Amount
	(Denominator)		
	(in thousands, except per share amounts)		
<b>Basic EPS</b>			
Net Earnings available to common stockholders	\$ 34,580	18,850	\$ 1.83
<b>Effect of Dilutive Securities</b>			
Options	-	67	-
<b>Diluted EPS</b>			
Net Earnings available to common stockholders plus assumed conversions	\$ 34,580	18,917	\$ 1.83



Note 5 At June 29, 2013, the Company has three stock-based employee compensation plans. Share-based compensation was recognized as follows:

	Three months ended		Nine months ended	
	June 29,	June 23,	June 29,	June 23,
	2013	2012	2013	2012
	(in thousands, except per share amounts)			
Stock Options	\$206	\$191	\$596	\$484
Stock purchase plan	179	112	316	214
Stock issued to outside directors	11	-	35	-
Restricted stock issued to an employee	4	-	13	-
	\$400	\$303	\$960	\$698
Per diluted share	\$0.02	\$0.02	\$0.05	\$0.04
The above compensation is net of tax benefits	\$142	\$47	\$498	\$221

The Company anticipates that share-based compensation will not exceed \$1.4 million net of tax benefits, or approximately \$.07 per share for the fiscal year ending September 28, 2013.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions used for grants in fiscal 2013 first nine months: expected volatility of 26%; risk-free interest rate of .81%; dividend rate of .9% and expected lives of 5 years.

During the 2013 nine month period, the Company granted 1,600 stock options. The weighted-average grant date fair value of these options was \$13.76. During the 2012 nine month period, the Company granted 2,000 stock options. The weighted-average grant date fair value of these options was \$11.97.

Expected volatility is based on the historical volatility of the price of our common shares over the past 55 months for 5 year options and 10 years for 10 year options. We use historical information to estimate expected life and forfeitures within the valuation model. The expected term of awards represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Compensation cost is recognized using a straight-line method over the vesting or service period and is net of estimated forfeitures.

Note 6        We account for our income taxes under the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Deferred tax expense is the result of changes in deferred tax assets and liabilities.

Additionally, we recognize a liability for income taxes and associated penalties and interest for tax positions taken or expected to be taken in a tax return which are more likely than not to be overturned by taxing authorities (“uncertain tax positions”). We have not recognized a tax benefit in our financial statements for these uncertain tax positions.

The total amount of gross unrecognized tax benefits is \$425,000 and \$541,000 on June 29, 2013 and September 29, 2012, respectively, all of which would impact our effective tax rate over time, if recognized. We recognize interest and penalties related to income tax matters as a part of the provision for income taxes. As of June 29, 2013 and September 29, 2012, respectively, the Company has \$271,000 and \$284,000 of accrued interest and penalties.

In addition to our federal tax return and tax returns for Mexico and Canada, we file tax returns in all states that have a corporate income tax with virtually all open for examination for three to four years.

Note 7        In June 2011, the FASB issued guidance which gives us the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both options, we are required to present each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this guidance do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This guidance was adopted in our fiscal year 2013 first quarter and did not have a material impact on our financial statements.

Note 8 Inventories consist of the following:

	June 29, 2013 (unaudited) (in thousands)	September 29, 2012
Finished goods	\$36,534	\$ 32,439
Raw Materials	15,154	14,584
Packaging materials	6,233	5,985
Equipment parts & other	17,392	16,753
	\$75,313	\$ 69,761
The above inventories are net of reserves	\$4,815	\$ 3,883

Note 9 We principally sell our products to the food service and retail supermarket industries. Sales and results of our frozen beverages business are monitored separately from the balance of our food service business because of different distribution and capital requirements. We maintain separate and discrete financial information for the three operating segments mentioned above which is available to our Chief Operating Decision Makers.

We have applied no aggregation criteria to any of these operating segments in order to determine reportable segments. Our three reportable segments are Food Service, Retail Supermarkets and Frozen Beverages. All inter-segment net sales and expenses have been eliminated in computing net sales and operating income (loss). These segments are described below.

#### Food Service

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

Retail Supermarkets

The primary products sold by the retail supermarket segment are soft pretzel products – including SUPERPRETZEL, frozen juice treats and desserts including LUIGI'S Real Italian Ice, MINUTE MAID Juice Bars and Soft Frozen Lemonade, WHOLE FRUIT frozen fruit bars, WHOLE FRUIT Sorbet, ICEE Squeeze-Up Tubes, dough enrobed handheld products and TIO PEPE'S Churros. Within the retail supermarket channel, our frozen and prepackaged products are purchased by the consumer for consumption at home.

## Frozen Beverages

We sell frozen beverages and related products to the food service industry primarily under the names ICEE, SLUSH PUPPIE and PARROT ICE in the United States, Mexico and Canada. We also provide repair and maintenance service to customers for customers' owned equipment.

