

JAMBA, INC.  
Form 10-Q  
November 06, 2013

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10-Q**

---

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended October 1, 2013**

**OR**

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from to**

---

**Jamba, Inc.**  
**(Exact name of registrant as specified in its charter)**

---

|  |  |  |
|--|--|--|
| <b>Delaware</b><br><b>(State or other jurisdiction</b><br><b>of incorporation)</b> | <b>001-32552</b><br><b>(Commission</b><br><b>File No.)</b> | <b>20-2122262</b><br><b>(I.R.S. Employer</b><br><b>Identification No.)</b> |
|--|--|--|

**6475 Christie Avenue, Suite 150, Emeryville, California 94608**  
**(Address of principal executive offices)**

**Registrant's telephone number, including area code: (510) 596-0100**

---

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 the filing requirements for the past 90 days. Yes  No

Edgar Filing: JAMBA, INC. - Form 10-Q

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 definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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 number of shares of common stock, \$0.001 par value, of Jamba, Inc. issued and outstanding as of October 31, 2013 was 17,121,724.

**JAMBA, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**QUARTERLY PERIOD ENDED OCTOBER 1, 2013**

| <b>Item</b>                  |  | <b>Page</b> |
|------------------------------|--|-------------|
| <b>PART I</b>                |  |             |
| <b>FINANCIAL INFORMATION</b> |  |             |
| 1.                           | <u>UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>                                 | <u>3</u>    |
|                              | <u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>   | <u>3</u>    |
|                              | <u>CONDENSED CONSOLIDATED STATEMENTS OF INCOME</u>   | <u>4</u>    |
|                              | <u>CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY</u>  | <u>5</u>    |
|                              | <u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>                                       | <u>6</u>    |
|                              | <u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>                                  | <u>7</u>    |
| 2.                           | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | <u>15</u>   |
| 3.                           | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | <u>30</u>   |
| 4.                           | <u>CONTROLS AND PROCEDURES</u>   | <u>30</u>   |

**PART II**  
**OTHER INFORMATION**

|     |  |           |
|-----|--|-----------|
| 1.  | <u>LEGAL PROCEEDINGS</u>   | <u>31</u> |
| 1A. | <u>RISK FACTORS</u>  | <u>31</u> |
| 2.  | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | <u>31</u> |
| 3.  | <u>DEFAULTS UPON SENIOR SECURITIES</u>                             | <u>31</u> |
| 4.  | <u>MINE SAFETY DISCLOSURES</u>                                     | <u>31</u> |
| 5.  | <u>OTHER INFORMATION</u>   | <u>31</u> |
| 6.  | <u>EXHIBITS</u>  | <u>32</u> |

SIGNATURES

**Exhibits**

EX-31.1  
EX-31.2  
EX-32.1  
EX-32.2  
EX-101

**PART I - FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**JAMBA, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

| ( In thousands, except share and per share amounts)  | October 1, 2013 | January 1, 2013 |
|--|-----------------|-----------------|
| <b>ASSETS</b>  |                 |                 |
| Current assets:  |                 |                 |
| Cash and cash equivalents  | \$ 28,886       | \$ 31,486       |
| Restricted cash  |                 | 205             |
| Receivables, net of allowances of \$210 and \$103  | 7,187           | 11,327          |
| Inventories  | 3,315           | 3,143           |
| Prepaid and refundable taxes   | 680             | 655             |
| Prepaid rent   | 3,115           | 3,080           |
| Prepaid expenses and other current assets  | 2,467           | 1,681           |
| <br>Total current assets   | <br>45,650      | <br>51,577      |
| Property, fixtures and equipment, net  | 39,534          | 38,442          |
| Goodwill   | 1,233           | 1,336           |
| Trademarks and other intangible assets, net  | 1,244           | 1,412           |
| Other long-term assets   | 1,155           | 846             |
| <br>Total assets   | <br>\$ 88,816   | <br>\$ 93,613   |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                 |                 |
| Current liabilities:   |                 |                 |
| Accounts payable   | \$ 3,550        | \$ 8,206        |
| Accrued compensation and benefits  | 3,981           | 7,566           |
| Workers' compensation and health insurance reserves  | 1,184           | 1,087           |
| Accrued jambacard liability  | 26,041          | 33,634          |
| Other current liabilities  | 11,584          | 9,728           |
| <br>Total current liabilities  | <br>46,340      | <br>60,221      |
| Deferred rent and other long-term liabilities  | 10,962          | 11,880          |
| <br>Total liabilities  | <br>57,302      | <br>72,101      |
| <br>Commitments and contingencies (Note 9 and 10)  |                 |                 |
| Series B redeemable preferred stock, \$0.001 par value, 304,348 shares authorized; 0   |                 |                 |
| and 72,889 shares issued and outstanding at October 1, 2013 and January 1, 2013,   |                 | 7,916           |
| respectively   |                 |                 |
| Stockholders' equity:  |                 |                 |
| Common stock, \$0.001 par value, 30,000,000 shares authorized; 17,121,674 and 15,481,782 shares issued and outstanding at October 1, 2013 and January 1, 2013, | 17              | 78              |

Edgar Filing: JAMBA, INC. - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| respectively                               |           |           |
| Additional paid-in capital                 | 390,181   | 380,007   |
| Accumulated deficit                        | (358,684) | (366,489) |
| Total stockholders' equity                 | 31,514    | 13,596    |
| Total liabilities and stockholders' equity | \$ 88,816 | \$ 93,613 |

Share and per share data have been adjusted for all periods presented to reflect a five-for-one reverse stock split effective May 31, 2013

See accompanying notes to condensed consolidated financial statements.

**JAMBA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

|   | 13 Week<br>Period Ended<br>October 1,<br>2013 | 13 Week<br>Period Ended<br>October 2,<br>2012 | 39 Week<br>Period Ended<br>October 1,<br>2013 | 39 Week<br>Period Ended<br>October 2,<br>2012 |
|---|---|---|---|---|
| (In thousands, except share and per share amounts)                        |   |   |   |   |
| Revenue:  |   |   |   |   |
| Company Stores  | \$57,092                                      | \$61,795                                      | \$171,030                                     | \$174,350                                     |
| Franchise and other revenue   | 4,269   | 3,687   | 12,654  | 10,223  |
| Total revenue   | 61,361  | 65,482  | 183,684                                       | 184,573                                       |
| Costs and operating expenses:   |   |   |   |   |
| Cost of sales   | 14,592  | 14,918  | 41,854  | 40,504  |
| Labor   | 15,862  | 16,457  | 48,466  | 49,013  |
| Occupancy   | 7,405   | 7,353   | 22,100  | 22,097  |
| Store operating   | 9,060   | 9,328   | 25,740  | 26,158  |
| Depreciation and amortization   | 2,808   | 2,793   | 8,348   | 8,528   |
| General and administrative  | 8,377   | 9,663   | 27,767  | 29,125  |
| Impairment of long-lived assets   | 217   | 75  | 491   | 637   |
| Other operating, net  | (284)   | 347   | 252   | 579   |
| Total costs and operating expenses  | 58,037  | 60,934  | 175,018                                       | 176,641                                       |
| Income from operations  | 3,324   | 4,548   | 8,666   | 7,932   |
| Other (expense) income, net:  |   |   |   |   |
| Interest income   | 1   | 21  | 1   | 61  |
| Interest expense  | (54)  | (52)  | (191)   | (147)   |
| Total other expense, net  | (53)  | (31)  | (190)   | (86)  |
| Income before income taxes  | 3,271   | 4,517   | 8,476   | 7,846   |
| Income tax expense  | (576)   | (413)   | (671)   | (634)   |
| Net income  | 2,695   | 4,104   | 7,805   | 7,212   |
| Preferred stock dividends and deemed dividends                            |   | (1,123)                                       | (588)   | (2,076)                                       |
| Net income available to common stockholders                               | \$2,695                                       | \$2,981                                       | \$7,217                                       | \$5,136                                       |
| Weighted-average shares used in the computation<br>of earnings per share: |   |   |   |   |
| Basic   | 17,084,929                                    | 14,134,502                                    | 16,680,631                                    | 13,690,156                                    |
| Diluted   | 17,548,512                                    | 14,473,184                                    | 17,112,329                                    | 14,015,217                                    |
| Earnings per share:   |   |   |   |   |
| Basic   | \$0.16  | \$0.21  | \$0.43  | \$0.38  |
| Diluted   | \$0.15  | \$0.21  | \$0.42  | \$0.37  |

Share and per share data have been adjusted for all periods presented to reflect a five-for-one reverse stock split effective May 31, 2013

See accompanying notes to condensed consolidated financial statements.



**JAMBA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**

| (In thousands, except share amounts)                          | Common Stock   |           | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Stockholders'<br>Equity |
|---|----------------|-----------|----------------------------------|------------------------|-------------------------|
|   | Shares         | Amount    |                                  |                        |                         |
| Balance as of January 3, 2012                                 | 13,456,097     | \$ 68     | \$ 369,027                       | \$ (366,791)           | \$ 2,304                |
| Share-based compensation expense                              |                |           | 1,431                            |                        | 1,431                   |
| Issuance of common stock pursuant<br>to stock plans           | 42,200         |           | 97                               |                        | 97                      |
| Conversion of preferred stock                                 | 1,910,000      | 10        | 10,970                           |                        | 10,980                  |
| Accretion of Series B preferred shares                        |                |           | (985)                            |                        | (985)                   |
| Redeemable preferred stock dividends                          |                |           | (1,091)                          |                        | (1,091)                 |
| Exercise of warrant   | 58,400         |           |                                  |                        |                         |
| Net income  |                |           |                                  | 7,212                  | 7,212                   |
| <br>Balance as of October 2, 2012                             | <br>15,466,697 | <br>\$ 78 | <br>\$ 379,449                   | <br>\$ (359,579)       | <br>\$ 19,948           |
| <br>Balance as of January 1, 2013                             | <br>15,481,782 | <br>\$ 78 | <br>\$ 380,007                   | <br>\$ (366,489)       | <br>\$ 13,596           |
| Share-based compensation expense                              |                |           | 1,754                            |                        | 1,754                   |
| Issuance of common stock pursuant<br>to stock plans           | 182,524        | 1         | 570                              |                        | 571                     |
| Conversion of preferred stock                                 | 1,457,780      | 7         | 8,375                            |                        | 8,382                   |
| Accretion of Series B preferred shares                        |                |           | (466)                            |                        | (466)                   |
| Redeemable preferred stock dividends                          |                |           | (122)                            |                        | (122)                   |
| Repurchase of fractional shares due<br>to reverse stock split | (412)          | (69)      | 63                               |                        | (6)                     |
| Net income  |                |           |                                  | 7,805                  | 7,805                   |
| <br>Balance as of October 1, 2013                             | <br>17,121,674 | <br>\$ 17 | <br>\$ 390,181                   | <br>\$ (358,684)       | <br>\$ 31,514           |

Share and per share data have been adjusted for all periods presented to reflect a five-for-one reverse stock split effective May 31, 2013

See accompanying notes to condensed consolidated financial statements.



