JAMBA, INC.
Form 10-Q
August 17, 2011
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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 July 12, 2011

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)

Delaware	001-32552	20-2122262
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

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 x No ¨

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

The number of shares of common stock of Jamba, Inc. issued and outstanding as of August 9, 2011 was 67,065,894

JAMBA, INC.

QUARTERLY REPORT ON FORM 10-Q

QUARTERLY PERIOD ENDED JULY 12, 2011

Exhibits

EX-10.2
EX-10.3
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PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JAMBA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share and per share amounts)	July 12, 2011	December 28, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,944	$ 29,024
Restricted cash	1,428	1,620
Receivables, net of allowances of $219 and $200	7,300	6,377
Inventories	2,500	2,486
Prepaid rent	1,930	508
Prepaid taxes	181	539
Prepaid expenses and other current assets	1,583	5,481
Total current assets	36,866	46,035
Property, fixtures and equipment, net	47,327	49,215
Trademarks and other intangible assets, net	1,190	1,341
Restricted cash		205
Deferred income taxes	40	40
Other long-term assets	3,018	3,218
Total assets	88,441	$ 100,054
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,521	$ 6,851
Accrued compensation and benefits	5,764	6,161
Workers compensation and health insurance reserves	1,031	1,140
Accrued jambacard liability	23,959	29,756
Other accrued expenses	11,249	12,622
Total current liabilities	48,524	56,530
Long-term workers compensation and health insurance reserves		166
Deferred rent and other long-term liabilities	14,171	15,416
Total liabilities	62,695	72,112
Commitments and contingencies (Note 9)		
Series B redeemable preferred stock, $.001 par value, 304,348 shares authorized; 173,389 and 197,485 shares issued and outstanding at July 12, 2011 and December 28, 2010 respectively	18,242	20,554
Stockholders equity:		
Common stock, $.001 par value, 150,000,000 shares authorized; 66,561,976 and 63,734,961 shares issued and outstanding at July 12, 2011 and December 28, 2010, respectively	67	64

Additional paid-in capital	368,517	365,817
Accumulated deficit	(361,080)	(358,493)
Total stockholders equity	7,504	7,388
Total liabilities and stockholders equity	$ 88,441	$ 100,054

See accompanying notes to condensed consolidated financial statements.

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JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	12 Week Period Ended		28 Week Period Ended	
(Dollars in thousands, except share and per share amounts)	**July 12, 2011**	**July 13, 2010**	**July 12, 2011**	**July 13, 2010**
Revenue:				
Company stores	$ 55,969	$ 72,250	$ 119,172	$ 150,720
Franchise and other revenue	2,886	1,823	5,858	3,781
Total revenue	58,855	74,073	125,030	154,501
Costs and operating expenses:				
Cost of sales	12,807	17,124	28,020	36,237
Labor	16,610	21,424	38,574	49,094
Occupancy	6,725	9,363	16,905	22,326
Store operating	7,668	9,896	17,189	20,858
Depreciation and amortization	2,860	3,490	6,816	8,424
General and administrative	8,038	9,361	18,483	20,238
Impairment of long-lived assets	326	2,121	902	2,292
Other operating, net	(68)	(397)	579	(1,573)
Total costs and operating expenses	54,966	72,382	127,468	157,896
Income (loss) from operations	3,889	1,691	(2,438)	(3,395)
Other expense, net:				
Interest income	27	14	27	38
Interest expense	(106)	(112)	(339)	(289)
Total other expense, net	(79)	(98)	(312)	(251)
Income (loss) before income taxes	3,810	1,593	(2,750)	(3,646)
Income tax benefit (expense)	123	(9)	163	(26)
Net income (loss)	3,933	1,584	(2,587)	(3,672)
Preferred stock dividends and deemed dividends	(538)	(660)	(1,365)	(2,463)
Net income available (loss attributable) to common stockholders	$ 3,395	$ 924	$ (3,952)	$ (6,135)
Weighted-average shares used in the computation of earnings (loss) per share:				
Basic	65,961,425	59,436,905	65,588,218	56,397,289
Diluted	85,436,405	61,309,101	65,588,218	56,397,289
Earnings (loss) per share:				
Basic	$ 0.05	$ 0.02	$ (0.06)	$ (0.11)
Diluted	$ 0.05	$ 0.02	$ (0.06)	$ (0.11)

See accompanying notes to condensed consolidated financial statements.