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

	Three months ended		Nine months ended	
	June 29,	June 23,	June 29,	June 23,
	2013	2012	2013	2012
	(unaudited)			
	(in thousands)			
Sales to External Customers:				
Food Service				
Soft pretzels	\$36,136	\$29,579	\$104,067	\$82,592
Frozen juices and ices	16,468	19,680	34,117	39,106
Churros	14,774	12,330	42,648	34,263
Handhelds	6,806	7,249	20,058	21,242
Bakery	68,099	66,754	203,488	191,938
Other	2,939	2,872	6,424	6,716
	\$145,222	\$138,464	\$410,802	\$375,857
Retail Supermarket				
Soft pretzels	\$8,576	\$7,635	\$27,200	\$24,242
Frozen juices and ices	18,226	17,629	33,694	34,204
Handhelds	4,995	5,193	16,425	16,861
Coupon redemption	(954 )	(857 )	(2,497 )	(2,183 )
Other	237	255	514	999
	\$31,080	\$29,855	\$75,336	\$74,123
Frozen Beverages				
Beverages	\$40,996	\$41,238	\$91,476	\$91,616
Repair and maintenance service	13,833	12,386	38,385	35,875
Machines sales	5,035	3,711	12,028	9,646
Other	870	681	1,743	1,458

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	\$60,734	\$58,016	\$143,632	\$138,595
Consolidated Sales	\$237,036	\$226,335	\$629,770	\$588,575
Depreciation and Amortization:				
Food Service	\$4,943	\$4,342	\$14,169	\$12,746
Retail Supermarket	9	5	24	15
Frozen Beverages	3,671	3,452	10,682	10,143
	\$8,623	\$7,799	\$24,875	\$22,904
Operating Income:				
Food Service	\$18,822	\$15,203	\$46,782	\$35,205
Retail Supermarket	2,883	4,115	6,857	7,597
Frozen Beverages	10,679	10,573	12,965	11,825
	\$32,384	\$29,891	\$66,604	\$54,627
Capital Expenditures:				
Food Service	\$4,798	\$6,315	\$14,740	\$19,207
Retail Supermarket	-	-	-	-
Frozen Beverages	6,599	2,691	12,214	10,870
	\$11,397	\$9,006	\$26,954	\$30,077
Assets:				
Food Service	\$478,203	\$441,785	\$478,203	\$441,785
Retail Supermarket	6,074	4,285	6,074	4,285
Frozen Beverages	155,360	147,389	155,360	147,389
	\$639,637	\$593,459	\$639,637	\$593,459

Note 10 Our three reporting units, which are also reportable segments, are Food Service, Retail Supermarkets and Frozen Beverages.

The carrying amounts of acquired intangible assets for the Food Service, Retail Supermarkets and Frozen Beverage segments as of June 29, 2013 and September 29, 2012 are as follows:

	<b>June 29, 2013</b>		<b>September 29, 2012</b>	
	<b>Gross</b>	<b>Accumulated</b>	<b>Gross</b>	<b>Accumulated</b>
	<b>Carrying</b>	<b>Amortization</b>	<b>Carrying</b>	<b>Amortization</b>
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
	<b>(in thousands)</b>			
<b>FOOD SERVICE</b>				
Indefinite lived intangible assets				
Trade Names	\$12,880	\$-	\$12,880	\$ -
Amortized intangible assets				
Non compete agreements	545	472	545	456
Customer relationships	40,187	25,286	40,187	22,582
License and rights	3,606	2,590	3,606	2,519
	\$57,218	\$28,348	\$57,218	\$ 25,557
<b>RETAIL SUPERMARKETS</b>				
Indefinite lived intangible assets				
Trade Names	\$4,006	\$-	\$4,006	\$ -
Amortized Intangible Assets				
Customer relationships	279	55	279	31
	\$4,285	\$55	\$4,285	\$ 31
<b>FROZEN BEVERAGES</b>				
Indefinite lived intangible assets				
Trade Names	\$9,315	\$-	\$9,315	\$ -
Amortized intangible assets				
Non compete agreements	198	198	198	198
Customer relationships	6,478	4,676	6,478	4,201
Licenses and rights	1,601	696	1,601	644
	\$17,592	\$5,570	\$17,592	\$ 5,043



CONSOLIDATED	\$79,095	\$33,973	\$79,095	\$ 30,631
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Amortized intangible assets are being amortized by the straight-line method over periods ranging from 3 to 20 years and amortization expense is reflected throughout operating expenses. No intangible assets were acquired in the nine months ended June 29, 2013. Aggregate amortization expense of intangible assets for the three months ended June 29, 2013 and June 23, 2012 was \$1,110,000 and \$1,109,000, respectively and for the nine months e