**JAMBA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

| (In thousands)  | 39 Week Period<br>Ended<br>October 1, 2013 | 39 Week Period<br>Ended<br>October 2, 2012 |
|---|--|--|
| Net income  | \$ 7,805                                   | \$ 7,212                                   |
| Adjustments to reconcile net income to cash provided by operating activities: |  |  |
| Depreciation and amortization   | 8,348                                      | 8,528                                      |
| Impairment of long-lived assets   | 491  | 637  |
| Lease termination, store closure costs and disposals                          | (1,125)                                    | 618  |
| Change in contingent consideration  | (506)                                      |  |
| Jambacard breakage income   | (1,972)                                    | (2,075)                                    |
| Share-based compensation  | 1,754                                      | 1,431                                      |
| Bad debt and purchase obligation reserves                                     | 566  | 596  |
| Deferred rent   | (1,125)                                    | (698)                                      |
| Equity earnings from joint ventures   |  | (128)                                      |
| Changes in operating assets and liabilities:                                  |  |  |
| Receivables   | 4,033                                      | 6,463                                      |
| Inventories   | (631)                                      | (826)                                      |
| Prepaid and refundable taxes  | (25)                                       | (272)                                      |
| Prepaid rent  | (35)                                       | (226)                                      |
| Prepaid expenses and other current assets                                     | (786)                                      | 700  |
| Other long-term assets  | 87   | (155)                                      |
| Restricted cash from operating activities                                     | 205  | 1,352                                      |
| Accounts payable  | (4,091)                                    | 2,363                                      |
| Accrued compensation and benefits   | (3,585)                                    | (2,274)                                    |
| Workers' compensation and health insurance reserves                           | 97   | 69   |
| Accrued jambacard liability   | (5,621)                                    | (4,989)                                    |
| Other current liabilities   | 2,302                                      | (535)                                      |
| Other long-term liabilities   | 372  | (785)                                      |
| Cash provided by operating activities   | \$ 6,558                                   | \$ 17,006                                  |
| Cash provided by (used in) investing activities:                              |  |  |
| Capital expenditures  | (12,943)                                   | (3,414)                                    |
| Investment purchase   | (300)                                      |  |
| Business acquisition  |  | (391)                                      |
| Proceeds from sale of stores  | 3,678                                      |  |
| Capital distributions from investment, net                                    |  | 71   |
| Cash used in investing activities   | \$ (9,565)                                 | \$ (3,734)                                 |
| Cash provided by (used in) financing activities:                              |  |  |
| Redeemable preferred stock dividends paid                                     | (158)                                      | (1,120)                                    |
| Proceeds pursuant to stock issuance   | 565  | 97   |
| Cash provided by financing activities   | \$ 407                                     | \$ (1,023)                                 |
| Net (decrease) increase in cash and cash equivalents                          | (2,600)                                    | 12,249                                     |
| Cash and cash equivalents at beginning of period                              | 31,486                                     | 19,607                                     |
| Cash and cash equivalents at end of period                                    | \$ 28,886                                  | \$ 31,856                                  |

Supplemental cash flow information:

Edgar Filing: JAMBA, INC. - Form 10-Q

|  |    |       |    |        |
|--|----|-------|----|--------|
| Cash paid for interest                               | \$ | 36    | \$ | 115    |
| Income taxes paid                                    |    | 238   |    | 233    |
| Noncash investing and financing activities:          |    |       |    |        |
| Property, fixtures and equipment in accounts payable | \$ | 565   | \$ | 411    |
| Contingent consideration                             |    |       |    | 1,361  |
| Conversion of preferred stock                        |    | 8,382 |    | 10,980 |
| Accretion of preferred stock issuance costs          |    | 466   |    | 985    |

See accompanying notes to condensed consolidated financial statements.

**JAMBA, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

Jamba, Inc., a Delaware corporation (the “Company”), and its wholly-owned subsidiary, Jamba Juice Company, is a healthy, active lifestyle brand with a global business driven by a portfolio of company-owned and franchised Jamba Juice® stores, innovative product platforms that utilize our JambaGO® and Jamba Smoothie Station formats, and Jamba-branded consumer packaged goods (“CPG”). As a leading “better-for-you,” specialty food and beverage brand, Jamba offers great tasting, whole fruit smoothies, fresh juices, hot oatmeal, breakfast wraps, bistro sandwiches and mini-wraps, Artisan Flatbreads, frozen yogurt, and a variety of baked goods and snacks in its restaurants. Jamba Juice Company has expanded the Jamba brand by direct selling of CPG products and licensing its trademarks.

As of October 1, 2013, there were 849 Jamba Juice stores globally, consisting of 287 Company-owned and operated stores (“Company Stores”), 517 franchise-operated stores (“Franchise Stores”) in the United States, and 45 Franchise Stores in international locations (“International Stores”).

**Unaudited Interim Financial Information** The condensed consolidated balance sheet as of October 1, 2013, the condensed consolidated statements of income for each of the 13 and 39 week periods ended October 1, 2013 and for each of the 13 and 39 week periods ended October 2, 2012, respectively and the condensed statements of stockholders’ equity and cash flows for each of the 39 week periods ended October 1, 2013 and October 2, 2012 have been prepared by the Company, without audit, and have been prepared on the same basis as the Company’s audited consolidated financial statements. In the opinion of management, such statements include all adjustments (which include only normal recurring adjustments) considered necessary to present fairly the financial position as of October 1, 2013, and the results of operations and cash flows for the 13 and 39 week periods ended October 1, 2013 and the 13 week and 39 week periods ended October 2, 2012. The condensed consolidated balance sheet as of January 1, 2013 has been derived from the Company’s audited consolidated financial statements. Operating results for the 13 and 39 week periods ended October 1, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, these interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements and notes thereto in the Company’s Annual Report on Form 10-K for the year ended January 1, 2013 (“2012 Annual Report”).

**Reverse Stock Split** Effective May 31, 2013, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation, as amended, and consummated a five-for-one reverse stock split (“Reverse Stock Split”) of its issued and outstanding common stock, \$0.001 par value per share. The Reverse Stock Split and the Certificate of Amendment were approved by the Company’s stockholders at the Company’s Annual Meeting of Stockholders held on May 14, 2013 for stockholders of record as of the close of business on March 20, 2013.

On the effective date of the Reverse Stock Split, every five shares of the Company's issued and outstanding common stock were combined into one issued and outstanding share of the Company's common stock, without any change in the par value per share. No fractional shares were issued as a result of the Reverse Stock Split. Stockholders who otherwise were entitled to receive a fractional share in connection with the Reverse Stock Split instead were eligible to receive a cash payment, which was not material in the aggregate, instead of shares. All share and per share information in the accompanying financial statements have been restated retroactively to reflect the stock split.

**Advertising Fund** The Company participates with its franchisees in an advertising fund to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Company and its franchise owners. Contributions to the advertising fund are required for Company Stores and traditional Franchise Stores, and are generally based on a percent of store sales. The Company has control of the advertising fund. The fund is consolidated and the Company reports all assets and liabilities of the fund that it consolidates.

The advertising fund assets, consisting primarily of accounts receivable from franchisees, can only be used for selected purposes and are considered restricted. The advertising fund liabilities represent the corresponding obligation arising from the receipts of the marketing program. The receipts from the franchisees are recorded as a liability against which specified advertising costs are charged. The Company does not reflect franchisee contributions to the fund in its consolidated statements of income.

Advertising fund assets of \$1.1 million and \$1.0 million were recorded in accounts receivable on the consolidated balance sheets as of October 1, 2013 and January 1, 2013, respectively. Advertising fund liabilities of \$1.2 million and \$0.5 million were recorded in accounts payable on the consolidated balance sheet as of October 1, 2013 and January 1, 2013, respectively.

**Comprehensive Income** Comprehensive income is defined as the change in equity during a period from transactions and other events, excluding changes resulting from investments from owners and distributions to owners.

Comprehensive income equals net income for all periods presented. The Company currently has no components of Comprehensive Income other than net income, therefore no separate statement of comprehensive income is presented.

**Earnings Per Share** Earnings per share is computed in accordance with Accounting Standards Codification (“ASC”) 260. Basic earnings per share is computed based on the weighted-average of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of common shares and potentially dilutive securities, which includes outstanding warrants and outstanding options and restricted stock awards granted under the Company’s stock option plans.

Anti-dilutive shares have been excluded from the calculation of diluted weighted-average shares outstanding. Anti-dilutive shares of restricted stock awards, warrants and stock options of 1.5 million and 4.2 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 13 week period ended October 1, 2013 and in the 13 week period ended October 2, 2012, respectively. Anti-dilutive shares of 2.0 million and 4.5 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 39 week period ended October 1, 2013 and in the 39 week period ended October 2, 2012, respectively.

All shares of preferred stock were completely converted to shares of common stock as of June 14, 2013. For the 39 week period ended October 1, 2013 and the 13 week periods ended October 1, 2013 and October 2, 2012, the impact of the assumed conversion of preferred stock is anti-dilutive. For the 13 and 39 week periods ended October 1, 2013, the incremental shares from assumed exercise of restricted stock awards, warrants and stock options are dilutive. For the 13 and 39 week periods ended October 2, 2012, the incremental shares from assumed exercise of restricted stock awards, warrants and stock options are dilutive.

The number of incremental shares from the assumed exercise of restricted stock awards, warrants and options was calculated by applying the treasury stock method. Shares and per share data have been adjusted for all periods presented to the Reverse Stock Split effective May 31, 2013. A reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations is as follows (in thousands, except shares):

|   | 13 Week Period<br>Ended<br>October 1, 2013 | 13 Week Period<br>Ended<br>October 2, 2012 | 39 Week Period<br>Ended<br>October 1, 2013 | 39 Week Period<br>Ended<br>October 2, 2012 |
|---|--|--|--|--|
| Net income available to common stockholders<br>(numerator for basic and diluted earnings per share) | \$ 2,695                                   | \$ 2,981                                   | \$ 7,217                                   | \$ 5,136                                   |
| Basic weighted-average shares outstanding   | 17,084,929                                 | 14,134,502                                 | 16,680,631                                 | 13,690,156                                 |
| Incremental shares from assumed exercise of restricted stock awards, warrants and options           | 463,583                                    | 338,682                                    | 431,698                                    | 325,061                                    |
| Diluted weighted-average shares outstanding   | 17,548,512                                 | 14,473,184                                 | 17,112,329                                 | 14,015,217                                 |

***Fair Value Measurement*** Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1: Quoted prices are available in active markets for identical assets or liabilities.

Level 2: Inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable.

Level 3: Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions that market participants would use in pricing.

***Impairment of Long-lived Assets*** The Company evaluates long-lived assets for impairment when facts and circumstances indicate that the carrying values of long-lived assets may not be recoverable. The impairment evaluation is generally performed at the lowest level of identifiable cash flows, which for Company Stores is at the individual store asset group level. The Company first compares the carrying value of the asset to the asset's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying value of the asset, an impairment loss is measured based on the asset's estimated fair value. The fair value of a store's assets is estimated using a discounted cash flow model based on internal projections and taking into consideration the view of a market participant. The estimate of cash flows is based on, among other things, certain assumptions about expected future operating performance. Factors considered during the impairment evaluation include factors related to actual operating cash flows, the period of time since a store has been opened or remodeled, refranchising expectations and the maturity of the relevant market.