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JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

(Dollars in thousands, except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Stockholders Equity
Balance as of December 29, 2009	52,712,528	$ 53	$ 356,320	$ (341,837)	$ 14,536
Share-based compensation expense			686		686
Issuance of common stock pursuant to stock plans	184,958		103		103
Conversion of preferred stock	6,668,500	7	7,685		7,692
Accretion of Series B preferred shares			(1,119)		(1,119)
Redeemable preferred stock dividends			(1,344)		(1,344)
Net loss				(3,672)	(3,672)
Balance as of July 13, 2010	59,585,986	$ 60	$ 362,331	$ (345,509)	$ 16,882
Balance as of December 28, 2010	63,734,961	$ 64	$ 365,817	$ (358,493)	$ 7,388
Share-based compensation expense			568		568
Issuance of common stock pursuant to stock plans	417,415	1	728		729
Conversion of preferred stock	2,409,600	2	2,769		2,771
Accretion of Series B preferred shares			(459)		(459)
Redeemable preferred stock dividends			(906)		(906)
Net loss				(2,587)	(2,587)
Balance as of July 12, 2011	66,561,976	$ 67	$ 368,517	$ (361,080)	$ 7,504

See accompanying notes to condensed consolidated financial statements.

JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	28 Week Period Ended	
(In thousands)	**July 12, 2011**	**July 13, 2010**
Cash (used in) provided by operating activities:		
Net loss	$ (2,587)	$ (3,672)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	6,816	8,424
Impairment of long-lived assets	902	2,292
Store closure costs and gain (loss) on disposals	807	(2,442)
Share-based compensation	568	686
Jambacard breakage income and amortization, net	(1,719)	(1,415)
Bad debt and inventory reserves	333	283
Deferred rent	(884)	(301)
Deferred income taxes		645
Equity earnings from joint ventures	(47)	(51)
Changes in operating assets and liabilities:		
Receivables	(241)	4,765
Inventories	(359)	320
Prepaid rent	(1,422)	(1,691)
Prepaid and refundable taxes	358	300
Prepaid expenses and other current assets	21	(109)
Trademarks and other intangible assets	(25)	(137)
Restricted cash from operating activities	397	5
Other long-term assets	247	1
Accounts payable	(355)	(272)
Accrued compensation and benefits	217	(360)
Workers compensation and health insurance reserves	(275)	(694)
Accrued jambacard liability	(4,078)	(6,715)
Other accrued expenses	(1,716)	3,077
Deferred franchise revenue and other long-term liabilities	(249)	777
Cash (used in) provided by operating activities	(3,266)	3,716
Cash (used in) provided by investing activities:		
Capital expenditures	(6,127)	(5,333)
Proceeds from sale of stores	3,063	8,488
Cash (used in) provided by investing activities	(3,064)	3,155
Cash (used in) provided by financing activities:		
Proceeds pursuant to stock plans	114	103
Preferred stock dividends paid	(844)	(1,309)
Payment on capital leases	(20)	(159)
Cash used in financing activities	(750)	(1,365)
Net (decrease) increase in cash and cash equivalents	(7,080)	5,506
Cash and cash equivalents at beginning of period	29,024	28,757

Cash and cash equivalents at end of period	$ 21,944	$ 34,263
Supplemental cash flow information:		
Cash paid for interest	$ 167	$ 290
Income taxes paid	28	18
Noncash investing and financing activities:		
Property, fixtures and equipment in accounts payable	$ 302	$ (687)
Conversion of preferred stock	2,771	7,692
Accretion of preferred stock issuance costs	459	1,119
Dividend accruals	64	35
Note receivable from sale of stores		325

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, and its wholly-owned subsidiary, Jamba Juice Company (the Company) owns and franchises Jamba Juice stores through its wholly-owned subsidiary, Jamba Juice Company. Jamba Juice Company is a leading restaurant retailer of better-for-you beverage and food offerings which include great tasting fruit smoothies, juices and teas, hot oatmeal made with organic steel cut oats, veggie smoothies, Whirl ns frozen yogurt, wraps, salads, sandwiches, California Flatbreads, and a variety of baked goods and snacks. Jamba, Inc. was incorporated in January 2005 and went public through an initial public offering later that year. In November 2006, we completed our acquisition of Jamba Juice Company, which first began operations in 1990. As of July 12, 2011, there were 746 locations in the United States consisting of 310 Company owned and operated stores (Company Stores) and 436 franchise stores (Franchise Stores) and had six international stores.