### ***Recent Accounting Pronouncements***

There has been no development to recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements from that disclosed in the Company's Annual Report on Form 10-K.

## **2. TRADE CREDIT AGREEMENT**

In 2012, the Company entered into a Trade Credit Agreement with a California advertising agency to provide product from the Company's wholly owned subsidiary, Talbott Teas, Inc. ("Talbott"), in exchange for future advertising credits ("trade credits"). The trade credits will expire in November 2017. During the 13 and 39 week periods ended October 1, 2013, the Company exchanged Talbott product for trade credits of \$0.0 million and \$1.1 million, respectively. At October 1, 2013, trade credits of approximately \$0.9 million are remaining and are included on the consolidated balance sheet in prepaid expenses and other current assets. These trade credits are charged to expense as they are used to purchase advertising services. The transaction was recorded at the fair value of the Talbott products provided to the advertising agency on the date of the transaction. During each of the 13 and 39 week periods ended October 2, 2012, the Company did not have trade credit agreements in place.

## **3. REDEEMABLE PREFERRED STOCK**

On June 16, 2009, the Company issued (i) 170,000 shares of its Series B-1 Convertible Preferred Stock, par value \$0.001, (the "Series B-1 Preferred") to affiliates of Mistral Equity Partners at a price of \$115 per share, for an aggregate purchase price of approximately \$19.6 million, and (ii) 134,348 shares of its Series B-2 Convertible Preferred Stock, par value \$0.001, (the "Series B-2 Preferred") to CanBa Investments, LLC at a price of \$115 per share, for an aggregate purchase price of approximately \$15.4 million. The issuance of shares of the Series B-1 Preferred and the B-2 Preferred (together the "Series B Preferred Stock" or "Preferred Stock") for \$35 million, less approximately \$3.1 million in total transaction costs, which included \$2.2 million in transaction fees and \$885,000 paid to investors, was completed through a private placement to the purchasers as accredited investors and pursuant to the exemptions from the registration requirements of the Securities Act.

As of October 1, 2013, there are no shares of Series B Preferred outstanding, as all such shares were converted to common stock.

All shares of outstanding Series B Preferred Stock were converted into common stock prior to the commencement of the 13 week period ended October 1, 2013. During the 39 week period ended October 1, 2013, holders of 19,649 shares of outstanding Series B-1 Preferred Stock and 72,889 shares of outstanding Series B-2 Preferred Stock converted such stock into an aggregate of 1,457,780 shares of common stock at the conversion price of \$5.75 per share (as adjusted for the Reverse Stock Split).

During the 13 and 39 week periods ended October 1, 2013, the Company paid cash dividends on the Series B Preferred Stock of \$0.0 million and of \$0.1 million, respectively. Accretion related to the Series B Preferred Stock for the 13 and 39 week periods ended October 1, 2013 was \$0.0 million and \$0.5 million, respectively, including the acceleration of accretion on converted shares. Accretion is fully amortized as of October 1, 2013.

During the 13 and 39 week periods ended October 2, 2012, holders converted 93,500 shares of outstanding Series B-1 Preferred Stock and 2,000 shares of outstanding Series B-2 Preferred Stock into an aggregate of 1,910,000 shares of common stock at the conversion price of \$1.15 per share. During the 13 and 39 week periods, respectively, ended October 2, 2012, the Company paid cash dividends on the Series B Preferred Stock totaling \$0.3 million and \$1.1 million, respectively. Accretion related to the Series B Preferred Stock for the 13 and 39 week periods ended October 2, 2012 was \$0.8 million and \$1.0 million, respectively. Unamortized accretion as of October 2, 2012 was \$0.5 million.

#### **4. SHARE-BASED COMPENSATION**

On May 14, 2013, at its 2013 Annual Meeting of Stockholders (the “Annual Meeting”), the Company’s stockholders, upon the recommendation of the Board of Directors, approved the Jamba, Inc. 2013 Equity Incentive Plan (the “2013 Plan”). The 2013 Plan authorizes the Company to provide incentive compensation in the form of stock options, stock appreciation rights (“SARs”), restricted stock and stock units, performance shares and units, other stock-based awards, cash-based awards and deferred compensation awards. The 2013 Plan authorizes up to 3,145,122 shares (adjusted for the Reverse Stock Split) and was approved by stockholders at the Annual Meeting held in May 2013.



Edgar Filing: JAMBA, INC. - Form 10-Q

A summary of stock option activity under the Plans as of October 1, 2013, and changes during the 39 week period then ended is presented below. Shares and per share data have been adjusted for all periods presented to reflect the Reverse Stock Split:

|   | Number of<br>Options<br><br>(in thousands) | Weighted-<br>Average Exercise<br>Price<br><br>(per share) | Aggregate<br>Intrinsic<br>Value<br><br>(\$ in thousands) |
|---|--|---|--|
| Options outstanding at January 1, 2013                | 1,250                                      | \$ 11.15  | \$ 4,507   |
| Options granted                                       |  |   |  |
| Options exercised                                     | (78)                                       | \$ 6.53   |  |
| Options cancelled                                     | (28)                                       | \$ 19.22  |  |
| Options outstanding at October 1, 2013                | 1,144                                      | \$ 11.19  | \$ 6,273   |
| Options vested or expected to vest at October 1, 2013 | 1,127                                      | \$ 11.21  | \$ 6,210   |
| Options exercisable at October 1, 2013                | 912  | \$ 11.60  | \$ 5,380   |

No stock options were granted during the 13 and 39 week periods ended October 1, 2013. The estimated fair value per share of stock options granted during the 13 and 39 week periods ended October 2, 2012, was \$7.80 and \$6.75, respectively.

Information regarding activity for outstanding restricted stock units (“RSUs”) granted as of October 1, 2013 is as follows (shares in thousands):

|  | Number of<br>shares of RSUs | Weighted-<br>Average Grant Date<br>Fair Value (per share) |
|--|-----------------------------|---|
| RSUs outstanding as of January 1, 2013 | 115                         | \$ 15.16  |
| RSUs granted                           | 172                         | \$ 11.00  |
| RSUs forfeited (canceled)              | (11)                        | \$ 13.25  |
| RSU vested                             | (55)                        | \$ 13.63  |
| RSUs outstanding as of October 1, 2013 | 221                         | \$ 12.41  |

Information regarding activity for outstanding performance stock units (“PSUs”) granted as of October 1, 2013 is as follows (shares in thousands):

|  | Number of<br>shares of PSUs | Weighted-<br>Average Grant Date<br>Fair Value (per share) |
|--|-----------------------------|---|
| PSUs outstanding as of January 1, 2013 | 68                          | \$ 12.70  |
| PSUs granted                           | 84                          | \$ 13.49  |
| PSUs forfeited (canceled)              | (3)                         | \$ 13.18  |
| PSUs vested                            | (23)                        | \$ 12.88  |
| PSUs outstanding as of October 1, 2013 | 126                         | \$ 13.18  |

The PSUs granted in fiscal 2012 had performance criteria that required the Company to achieve predetermined EBITDA targets for the second half of fiscal 2012 and the first half of fiscal 2013. The Company records expenses related to these PSUs, with internal performance criteria, when it is probable that the performance criteria will be met. The Company recorded compensation expense of \$0.2 million during the 39 week period ended October 1, 2013 relating to the criteria for the first half of fiscal 2013. On August 8, 2013, the Company granted 84,000 PSUs to Vice Presidents and above. The PSUs will vest based on the Company's total shareholder return relative to selected peer companies over a three-year period. The Company records expenses related to these PSUs with criteria based on market performance by recognizing grant date fair value over the service period.

Share-based compensation expense, which is included in general and administrative expense, was \$0.6 million and \$0.7 million for the 13 week periods ended October 1, 2013 and October 2, 2012, respectively. Share-based compensation expense was \$1.8 million and \$1.4 million for the 39 week periods ended October 1, 2013 and October 2, 2012, respectively. At October 1, 2013, non-vested share-based compensation for stock options and restricted stock awards, net of forfeitures totaled \$3.5 million. This expense will be recognized over the remaining weighted average vesting period of approximately two years. There was no income tax benefit related to share-based compensation expense during the 13 and 39 week periods ended October 1, 2013 and for the 13 and 39 week periods ended October 2, 2012.

## 5. FAIR VALUE MEASUREMENT

The following table presents our financial assets and liabilities that were accounted for at fair value on a recurring basis as of October 1, 2013 and January 1, 2013 by level within the fair value hierarchy (in thousands):

| October 1, 2013                                   | Level 1 | Level 2 | Level 3  |
|---|---------|---------|----------|
| Liabilities:                                      |         |         |          |
| Contingent consideration <sup>(1)</sup>           | \$      | \$      | \$ 798   |
| January 1, 2013                                   |         |         |          |
| Assets:   |         |         |          |
| Cash invested in money market fund <sup>(2)</sup> | \$ 205  | \$      | \$       |
| Liabilities:                                      |         |         |          |
| Contingent consideration <sup>(3)</sup>           | \$      | \$      | \$ 1,304 |

(1) \$0.8 million included in other long-term liabilities on the consolidated balance sheet at October 1, 2013.

(2) \$0.2 million included in restricted cash on the consolidated balance sheet at January 1, 2013.

(3) \$0.9 million included in other long-term liabilities and \$0.4 million included in other current liabilities on the consolidated balance sheet at January 1, 2013.

For assets that are measured using quoted prices in active markets, fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs.

The following table presents our assets that were accounted for at fair value on a non-recurring basis and remaining on our condensed consolidated balance sheets as of October 1, 2013 and January 1, 2013. Total losses include losses recognized from all non-recurring fair value measurements for the 13 and 39 week periods ended October 1, 2013 and October 2, 2012 (in thousands):

|  | Level 1 | Level 2 | Level 3 |
|--|---------|---------|---------|
| October 1, 2013  |         |         |         |
| Assets:  |         |         |         |
| Long-lived assets <sup>(1)</sup>   |         |         | \$ 351  |
| Total losses recognized for all non-recurring fair value measures for the 13 week period ended October 1, 2013 |         |         | \$ 217  |
| Total losses recognized for all non-recurring fair value measures for the 39 week period ended October 1, 2013 |         |         | \$ 491  |

January 1, 2013

Assets:

|                                  |        |
|----------------------------------|--------|
| Long-lived assets <sup>(1)</sup> | \$ 400 |
|----------------------------------|--------|

October 2, 2012

|  |       |
|--|-------|
| Total losses recognized for all non-recurring fair value measures for the 13 week period ended October 2, 2012 | \$ 75 |
|--|-------|

|  |        |
|--|--------|
| Total losses recognized for all non-recurring fair value measures for the 39 week period ended October 2, 2012 | \$ 637 |
|--|--------|

- (1) Represents the carrying value of long-lived assets against which there was an impairment charge as of October 1, 2013, and January 1, 2013. Included in property, fixtures and equipment, net on the consolidated balance sheet.

### *Level 3 Inputs*

The fair value of the contingent consideration is classified as level 3 because it is based on unobservable inputs. Significant inputs and assumptions are management's estimate of operating profits from the related business and the discount rate used to calculate the present value of the liability. The Company classified the fair value of long-lived assets as Level 3 because the value is based on unobservable inputs. The significant inputs to the fair value measurement of the long-lived assets are projected future operating results at the store level and the discount rates applied to calculate the present value of these assets. Significant changes in any level 3 input or assumption would result in increases or decreases to fair value measurements for future impairment of the long-lived assets and for contingent consideration.

## **6. CREDIT AGREEMENT**

On February 14, 2012, the Company entered into a Credit Agreement with Wells Fargo Bank, National Association (the "Lender") which, as amended on November 1, 2012 and July 22, 2013 (as amended, the "Credit Agreement"), makes available to the Company a revolving line of credit in the amount of \$15.0 million. The outstanding balance under the amended credit facility bears interest at a LIBOR Market Index Rate based upon the rate for one month U.S. dollar deposits, plus 2.50% per annum. Under the terms of the Credit Agreement, the Company is required to maintain maximum consolidated leverage ratios, minimum levels of tangible net worth and a minimum fixed charge coverage ratio. The Credit Agreement terminates July 22, 2016 or may be terminated earlier by the Company or by the Lender. This credit facility is subject to customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company with respect to liens, indebtedness, guaranties, investments, distributions, mergers and acquisitions and dispositions of assets. The credit facility is evidenced by a revolving note made by the Company in favor of the Lender, is guaranteed by the Company and is secured by substantially all of its assets including the assets of its subsidiaries and a pledge of stock of its subsidiaries. In addition, the Credit Agreement replaced restricted cash requirements established in prior periods, as the line of credit also collateralizes the Company's outstanding letters of credit of \$0.9 million as of October 1, 2013.

During the 13 week period ended October 1, 2013, there were no borrowings under the Credit Agreement. To acquire the credit facility, the Company incurred upfront fees which are being amortized over the term of the Credit Agreement. As of October 1, 2013 and January 1, 2013, the unamortized commitment fee amount was not material and is recorded in prepaid expenses and other current assets on the consolidated balance sheet. As of October 1, 2013, the Company was not in compliance with the financial covenant relating to the consolidated fixed charge coverage ratio, and as of that date was granted a waiver, under the Third Amendment to the Credit Agreement and Limited Waiver, dated November 4, 2013. Under this agreement, the terms of the debt covenant were modified and the Company expects to be compliant with all covenants under the Credit Agreement in future periods. The unused borrowing capacity under the agreement on October 1, 2013, was \$14.1 million.

## **7. INCOME TAXES**

At the end of each interim period, the Company calculates an estimated annual effective tax rate based on the Company's best estimate of the tax expense (benefit) that will be provided for the full year. The year-to-date income tax expense (benefit) is a result of applying the estimated annual effective tax rate to the year-to-date actual pre-tax income (loss). The interim period tax expense (benefit) is the difference between the year-to-date amount and the amounts reported for previous interim periods and then adjusted for discrete tax items, if any.

A valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has concluded that it is not more likely than not that the deferred tax assets will be realized and a full valuation allowance has been maintained against the Company's net deferred tax assets.

The Company's effective tax rate for the 13 and 39 week periods ended October 1, 2013 were 17.6% and 7.8%, respectively. The effective tax rates were affected by pretax income or loss, a change in the valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes. It was also affected by a reduction of the federal income tax liability related to the net operating loss deduction for alternative minimum tax purposes.

The Company's effective tax rate for the 13 and 39 week periods ended October 2, 2012 were 9.4% and 8.2%, respectively. The effective tax rates were affected by pretax income or loss, a change in the valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes.

As of October 1, 2013, there have been no material changes to the Company's uncertain tax positions disclosure as provided in Note 13 in the Notes to the Financial Statements in the Company's Annual Report on Form 10-K for the year ended January 1, 2013.

**8. OTHER OPERATING, NET**

For the 13 and 39 week periods ended October 1, 2013 and October 2, 2012, the components of other operating, net were as follows (in thousands):

|   | 13 Week<br>Period Ended<br>October 1,<br>2013 | 13 Week<br>Period Ended<br>October 2,<br>2012 | 39 Week<br>Period Ended<br>October 1,<br>2013 | 39 Week<br>Period Ended<br>October 2,<br>2012 |
|---|---|---|---|---|
| Gift card breakage                      | \$ (510)                                      | \$ (545)                                      | \$ (1,972)                                    | \$ (2,075)                                    |
| Gift card expense                       | 175   | 207   | 604   | 705   |
| Franchise expense                       | 40  | 130   | 837   | 453   |
| CPG and JambaGO direct expense          | 847   | 63  | 1,666   | 216   |
| (Gain) Loss on disposal of fixed assets | (1,248)                                       | 239   | (1,871)                                       | 521   |
| Store pre-openings and closures         | 374   | 204   | 821   | 704   |
| Settlements and other                   | 38  | 49  | 167   | 55  |
|   | \$ (284)                                      | \$ 347  | \$ 252  | \$ 579  |

**9. LEASE COMMITMENTS**

The Company leases its office, retail stores, and some equipment under operating leases, with terms expiring through 2023. Most store leases have an initial term of 10 years, with renewal options of up to 10 years and provide for payment of common area operating expenses and real estate taxes. When the Company refranchises Company Stores, usually the franchisees become sublessees and the Company continues to be obligated under the existing lease agreements for the remainder of the lease terms.

The aggregate future minimum noncancelable lease payments and minimum rentals to be received from sublessees as of October 1, 2013, were as follows (in thousands):

| Fiscal Year Ending: | Minimum lease<br>payments | Minimum rentals<br>to be received |
|---------------------|---------------------------|-----------------------------------|
| 2013                | \$ 7,799                  | \$ 2,151                          |
| 2014                | 29,276                    | 7,582                             |
| 2015                | 23,178                    | 5,783                             |
| 2016                | 18,326                    | 4,806                             |
| 2017                | 13,990                    | 3,502                             |
| Thereafter          | 23,360                    | 4,005                             |
| Total               | \$ 115,929                | \$ 27,829                         |

**10. OTHER COMMITMENTS AND CONTINGENCIES**

The Company is a defendant in litigation arising in the normal course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations, liquidity or financial condition of the Company.





## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as “may,” “should,” “could,” “predict,” “potential,” “continue,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “forecast” and similar expressions (or the negative of such expressions.) Forward-looking statements include, but are not limited to, statements concerning projected new store openings, 2013 revenue growth rates, and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion titled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 1, 2013.*

### **JAMBA, INC. OVERVIEW**

Jamba, Inc., a Delaware corporation (the “Company”), and its wholly-owned subsidiary, Jamba Juice Company, is a healthy, active lifestyle brand with a global business driven by a portfolio of company-owned and franchised Jamba Juice® stores, innovative product platforms that utilize our JambaGO® and Jamba Smoothie Station formats, and Jamba-branded consumer packaged goods (“CPG”). As a leading “better-for-you,” specialty food and beverage brand, Jamba offers great tasting, whole fruit smoothies, fresh-squeezed juices, hot oatmeal, breakfast wraps, bistro sandwiches and mini-wraps, Artisan Flatbreads, frozen yogurt, and a variety of baked goods and snacks in our restaurants. Jamba Juice Company has expanded the Jamba brand by direct selling of CPG products and licensing its trademarks.

### **EXECUTIVE OVERVIEW**

#### **Key Overall Strategies**

Jamba’s strategic priorities were established in order to support our objective to accelerate growth and develop Jamba as a global healthy, active lifestyle brand, offering consumers compelling and differentiated products and experiences at Jamba Juice stores and through other retail distribution channels.

During 2013, we continue to focus our resources on a broad-ranging set of actions and initiatives designed to drive transformative growth through multi-channel brand building, product and menu innovation, new and improved store format and design, and by leveraging unique partnerships. Our BLEND Plan continues to provide the blueprint for growing our global footprint and expanding our business model. Our key strategic priorities as described in our BLEND Plan 3.0 include:

- Brand Building and Total Innovation
- Lifestyle Engagement
- Expand Growth Initiatives
- New Products, Partners, Channels and Markets

- Drive Enterprise Efficiencies

**2013 Third Quarter Financial Highlights**

- Net income was \$2.7 million for the 13 weeks ended October 1, 2013 compared to \$4.1 million for the 13 weeks ended October 2, 2012.
- Diluted earnings per share was \$0.15 for the 13 weeks ended October 1, 2013, compared to \$0.21 per share for the 13 weeks ended October 2, 2012.
- Company Store comparable sales decreased 5.5% for the 13 weeks ended October 1, 2013.
- Franchise Stores comparable sales decreased 1.3% for the 13 weeks ended October 1, 2013 and System-wide comparable store sales decreased by 3.4% for the 13 weeks ended October 1, 2013. Franchise Stores and System-wide comparable store sales are non-GAAP financial measures representing the change in year-over-year sales for all Company Stores and Franchise Stores (system-wide) and for all Franchise Stores, respectively, opened for at least one full fiscal year.

- Total revenue was \$61.4 million for the 13 weeks ended October 1, 2013, compared to \$65.5 million for the 13 weeks ended October 2, 2012. The change in total revenue was primarily due to the decrease in comparable store sales partially offset by the increase in franchise and other revenue.
- Income from operations was \$3.3 million for the 13 weeks ended October 1, 2013, primarily reflecting Company Store comparable sales decrease net of increased franchise revenue and expanding JambaGO sales. Operating margin was 5.4% for the 13 weeks ended October 1, 2013 compared to 6.9% for the prior year period.
- General and administrative expenses decreased 13.3% to \$8.4 million for the 13 weeks ended October 1, 2013, compared to \$9.7 million for the 13 weeks ended October 2, 2012.
- Franchisees opened 29 new Jamba Juice stores, globally; 26 new Franchise Stores, which include 12 smoothie stations, in the United States and three new International Stores during the 13 weeks ended October 1, 2013.

### **2013 Third Quarter Business Highlights**

#### *Brand Building, Total Innovation and Lifestyle Engagement*

We focus on building total brand value through multi-channel marketing and total innovation initiatives, including consumer loyalty and engaging marketing programs and partnerships. We address consumer health and wellness needs by offering specialty beverages and new product platforms that will meet consumer needs across all day-parts.

We continue to seek ways to become more relevant to the consumer through product introductions like our whole food blended-premium fresh-squeezed juice, which utilizes fresh vegetables and fruits and is hand-crafted for the consumer. As of October 1, 2013, the fresh-squeezed juice platform was offered at 53 store locations in California. We will continue the expansion of this platform into 2014 with an additional 100 to 200 locations planned.

Jamba and the Quaker® Oats Company, a subsidiary of PepsiCo, Inc., and leader in whole grain oat based products, entered into a strategic product development alliance during the quarter. The partnership officially launched a first-of-its-kind, easy-to-blend version of the whole grain Quaker Oats, which was added to the roster of Boosts available in our stores nationwide. This new Quaker-branded boost delivers at least 16 grams, or one full serving, of whole grains.