Unaudited Interim Financial Information The condensed consolidated balance sheet as of July 12, 2011, the condensed consolidated statements of operations for each of the 12 week and 28 week periods ended July 12, 2011 and July 13, 2010 and the condensed statements of stockholders equity and cash flows for the 28 week periods ended July 12, 2011 and July 13, 2010 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 July 12, 2011 and the results of operations and cash flows for the 12 week and 28 week periods ended July 12, 2011 and July 13, 2010. The condensed consolidated balance sheet as of December 28, 2010 has been derived from the Company s audited consolidated financial statements. Operating results for the 12 and 28 week periods ended July 12, 2011 are not necessarily indicative of the results that may be expected for the year ending January 3, 2012. The Company reports its results of operations on a 52-week or 53-week fiscal year, which is comprised of thirteen 4-week periods or twelve 4-week periods and one 5-week period. The first fiscal quarter is 16 weeks, the second and third fiscal quarters each are 12 weeks, and the fourth quarter is 12 or 13 weeks.

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 December 28, 2010. (2010 Annual Report).

Advertising Fund The Company participates with its franchisees in an advertising fund, established in fiscal 2010, to collect and administer funds contributed for use in advertising and promotional programs which are 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 cash received from the Company and franchisees and 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. In accordance with ASC Topic 952-605-25, 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 Condensed Consolidated Statements of Operations or Condensed Consolidated Statements of Cash Flows. Advertising fund assets representing receivables from franchisees of $1.0 million and $0.6 million were recorded in accounts receivable on the consolidated balance sheet as of July 12, 2011 and December 28, 2010, respectively. Advertising fund liabilities of $0.6 million and $0.9 million were recorded in accounts payable on the consolidated balance sheet as of July 12, 2011 and December 28, 2010, 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 (loss) equals net income (loss) for all periods presented.

Earnings (Loss) Per Share Earning (loss) per share is computed in accordance with Accounting Standards Codification (ASC) 260. Basic earnings (loss) per share is computed based on the weighted-average of common shares outstanding during the period. Diluted earnings (loss) 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 2.3 million and 25.4 million have been excluded from the calculation of diluted weighted-average shares outstanding in the

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12 week periods ended July 12, 2011 and July 13, 2010, respectively. Anti-dilutive shares of 24.6 million and 33.3 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 28 week periods ended July 12, 2011 and July 13, 2010, respectively.

For purposes of determining the net income available (loss attributable) to common stockholders used in the computation of earnings (loss) per share, the amount of the income (loss) is increased (decreased) by the preferred stock dividends and deemed dividends. The deemed dividend represents the accretion of the issuance costs and beneficial conversion feature of the Company s preferred stock. For the 12 week period ended July 12, 2011, the convertible preferred shares are dilutive, therefore the dividends and deemed dividends related to the preferred stock have been added back to the net income available to common stockholders and the number of preferred shares have been included in the diluted earnings per share calculation. For the 28 week period ended July 12, 2011 and the 12 and 28 week periods ended July 13, 2010, the convertible preferred shares are anti-dilutive and the dividends and deemed dividends related to the preferred stock have not been added back to the net income available to common stockholders. Also the number of preferred shares have not been included in the diluted earnings per share calculation.

The number of incremental shares from the assumed exercise of restricted stock awards, warrants and options was calculated by applying the treasury stock method. The if converted method was used for the conversion of preferred stock. A reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations is as follows (in thousands, except shares):

	12 Week Period Ended		28 Week Period Ended	
	July 12, 2011	July 13, 2010	July 12, 2011	July 13, 2010
Net income available (loss attributable) to common stockholders (numerator for basic earnings (loss) per share)	$ 3,395	$ 924	$ (3,952)	$ (6,135)
Preferred stock dividends and deemed dividends	538			
Numerator for diluted earnings (loss) per share	$ 3,933	924	$ (3,952)	$ (6,135)
Basic weighted-average shares outstanding	65,961,425	59,436,905	65,588,218	56,397,289
Incremental shares from assumed conversion of Series B preferred shares	17,906,936			
Incremental shares from assumed exercise of restricted stock awards, warrants and options	1,568,044	1,872,196		
Diluted weighted-average shares outstanding	85,436,405	61,309,101	65,588,218	56,397,289

Restricted Cash The Company held $1.4 million in restricted cash at July 12, 2011 and was classified as a current asset. The Company held $1.8 million in restricted cash at December 28, 2010, of which $1.6 million was classified as a current asset and $0.2 million was classified as a long-term asset. Restricted cash represents cash held in money market accounts or certificates of deposits to collateralize the Company s letters of credit.