We also introduced a new Whole Food Boosts platform allowing customers to add natural, whole foods to their favorite smoothies. The new, natural whole food boosts are nutrient-dense whole foods and are a source of protein, omega-3s and fiber. Our new Whole Food Boosts platform includes the Greek Yogurt Boost and the Chia Seeds Boost. For the fall holidays we have reintroduced the Pumpkin Smash® smoothie which is blended with real pumpkin and seasoned with cinnamon and nutmeg. The Pumpkin Smash smoothie is a rich and natural source of beta-carotene, which the body converts to vitamin A.

During the quarter, we entered into a multi-year partnership with GENYOUth Foundation, a nonprofit organization dedicated to nurturing child health and wellness through improved nutrition and physical activity. We will combine forces to support students across the United States by working with schools, community groups and other national organizations to design programs and initiatives, which facilitate better dietary and physical activity. We plan to achieve our goals through events such as regional Town Halls in San Francisco and St. Louis and by supporting GENYOUth's entrepreneurial pitch and invest program, AdVenture Capital, which awards grants to students and gives them the opportunity to make changes in their schools.

Our strong concern for people and the planet has driven us to continually seek to improve our environmental footprint across all areas of our business. After several years of research, we began implementing the solution that would allow us to move away from the Styrofoam cup during the quarter. Our innovative paper cup allows us to continue offering a quality product to our consumers and we expect to complete the transition away from the Styrofoam cup by the end of fiscal year 2013.

On November 5, 2013, we launched a joint promotion with Isis, the mobile commerce joint venture created by AT&T Mobility, T-Mobile US Inc. and Verizon Wireless, where Isis purchases up to one million smoothies or juices for their consumers who utilize their tap to pay Mobile Wallet technology. The Isis Mobile Wallet leverages the near field communication technology used in smartphones produced by the partners of Isis.

*Expand Growth Initiatives, New Products, Partners, Channels and Markets*

Our growth initiatives encompass the multiple portfolio opportunities we have to expand our restaurant business on a global basis, including traditional and non-traditional stores, smaller footprint smoothie stations and the JambaGO format. We believe these opportunities are positioning us for growth in market share, to reduce capital outlays, provide better overall margins, allow us to open more locations at an accelerated rate, increase our brand presence to support other Company initiatives such as consumer products licensing and direct selling, and increase customer frequency.

As of October 1, 2013, we had 849 Jamba Juice stores globally, represented by 287 Company Stores and 517 Franchise Stores in the United States including 33 smoothie stations, and 45 International Stores. The system is comprised of approximately 66% Domestic and International Store locations and 34% Company Store locations. During the 39 week period ended October 1, 2013, 43 Franchise Stores and 12 International stores were opened. We expect to open 60 to 80 stores and smoothie stations by the end of fiscal 2013, globally, primarily through franchisees. The actual number of openings may differ from our expectations due to various factors, including franchisee access to capital and economic conditions.

Global Development

In the U.S. during the 13 week period ended October 1, 2013, franchisees developed and opened 26 new Franchise Stores, of which five were traditional, nine were non-traditional stores and 12 were smoothie stations. Also, our franchise partner in Las Vegas opened the first Jamba Juice drive thru store location during the quarter.

During the quarter, we completed the refresh of approximately 29 store locations, to include the Whole Food Blending-Premium Juice offering and a contemporary re-imaging of each location. We expect to refresh an additional 100 to 200 locations during 2014. We sold seven Company Store locations to new and existing franchise partners during the quarter, as part of the California Development Initiative, including the development of 12 new Franchise Stores.

Our international franchise partners opened three stores during the quarter. We currently have international master agreements with partners in South Korea, the Philippines, Canada and Mexico. We continue to engage in discussions with other potential partners about expansion into international markets.

New Ventures

In order to more efficiently manage and monitor our performance in recently created or acquired businesses, we have organized JambaGO and CPG, including Talbott Teas under a New Ventures management team. Subsequent to October 1, 2013, our JambaGO concept was launched in over 1,000 retail locations across the nation, bringing the total to 1800. We also continued expansion of our JambaGO concept in K-12 schools, convenience stores and other similar locations during the quarter.

We continue to develop new partnerships to extend the Jamba brand into relevant categories. During the quarter, we expanded distribution of our CPG direct sell businesses to new channels further expanding accessibility of the brand. Jamba-branded products continue to have a presence in all 50 states. We also continue to evaluate and meet with potential licensees about new product categories that leverage our core brand strength.

*Drive Enterprise Efficiencies*

We launched a major cost improvement and productivity program during the quarter which is expected to yield savings of 100 to 200 basis points in operating margin once fully operationalized. We are partnering with a leading

global consulting firm and expect to realize the savings in 2014 and beyond. The program is primarily focused on driving down costs in our supply chain and will enhance the work already done to help to mitigate the effect of commodity price increases. We also continue to focus attention on techniques to refine our labor deployment and service tools to ensure efficient service to our customers. We continue to increase our digital activities, which contribute to improved speed of service. The launch of Isis Mobile Wallet in a joint promotion with Isis provides another opportunity to further improve speed of service in our stores.

During the 13 week period ended October 1, 2013, operating margin decreased by 150 basis points or \$1.2 million to \$3.3 million, due to the decrease in Company Store comparable sales; partially offset by growth in our JambaGO model due to the expansion in the number of JambaGO units at Target food courts. We believe that the macroeconomic environment, increased competition, the impact of promotional campaigns and cooler than expected weather in some key markets contributed significantly to the decline in consumer spending in Jamba stores.

**RESULTS OF OPERATIONS 13 WEEK PERIOD ENDED OCTOBER 1, 2013 AS COMPARED TO 13 WEEK PERIOD ENDED OCTOBER 2, 2012 (UNAUDITED)**

| (In thousands)                                 | 13 Week Period<br>Ended<br>October 1,<br>2013 |                  | 13 Week Period<br>Ended<br>October 2,<br>2012 |                  |   |  |
|--|---|------------------|---|------------------|---|--|
|  |   | % <sup>(1)</sup> |   | % <sup>(1)</sup> |   |  |
| <b>Revenue:</b>                                |   |                  |   |                  |   |  |
| Company Stores                                 | \$ 57,092                                     | 93.0             | % \$ 61,795                                   | 94.4             | % |  |
| Franchise and other revenue                    | 4,269   | 7.0              | % 3,687                                       | 5.6              | % |  |
| Total revenue                                  | 61,361  | 100.0            | % 65,482                                      | 100.0            | % |  |
| <b>Costs and operating expenses:</b>           |   |                  |   |                  |   |  |
| Cost of sales                                  | 14,592  | 25.6             | % 14,918                                      | 24.1             | % |  |
| Labor  | 15,862  | 27.8             | % 16,457                                      | 26.6             | % |  |
| Occupancy                                      | 7,405   | 13.0             | % 7,353                                       | 11.9             | % |  |
| Store operating                                | 9,060   | 15.9             | % 9,328                                       | 15.1             | % |  |
| Depreciation and amortization                  | 2,808   | 4.6              | % 2,793                                       | 4.3              | % |  |
| General and administrative                     | 8,377   | 13.7             | % 9,663                                       | 14.8             | % |  |
| Impairment of long-lived assets                | 217   | 0.4              | % 75  | 0.1              | % |  |
| Other operating, net                           | (284)   | (0.5)            | % 347   | 0.5              | % |  |
| Total costs and operating expenses             | 58,037  | 94.6             | % 60,934                                      | 93.1             | % |  |
| Income from operations                         | 3,324   | 5.4              | % 4,548                                       | 6.9              | % |  |
| <b>Other income (expense), net:</b>            |   |                  |   |                  |   |  |
| Interest income                                | 1   | 0.0              | % 21  | 0.0              | % |  |
| Interest expense                               | (54)  | (0.1)            | % (52)  | 0.0              | % |  |
| Total other expense, net                       | (53)  | (0.1)            | % (31)  | 0.0              | % |  |
| Income before income taxes                     | 3,271   | 5.3              | % 4,517                                       | 6.9              | % |  |
| Income tax expense                             | (576)   | (0.9)            | % (413)                                       | (0.6)            | % |  |
| Net income                                     | 2,695   | 4.4              | % 4,104                                       | 6.3              | % |  |
| Preferred stock dividends and deemed dividends |   | 0.0              | % (1,123)                                     | (1.7)            | % |  |
| Net income available to common stockholders    | \$ 2,695                                      | 4.4              | % \$ 2,981                                    | 4.6              | % |  |

<sup>(1)</sup> Cost of sales, labor, occupancy and store operating percentages are calculated using Company Stores revenue. All other line items are calculated using total revenue.

**Revenue**  
(in 000's)

|                             | 13 Week<br>Period Ended<br>October 1,<br>2013 | % of<br>Total<br>Revenue |   | 13 Week<br>Period Ended<br>October 2,<br>2012 | % of<br>Total<br>Revenue |   |
|-----------------------------|---|--------------------------|---|---|--------------------------|---|
| Revenue:                    |   |                          |   |   |                          |   |
| Company stores              | \$ 57,092                                     | 93.0                     | % | \$ 61,795                                     | 94.4                     | % |
| Franchise and other revenue | 4,269   | 7.0                      | % | 3,687   | 5.6                      | % |
| Total revenue               | \$ 61,361                                     | 100.0                    | % | \$ 65,482                                     | 100.0                    | % |

Total revenue is comprised of revenue from Company Stores, royalties and fees from Franchise Stores and International Stores, and revenue from CPG licensing and direct selling.

Total revenue for the 13 week period ended October 1, 2013 was \$61.4 million, a decrease of \$4.1 million or 6.3%, compared to \$65.5 million for the 13 week period ended October 2, 2012.

*Company Store revenue*

Company Store revenue for the 13 week period ended October 1, 2013 was \$57.1 million, a decrease of \$4.7 million, or 7.6%, compared to Company Store revenue of \$61.8 million for the 13 week period ended October 2, 2012. The decrease was primarily due to Company Store comparable sales decline as illustrated by the following table:

|  | Company Store<br>Increase in Revenue<br>(in 000's)<br>Third quarter 2013 vs.<br>Third quarter 2012 |
|--|--|
| Company Store comparable sales decrease        | \$ (3,300)   |
| Reduction in the number of Company Stores, net | (1,403)  |
| Total change in Company Store revenue          | \$ (4,703)   |

Company Store comparable sales decreased by \$3.3 million for the 13 week period ended October 1, 2013, or 5.5%, and was primarily attributable to a decrease in transaction count of 8.8%, partially offset by an increase of 3.3% in average check, as compared to the same period in the prior year. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least a full fiscal year. As of October 1, 2013, approximately 99% of our Company Stores had been open for at least one full fiscal year.

*Franchise and other revenue*

Franchise and other revenue for the 13 week period ended October 1, 2013 was \$4.3 million, an increase of \$0.6 million, or 15.8% compared to franchise and other revenue of \$3.7 million for the 13 week period ended October 2, 2012 primarily due to the net increase in the number of Franchise and International Stores (approximately \$0.4 million) and the revenue generated by JambaGO and CPG (approximately \$0.2 million).



The number of Franchise Stores and International Stores as of October 1, 2013 and October 2, 2012 was 562 and 487, respectively.

***Cost of sales***

Cost of sales is mostly comprised of fruit, dairy, and other products used to make smoothies and juices, paper products, costs related to managing our procurement program and vendor rebates. As a percentage of Company Store revenue, cost of sales increased to 25.6% for the 13 week period ended October 1, 2013, compared to 24.1% for the 13 week period ended October 2, 2012. The increase of cost of sales as a percentage of Company Store revenue was primarily due to a reduction in price points resulting from promotional tactics (approximately 0.8%) and increases in commodity costs (approximately 0.6%). Cost of sales for the 13 week period ended October 1, 2013 was \$14.6 million compared to \$14.9 million for the 13 week period ended October 2, 2012.

***Labor***

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. As a percentage of Company Store revenue, labor costs increased to 27.8% for the 13 week period ended October 1, 2013, compared to 26.6% for the 13 week period ended October 2, 2012. The 1.2% increase of labor costs as a percentage of Company Store revenue was primarily due to deleveraging created from lower sales volumes (approximately 0.9%) while managing the business with value promotions deployed during the quarter (approximately 0.2%). Labor costs for the 13 week period ended October 1, 2013 were \$15.9 million, a decrease of \$0.6 million, or 3.6%, compared to \$16.5 million for the 13 week period ended October 2, 2012.

***Occupancy***

Occupancy costs include both fixed and variable portions of rent, common area maintenance charges, property taxes, licenses and property insurance for all Company Store locations. As a percentage of Company Store revenue, occupancy costs increased to 13.0% for the 13 week period ended October 1, 2013, compared to 11.9% for the 13 week period ended October 2, 2012. The 1.1% increase of occupancy costs as a percentage of Company Store revenue was primarily due to deleveraging created from lower sales volumes (approximately 0.5%) and an increase in the variable portion of occupancy (approximately 0.6%). Occupancy costs for both the 13 week periods ended October 1, 2013 and October 2, 2012 were flat at \$7.4 million.

***Store operating***

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. As a percentage of Company Store revenue, total store operating expenses increased to 15.9% for the 13 week period ended October 1, 2013, compared to 15.1% for the 13 week period ended October 2, 2012. The increase in total store operating expenses as a percentage of Company Store revenue was primarily due to an increase in utilities (approximately 0.4%) and deleveraging as a result of lower sales (approximately 0.2%). Total store operating expenses for the 13 week period ended October 1, 2013 were \$9.1 million, a decrease of \$0.3 million, or 2.9%, compared to \$9.3 million for the 13 week period ended October 2, 2012.

***Depreciation and amortization***

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. As a percentage of total revenue, depreciation and amortization increased to 4.6% for the 13 week period ended October 1, 2013, compared to 4.3% for the 13 week period ended October 2, 2012. The increase in depreciation and amortization as a percentage of total revenue was primarily due to the impact of deleveraging as a result of the decrease in Company Store comparable sales (approximately 0.2%). Depreciation and amortization for the 13 week period ended October 1, 2013 was \$2.8 million, remaining flat with the 13 week period ended October 2, 2012.

***General and administrative***

General and administrative (“G&A”) expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, outside and contract services, accounting and legal fees, travel and travel-related expenses, share-based compensation and other. As a percentage of total revenue, total G&A expenses decreased to 13.7% for the 13 week period ended October 1, 2013 compared to 14.8% for the 13 week period ended October 2, 2012. Total G&A expenses for the 13 week period ended October 1, 2013 were \$8.4 million, a decrease of \$1.3 million, or 13.3%, compared to \$9.7 million for the 13 week period ended October 2, 2012. The decrease of total G&A expenses was primarily due to reduced store manager bonuses (approximately \$0.1 million), reduced legal and contract services (\$0.2 million), reduction in travel expense (approximately \$0.2 million), reduced growth initiative expenses (approximately \$0.5 million) and a reduction in share-based compensation (approximately \$0.1 million).

***Impairment of long-lived assets***

Long-lived assets are reviewed for impairment when indicators of impairment are present. Expected future cash flows associated with an asset, in addition to other quantitative and qualitative analyses, including certain assumptions about expected future operating performance and changes in economic conditions are the key factors in determining undiscounted future cash flows. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss equal to the amount by which carrying value exceeds the fair value of the asset.

Impairment charge for long-lived assets for the 13 week period ended October 1, 2013 was \$0.2 million compared to \$0.1 million for the 13 week period ended October 2, 2012.

***Other operating, net***

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, store lease termination and closure costs, pre-opening costs and expenses related to franchise and consumer packaged goods activities. For the 13 week period ended October 1, 2013, other operating, net was income of \$0.3 million, compared to expense of \$0.3 million for the 13 week period ended October 2, 2012. The decrease in expense of \$0.6 million was primarily due to an increase in the gain on disposal of fixed assets resulting from refranchising of selected Company Stores (approximately \$1.5 million), partially offset by increased expense related to consumer packaged goods activities (approximately \$0.8 million).

***Income tax expense***

We recorded income tax expense of \$0.6 million, or 17.6% for the 13 week period ended October 1, 2013. This is due to the pretax income, a full valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes. It is also due to a reduction of the federal income tax liability related to the net operating loss deduction for alternative minimum tax purposes.

We recorded income tax expense of \$0.4 million, or 9.4% for the 13 week period ended October 2, 2012. Our prior year tax rate was also due to the pretax income, a full valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes.

**RESULTS OF OPERATIONS 39 WEEK PERIOD ENDED OCTOBER 1, 2013 AS COMPARED TO 39 WEEK PERIOD ENDED OCTOBER 2, 2012 (UNAUDITED)**

| (In thousands)                                 | 39 Week Period<br>Ended<br>October 1,<br>2013 |                  |   | 39 Week Period<br>Ended<br>October 2,<br>2012 |                  |   |
|--|---|------------------|---|---|------------------|---|
|  |   | % <sup>(1)</sup> |   |   | % <sup>(1)</sup> |   |
| <b>Revenue:</b>                                |   |                  |   |   |                  |   |
| Company Stores                                 | \$ 171,030                                    | 93.1             | % | \$ 174,350                                    | 94.5             | % |
| Franchise and other revenue                    | 12,654  | 6.9              | % | 10,223  | 5.5              | % |
| Total revenue                                  | 183,684                                       | 100.0            | % | 184,573                                       | 100.0            | % |
| <b>Costs and operating expenses:</b>           |   |                  |   |   |                  |   |
| Cost of sales                                  | 41,854  | 24.5             | % | 40,504  | 23.2             | % |
| Labor  | 48,466  | 28.3             | % | 49,013  | 28.1             | % |
| Occupancy                                      | 22,100  | 12.9             | % | 22,097  | 12.7             | % |
| Store operating                                | 25,740  | 15.0             | % | 26,158  | 15.0             | % |
| Depreciation and amortization                  | 8,348   | 4.5              | % | 8,528   | 4.6              | % |
| General and administrative                     | 27,767  | 15.1             | % | 29,125  | 15.8             | % |
| Impairment of long-lived assets                | 491   | 0.3              | % | 637   | 0.3              | % |
| Other operating, net                           | 252   | 0.1              | % | 579   | 0.3              | % |
| Total costs and operating expenses             | 175,018                                       | 95.3             | % | 176,641                                       | 95.7             | % |
| Income from operations                         | 8,666   | 4.7              | % | 7,932   | 4.3              | % |
| <b>Other income (expense), net:</b>            |   |                  |   |   |                  |   |
| Interest income                                | 1   | 0.0              | % | 61  | 0.0              | % |
| Interest expense                               | (191)   | (0.1)            | % | (147)   | (0.1)            | % |
| Total other expense, net                       | (190)   | (0.1)            | % | (86)  | (0.1)            | % |
| Income before income taxes                     | 8,476   | 4.6              | % | 7,846   | 4.2              | % |
| Income tax expense                             | (671)   | (0.4)            | % | (634)   | (0.3)            | % |
| Net income                                     | 7,805   | 4.2              | % | 7,212   | 3.9              | % |
| Preferred stock dividends and deemed dividends | (588)   | (0.3)            | % | (2,076)                                       | (1.1)            | % |
| Net income available to common stockholders    | \$ 7,217                                      | 3.9              | % | \$ 5,136                                      | 2.8              | % |

(1) Cost of sales, labor, occupancy and store operating percentages are calculated using Company Stores revenue. All other line items are calculated using total revenue.

**Revenue**  
(in 000's)

|                             | 39 Week<br>Period Ended<br>October 1,<br>2013 | % of<br>Total<br>Revenue |      | 39 Week<br>Period Ended<br>October 2,<br>2012 | % of<br>Total<br>Revenue |   |
|-----------------------------|---|--------------------------|------|---|--------------------------|---|
| Revenue:                    |   |                          |      |   |                          |   |
| Company stores              | \$ 171,030                                    | 93.1                     | % \$ | 174,350                                       | 94.5                     | % |
| Franchise and other revenue | 12,654  | 6.9                      | %    | 10,223  | 5.5                      | % |
| Total revenue               | \$ 183,684                                    | 100.0                    | % \$ | 184,573                                       | 100.0                    | % |

Total revenue for the 39 week period ended October 1, 2013 was \$183.7 million, a decrease of \$0.9 million or 0.5% compared to \$184.6 million for the 39 week period ended October 2, 2012.

*Company Store revenue*

Company Store revenue for the 39 week period ended October 1, 2013 was \$171.0 million, a decrease of \$3.3 million or 1.9% compared to \$174.4 million for the prior year period. The decrease in Company Store revenue was due primarily to a net reduction in Company Stores due to our refranchising strategy and Company Store comparable sales decline, as illustrated by the following table:

|  | Company Store<br>Decrease in Revenue<br>(in 000's)<br>Year-to-date Q3 2013<br>vs.<br>Year-to-date Q3 2012 |
|--|---|
| Reduction in number of Company Stores, net | \$ (3,093)  |
| Company Store comparable sales decrease    | (227)   |
| Total change in Company Store revenue      | \$ (3,320)  |

Company Store comparable sales decreased \$0.2 million for the 39 week period ended October 1, 2013, or 0.1%, attributable to a decrease of 2.1% in transaction count, partially offset by an increase of 2.0% in average check. Company Store comparable sales represent the change in year-over-year sales for all Company Stores opened for at least one full fiscal year. As of October 1, 2013, approximately 99% of our Company Stores had been open for at least one full fiscal year. The percentage change in Company Store comparable sales compares the sales of Company Stores during a 39 week period in 2013 to the sales from the same Company Stores for the equivalent 39 week period in the prior year.

*Franchise and other revenue*

Franchise and other revenue for the 39 week period ended October 1, 2013 was \$12.7 million, an increase of \$2.4 million, or 23.8% compared to franchise and other revenue of \$10.2 million for the 39 week period ended October 2, 2012 primarily due to the net increase in the number of Franchise and International Stores (approximately \$0.9

million) and revenue generated by JambaGO and CPG (approximately \$1.6 million).

***Cost of sales***

Cost of sales is mostly comprised of fruit, dairy, and other products used to make smoothies and juices, paper products, costs related to managing our procurement program and vendor rebates. As a percentage of Company Store revenue, cost of sales increased to 24.5% for the 39 week period ended October 1, 2013 compared to 23.2% for the 39 week period ended October 2, 2012. The increase of cost of sales as a percentage of Company Store revenue was primarily due to a reduction in price points resulting from promotional tactics (approximately 0.8%) and increases in commodity costs (approximately 0.5%). Cost of sales for the 39 week period ended October 1, 2013 was \$41.9 million, an increase of \$1.4 million, or 3.3%, compared to \$40.5 million for the 39 week period ended October 2, 2012. Our refranchising strategy has resulted in a decrease in the number of Company Stores and the related costs and expenses for sales associated with these refranchised Company Stores.

***Labor***

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. As a percentage of Company Store revenue, labor costs increased to 28.3% for the 39 week period ended October 1, 2013, compared to 28.1% for the 39 week period ended October 2, 2012. The increase of labor costs as a percentage of Company Store revenue was primarily due to promotional marketing campaigns (approximately 0.9%) necessitating labor with lower sales dollars per unit sold, partially offset by labor efficiencies (approximately 0.4%). Labor costs for the 39 week period ended October 1, 2013 was \$48.5 million a decrease of \$0.5 million or 1.1%, compared to \$49.0 million for the 39 week period ended October 2, 2012. Our refranchising strategy has resulted in a decrease in the number of Company Stores and the related labor costs and expenses to operate, manage, and support these refranchised Company Stores, which was partially offset by the increased labor costs to support the increased sales.

***Occupancy***

Occupancy costs include both fixed and variable portions of rent, common area maintenance charges, property taxes, licenses and property insurance for all Company Store locations. As a percentage of Company Store revenue, occupancy costs increased to 12.9% for the 39 week period ended October 1, 2013, compared to 12.7% for the 39 week period ended October 2, 2012. Occupancy costs for the 39 week period ended October 1, 2013 were \$22.1 million, flat compared to the 39 week period ended October 2, 2012. Our refranchising strategy has resulted in a decrease in the number of Company Stores and the related occupancy costs and expenses to operate, manage, and support these refranchised Company Stores, which was partially offset by increased occupancy costs to support the increased sales and increased common area maintenance charges.

***Store operating***

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. As a percentage of Company Store revenue, total store operating expenses for the 39 week period ended October 1, 2013 were 15.0%, flat, compared to the 39 week period ended October 2, 2012 primarily due to the increase in marketing expense (approximately 0.2%) and utilities expense (approximately 0.1%) offset by leverage gained on contract services (approximately 0.3%). Total store operating expenses for the 39 week period ended October 1, 2013 were \$25.7 million, a decrease of \$0.4 million, or 1.6%, compared to \$26.2 million for the 39 week period ended October 2, 2012. Our refranchising strategy resulted in a decrease in the number of Company Stores and the related costs and expenses to operate, manage, and support these refranchised Company Stores, which is partially offset by the increased store operating costs to support the increased sales.

***Depreciation and amortization***

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. As a percentage of total revenue, depreciation and amortization decreased to 4.5% for the 39 week period ended October 1, 2013, compared to 4.6% for the 39 week period ended October 2, 2012. The decrease in depreciation and amortization as a percentage of total revenue was primarily due to the leverage gained from non-Company Store revenue (approximately 0.1%). Depreciation and amortization for the 39 week period ended October 1, 2013 was \$8.3 million, a decrease of \$0.2 million, or 2.1%, compared to \$8.5 million for the 39 week period ended October 2, 2012. Our refranchising strategy resulted in a decrease in the number of Company Stores and related assets, resulting in a reduction in the carrying value of Company Store fixed assets.

***General and administrative***



General and administrative (“G&A”) expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, outside and contract services, accounting and legal fees, travel and travel-related expenses, share-based compensation and other. As a percentage of total revenue, total G&A expenses decreased to 15.1% for the 39 week period ended October 1, 2013 compared to 15.8% for the 39 week period ended October 2, 2012. Total G&A expenses for the 39 week period ended October 1, 2013 were \$27.8 million, a decrease of \$1.3 million or 4.7%, compared to \$29.1 million for the 39 week period ended October 2, 2012. The decrease of total G&A expenses was primarily due to reduced semi-annual performance related incentives (approximately \$1.1 million), reduction in travel expense (approximately \$0.1 million) and reduced growth initiative expenses (approximately \$0.1 million), partially offset by an increase in share-based compensation (approximately \$0.3 million).

### ***Impairment of long-lived assets***

Long-lived assets are reviewed for impairment when indicators of impairment are present. Expected future cash flows associated with an asset, in addition to other quantitative and qualitative analyses, including certain assumptions about expected future operating performance and changes in economic conditions are the key factors in determining undiscounted future cash flows. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss equal to the amount by which carrying value exceeds the fair value of the asset.

Impairment of long-lived assets for the 39 week period ended October 1, 2013 was \$0.5 million, a decrease of \$0.1 million, or 22.9%, compared to \$0.6 million for the 39 week period ended October 2, 2012. The decrease of impairment charge for long-lived assets was primarily due to fewer underperforming stores for which an impairment charge had not been previously recorded, compared to the prior year period.

### ***Other operating, net***

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, store lease termination, and closure costs, pre-opening costs and expenses related to franchise and consumer packaged goods activities. For the 39 week period ended October 1, 2013, other operating, net was \$0.3 million of expense, compared to expense of \$0.6 million for the 39 week period ended October 2, 2012. The decrease in expense of \$0.3 million was primarily due to a gain on disposal of fixed assets from refranchising (approximately \$2.4 million); partially offset by an increase in expense related to consumer packaged goods activities (approximately \$1.5 million), an increase in store pre-openings (approximately \$0.1 million) and franchise activities (approximately \$0.4 million).

### ***Income tax expense***

We have recorded a tax expense of \$0.7 million, or 7.8% for the 39 week period ended October 1, 2013. The effective tax expense was primarily due to the pretax income, a full valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes. It is also due to a reduction of the federal income tax liability related to the net operating loss deduction for alternative minimum tax purposes.

We have recorded a tax expense of \$0.6 million, or 8.2% for the 39 week period ended October 2, 2012. The effective tax expense was primarily due to the pretax income, a full valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes

## **KEY FINANCIAL METRICS AND NON-GAAP MEASURES**

Management reviews and discusses its operations based on both financial and non-financial metrics. Among the key financial metrics upon which management focuses is reviewing the performance based on the Company's consolidated GAAP results, including Company Store comparable sales. Management also uses certain supplemental, non-GAAP financial metrics in evaluating financial results, including Franchise Store comparable sales and system-wide comparable sales.

Company Store comparable sales represent the change in year-over-year sales for all Company Stores opened for at least one full fiscal year.

Franchise Store comparable sales, a non-GAAP financial measure, represents the change in year-over-year sales for all Franchise Stores opened for at least one full fiscal year, as reported by franchisees and exclude International Stores.

System wide comparable store sales, a non-GAAP financial measure, represents the change in year-over-year sales for all Company and Franchise Stores opened for at least one full fiscal year and are based on sales by both company-owned and franchise-operated stores, as reported by franchisees, which are in the store base. System-wide comparable store sales do not include International Stores and JambaGO locations.

Company-owned stores that were sold in franchising transactions are included in the store base for each accounting period of the fiscal quarter in which the store was sold to the extent the sale is consummated at least three days prior to the end of such accounting period, but only for the days such stores have been company-owned. Thereafter, such stores are excluded from the store base until such stores have been franchise-operated for at least one full fiscal year at which point such stores are included in the store base and compared to sales in the comparable period of the prior year. Comparable store sales exclude closed locations.

Management reviews the increase or decrease in Company Store comparable store sales, Franchise Store comparable sales and system-wide comparable sales compared with the same period in the prior year to assess business trends and make certain business decisions. The Company believes that Franchise Store comparable sales and system-wide comparable sales data, non-GAAP financial measures, are useful in assessing the overall performance of the Jamba brand and, ultimately, the performance of the Company.

The following table sets forth operating data that do not otherwise appear in our consolidated financial statements as of and for the 13 and 39 week periods ended October 1, 2013 and for the 13 and 39 week periods ended October 2, 2012, respectively:

|  | 13 Week<br>Period Ended<br>October 1,<br>2013 | 13 Week<br>Period Ended<br>October 2,<br>2012 | 39 Week<br>Period Ended<br>October 1,<br>2013 | 39 Week<br>Period Ended<br>October 2,<br>2012 |   |
|--|---|---|---|---|---|
| Percentage change in Company Store comparable sales <sup>(1)</sup>   | (5.5)   | % 3.9   | % (0.1)                                       | % 6.7   | % |
| Percentage change in Franchise Store comparable sales <sup>(2)</sup> | (1.3)   | % 1.0   | % (0.3)                                       | % 5.8   | % |
| Percentage change in system-wide comparable sales <sup>(2)</sup>     | (3.4)   | % 2.5   | % (0.2)                                       | % 6.2   | % |
| Total Company Stores   | 287   | 301   | 287   | 301   |   |
| Total Franchise Stores   | 517   | 454   | 517   | 454   |   |
| Total International Stores   | 45  | 33  | 45  | 33  |   |

(1) Percentage change in Company Store comparable sales compares the sales of Company Stores during a 13 and 39 week period in 2013 to the sales from the same Company Stores for the equivalent period in the prior year. A Company Store is included in this calculation after one full fiscal year of operations. Sales from Franchise Stores are not included in Company Store comparable sales.

(2) Percentage change in system-wide comparable sales compares the combined sales of Company and Franchise-operated Stores during a 13 and 39 week period in 2013 to the combined sales from the same Company and Franchise-operated Stores for the equivalent 13 and 39 week period in the prior year. A Company or Franchise Store is included in this calculation after one full fiscal year of operations.

The following table sets forth certain data relating to Company Stores, Franchise and International Stores for the periods indicated:

|   | 39 Week Period Ended<br>October 1, 2013 |               | 39 Week Period Ended<br>October 2, 2012 |               |
|---|---|---------------|---|---------------|
|   | Domestic                                | International | Domestic                                | International |
| Company Stores:                         |   |               |   |               |
| As of January 1, 2013                   | 301                                     |               | 307                                     |               |
| Company Stores opened                   | 2                                       |               |   |               |
| Company Stores closed                   | (1)                                     |               | (5)                                     |               |
| Company Stores sold to franchisees      | (15)                                    |               | (1)                                     |               |
| Total Company Stores                    | 287                                     |               | 301                                     |               |
| Franchise and International Stores:     |   |               |   |               |
| As of January 3, 2012                   | 473                                     | 35            | 443                                     | 19            |
| Franchise Stores opened                 | 43                                      | 12            | 19                                      | 16            |
| Franchise Stores closed                 | (14)                                    | (2)           | (9)                                     | (2)           |
| Franchise Stores purchased from Company | 15                                      |               | 1                                       |               |

Edgar Filing: JAMBA, INC. - Form 10-Q

|                        |     |    |     |    |
|------------------------|-----|----|-----|----|
| Total Franchise Stores | 517 | 45 | 454 | 33 |
|------------------------|-----|----|-----|----|

25

**LIQUIDITY AND CAPITAL RESOURCES*****Cash Flows Summary***

The following table summarizes our cash flows for the 39 week periods ended October 1, 2013 and October 2, 2012 (in thousands):

|  | 39 Week<br>Period Ended<br>October 1, 2013 | 39 Week<br>Period Ended<br>October 2, 2012 |
|--|--|--|
| Net cash provided by operating activities            | \$ 6,558                                   | \$ 17,006                                  |
| Net cash used in investing activities                | (9,565)                                    | (3,734)                                    |
| Net cash provided by (used in) financing activities  | 407  | (1,023)                                    |
| Net (decrease) increase in cash and cash equivalents | \$ (2,600)                                 | \$ 12,249                                  |

***Liquidity***

As of October 1, 2013, we had cash and cash equivalents of \$28.9 million compared to \$31.5 million in cash and cash equivalents as of January 1, 2013. As of October 1, 2013 and January 1, 2013, we had no short term or long term debt. Our primary sources of liquidity are cash flows provided by operating activities. In addition, we have an existing \$15.0 million revolving line of credit, which we may utilize as described further below. In the future, we may enter equipment leasing arrangements and incur additional indebtedness as necessary. We cannot assure, however, that such financing will be available on favorable terms or at all. All shares of the Series B Preferred Stock were completely converted as of June 14, 2013. As a result, the Company no longer has payments of annual dividends on Preferred Stock.

We expect that our cash on hand and future cash flows provided by operating activities will be sufficient to fund our working capital and general corporate needs, and the non-discretionary capital expenditures for the foreseeable future. Our primary liquidity and capital requirements are for working capital and general corporate needs and the planned fiscal 2013 capital expenditures described below. The use of cash to fund discretionary capital expenditures will be based on the need to conserve our capital.

On February 14, 2012, we entered into a Credit Agreement with Wells Fargo Bank, National Association (the "Lender") which, as amended on November 1, 2012 and July 22, 2013 (as amended, the "Credit Agreement"), which makes available to the Company a revolving line of credit in the amount of \$15.0 million. The outstanding balance under the amended credit bears interest at a LIBOR Market Index Rate based upon the rate for one month U.S. dollar deposits, plus 2.50% per annum. Under the terms of the Credit Agreement, the Company is required to maintain maximum consolidated leverage ratios, minimum levels of tangible net worth and a minimum fixed charge coverage ratio. The Credit Agreement terminates July 22, 2016, or may be terminated earlier by us or by the Lender. This credit facility is subject to customary affirmative and negative covenants for credit facilities of this type, including limitations on us with respect to liens, indebtedness, guaranties, investments, distributions, mergers and acquisitions and dispositions of assets. The credit facility is evidenced by a revolving note made by us in favor of the Lender, is guaranteed by us and is secured by substantially all of our assets including the assets of our subsidiaries and a pledge of stock of our subsidiaries. In addition, the Credit Agreement replaced restricted cash requirements established in prior periods, as the line of credit also collateralizes our outstanding letters of credit of \$0.9 million.

During the 39 week period ended and as of October 1, 2013, there were no borrowings under the Credit Agreement. To acquire the credit facility, we incurred upfront fees which are being amortized over the term of the credit agreement. As of October 1, 2013, the unamortized commitment fee amount was not material and is recorded in

prepaid expenses and other current assets on the balance sheet. As of October 1, 2013, the Company was not in compliance with the financial covenant relating to the consolidated fixed charge coverage ratio, and as of that date was granted a waiver, under the Third Amendment to the Credit Agreement and Limited Waiver, dated November 4, 2013. Under this agreement, the terms of the debt covenant were modified and the Company expects to be compliant with all covenants under the Credit Agreement in future periods. The unused borrowing capacity under the agreement on October 1, 2013, was \$14.1 million.

The adequacy of our available funds will depend on many factors, including the macroeconomic environment, the operating performance of our Company Stores, the successful expansion of our franchise and licensing programs and the successful rollout and consumer acceptance of our new beverage and food initiatives. Given these factors, our foremost priorities for the near term continue to be preserving and generating cash sufficient to fund our liquidity needs.

### *Operating Activities*

Net cash provided by operating activities was \$6.6 million for the 39 week period ended October 1, 2013, compared to \$17.0 million for the 39 week period ended October 2, 2012, reflecting a net decrease in cash flows of \$10.4 million. This decrease in cash provided by operating activities was primarily due to a net increase in cash used in accounts payable and other liabilities and assets (approximately \$8.5 million) and a decrease in net income adjusted for noncash items (approximately \$1.9 million).

The amount of cash provided by our operating activities during any particular quarter is highly subject to variations in the seasons, with the first and fourth quarters of the fiscal year encompassing the winter and holiday season when we traditionally generate our lowest revenue, and our second and third quarters of the fiscal year encompassing the warmer seasons where a significant portion of our revenue and cash flows are realized. For more information on seasonality, refer to the section below entitled “*Seasonality and Quarterly Results*.” We also expect to have increased expenditures during the first part of the fiscal year as we invest in product development and domestic expansion with the goal to have new products released and new stores open by mid-year to take advantage of the busier summer months.

### ***Investing Activities***

Net cash used in investing activities was \$9.6 million for the 39 week period ended October 1, 2013, compared to \$3.7 million for the 39 week period ended October 2, 2012. Net cash used in investing activities increased \$5.9 million for the 39 week period ended October 1, 2013, primarily due to increased expenditure on property and equipment (approximately \$9.5 million), partially offset by proceeds from the sale of Company Stores to new and existing franchise partners (approximately \$3.7 million).

In fiscal 2013, we expect capital expenditures to be in the range of \$14.0 million to \$15.0 million depending on our liquidity needs, including investing in improvements to our technology infrastructure, store refreshes and redesigns as well as maintenance capital. We expect to open up to two new Company Stores as we focus on implementing our new retail growth formats including juice bars and drive-thru locations. As part of our capital expenditure, we expect to refresh up to 61 Company Store locations which will include the new fresh juice bar concept. 53 stores were refreshed and remodeled as of October 1, 2013.

### ***Financing Activities***

Net cash provided by financing activities was \$0.4 million for the 39 week period ended October 1, 2013, compared to net cash used in financing activities of \$1.0 million for the 39 week period ended October 2, 2012. The \$1.4 million increase in net cash provided by financing activities was primarily due to the decrease in dividend payments on our Series B preferred stock (approximately \$1.0 million) and the increase in receipts from exercise of stock options under our stock plans (approximately \$0.5 million). We no longer have payments of dividend on Series B preferred stock as the conversion to common stock was completed on June 14, 2013.

### **Contractual Obligations**

The conversion of shares of Series B preferred stock to common stock was completed on June 14, 2013. As a result, we no longer have dividends payable in connection with, or payments for redemption of our outstanding Series B-1 and Series B-2 Preferred Stock.

The following table summarizes contractual obligations for our operating leases as of October 1, 2013, and the timing and effect that such commitments are expected to have on our liquidity and capital requirements in future periods. We expect to fund these commitments primarily with operating cash flows generated in the normal course of business.

|  | Payments Due by Period (in 000s) |                     |           |           |                    |
|--|----------------------------------|---------------------|-----------|-----------|--------------------|
|  | Total                            | Less Than<br>1 Year | 1-2 Years | 3-4 Years | 5 or More<br>Years |
| Operating lease obligations <sup>(1)</sup> | \$ 115,929                       | \$ 29,755           | \$ 24,702 | \$ 34,613 | \$ 26,859          |

<sup>(1)</sup> Our wholly owned subsidiary, Jamba Juice Company, is a party to each Company Store lease obligation. The operating lease obligations represent future minimum lease payments under non-cancelable operating leases and



lease termination fees as of October 1, 2013. The minimum lease payments do not include common area maintenance (“CAM”) charges, insurance, contingent rent obligations or real estate taxes, which are also required contractual obligations under our operating leases. In the majority of our operating leases, CAM charges are not fixed and can fluctuate.

#### **COMMODITY PRICES, AVAILABILITY AND GENERAL RISK CONDITIONS**

We contract for significant amounts of individually quick frozen fruit, fruit concentrate and dairy products to support the needs of both our Company Stores and Franchise Stores. The price and availability of these commodities directly impacts our results of operations and can be expected to impact our future results of operations.

#### **SEASONALITY AND QUARTERLY RESULTS**

Our business is subject to seasonal fluctuations. We expect to realize significant portions of our revenue during the second and third quarters of the fiscal year, which align with the warmer summer season. In addition, quarterly results are affected by the timing of the opening of new stores and weather conditions. However, geographic diversification of our store locations may conceal or diminish the financial statement impact of such seasonal influences. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year or any subsequent quarter.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that we are required to make in order to prepare the financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. There have been no significant changes to the policies and estimates as discussed in our Annual Report on Form 10-K for the year ended January 1, 2013.

### **Recent Accounting Pronouncements**

See Recent Accounting Pronouncements section of Note 1 to our Notes to Condensed Consolidated Financial Statements for information about new accounting standards.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the financial and commodity markets.

We purchase fruit based on short-term seasonal pricing agreements. These short-term agreements generally set the price of procured frozen fruit and 100% fruit juice concentrates for less than one year based on estimated annual requirements. In order to mitigate the effects of price changes in any one commodity on its cost structure, we contract with multiple suppliers both domestically and internationally. These agreements typically set the price for some or all of our estimated annual fruit requirements, protecting us from short-term volatility. Nevertheless, these agreements typically contain a *force majeure* clause, which, if utilized (such as when hurricanes in 2004 destroyed the Florida orange crop and more recently with the freeze that affected California citrus), may subject us to significant price increases.

Our pricing philosophy is not to attempt to change consumer prices with every move up or down of the commodity market, but to take a longer term view of managing margins and the value perception of our products in the eyes of our customers. Management's objective is to maximize our revenue through increased customer frequency. However, management has the ability to increase certain menu prices in response to food commodity prices.

We do not purchase derivative instruments on the open market.

We are subject to changes in the risk free interest rate in connection with the cash we hold in interest bearing accounts.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We carried out an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of October 1, 2013.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended October 1, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company is party to various legal proceedings arising in the ordinary course of its business. Based on the information currently available, the Company is not currently a party to any legal proceeding that management believes would have a material adverse effect on the consolidated financial position or results of operations of the Company.

### **Item 1A. Risk Factors**

The Company's risk factors are included in the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2013 and have not materially changed.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

None

### **Item 5. Other Information**

None.

**Item 6. Exhibits**

| Exhibit Number | Description  | Form | File No. | Exhibit | Filing Date | Filed Herewith |
|----------------|--|------|----------|---------|-------------|----------------|
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.  |      |          |         |             | X              |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.  |      |          |         |             | X              |
| 32.1           | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |      |          |         |             | X              |
| 32.2           | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |      |          |         |             | X              |

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 5<sup>th</sup> day of November, 2013.

JAMBA, INC.

By:

*/s/ James D. White*  
**James D. White**  
**Chairman of the Board, Chief Executive Officer**  
**and President (Duly Authorized Officer)**

By:

*/s/ Karen L. Luey*  
**Karen L. Luey**  
**Chief Financial Officer, Chief Administrative Officer, Executive Vice President and Secretary**  
**(Principal Financial Officer and Chief Accounting Officer)**