Recent Accounting Pronouncements

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04)

(Included in ASC 820 Fair Value Measurement)

ASU No. 2011-04 amends existing guidance to provide common fair value measurements and related disclosure requirements between GAAP and International Financial Reporting Standards (IFRS). Additional disclosure requirements in the amendment include: (1) for Level 3 fair value measurements, a description of the valuation processes used by the entity and a discussion of the sensitivity of the fair value measurements to changes in unobservable inputs; (2) discussion of the use of a nonfinancial asset that differs from the asset s highest and best use; and (3) the level of the fair value hierarchy of financial instruments for items that are not measured at fair value but disclosure of fair value is required. ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011 with early adoption not permitted. The Company will adopt ASU No. 2011-04 in fiscal 2012 and does not anticipate any material impact on the Company s consolidated financial statements.

Presentation of Comprehensive Income (ASU No. 2011-05)

(Included in ASC 220 Comprehensive Income)

ASU No. 2011-05 amends existing guidance to allow only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive financial statements consisting of an income statement followed by a statement of other comprehensive income. ASU No. 2011-05 requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011

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with early adoption permitted. The Company will adopt ASU No. 2011-05 in fiscal 2012 and does not anticipate any material impact on the Company s consolidated financial statements.

2. ASSETS HELD FOR SALE

Assets held for sale consists of Company Stores that the Company expects to refranchise. Such assets are recorded at the lower of the carrying amount or fair value less cost to sell. Fair value is determined based on the purchase price in the asset purchase agreement. Assets are no longer depreciated once classified as held for sale. Assets held for sale of $0.0 million and $3.9 million as of July 12, 2011 and December 28, 2010, respectively, include property, fixtures and equipment and are included in prepaid expenses and other current assets on the Company s balance sheet.

3. REDEEMABLE PREFERRED STOCK

During the second quarter of fiscal 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 and B-2 Preferred Stock (together the Series B Preferred Stock or Preferred Stock) for $35 million, less approximately $3.1 million in total transaction costs, which includes $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 of 1933, as amended (the Securities Act). The shares of Preferred Stock and the shares of the Company s Common Stock issuable upon conversion of the Preferred Stock include legends restricting transfer other than pursuant to an effective registration statement under the Securities Act or in accordance with an exemption from registration. The holders of the Series B Preferred Stock have the right to require the Company to redeem all or a portion of the shares of the Preferred Stock on or after seven years from the date of issuance of the Preferred Stock.

The shares of Preferred Stock are convertible at the election of the holders, at any time, into shares of Common Stock at an initial conversion price of $1.15 per share. The conversion price for the Preferred Stock is subject to customary anti-dilution adjustments for stock splits, dividends or certain other equity restructurings. After a two year period from the original date of issuance, the Company will have the right to require that the shares of Preferred Stock be converted into shares of Common Stock if (i) the Common Stock trading volume averages 150,000 shares per trading day over a 30 trading day period and (ii) the daily volume weighted average price per share of the Common Stock exceeds the product of 2.5 times the then-applicable conversion price for any 20 of the preceding 30 trading days at any time these conditions continue to be satisfied and for a period of 10 trading days thereafter. Upon exercise of this right, the Preferred Stock will be converted at the then-applicable conversion rate and the Company will be obligated to pay any then-existing dividend arrearages in cash. The Shares of Preferred Stock are entitled to an 8% dividend, payable quarterly in cash.

During the 12 week period ended July 12, 2011, holders converted 4,900 shares of outstanding Series B-1 Preferred Stock and 2,000 shares of outstanding Series B-2 Preferred Stock to an aggregate of 690,000 shares of common stock at the initial conversion price of $1.15 per share. During the 28 week period ended July 12, 2011, holders converted 18,400 shares of outstanding Series B-1 Preferred Stock and 5,696 shares of outstanding Series B-2 Preferred Stock to an aggregate of 2,409,600 shares of common stock at the initial conversion price of $1.15 per share. During the 12 and 28 week period ended July 12, 2011, the Company paid cash dividends on the Series B Preferred Stock totaling $0.4 million and $0.8 million, respectively. Accretion related to the Series B Preferred Stock for the 12 and 28 week periods ended July 12, 2011 was $0.2 million and $0.5 million, respectively.

During the 12 week period ended July 13, 2010, holders converted 1,630 shares of outstanding Series B-1 Preferred Stock and 1,401 shares of outstanding Series B-2 Preferred Stock to an aggregate 303,100 shares of common stock at the initial conversion price of $1.15 per share. During the 28 week period ended July 13, 2010, holders converted 21,180 shares of outstanding Series B-1 Preferred Stock and 45,705 shares of outstanding Series B-2 Preferred Stock to an aggregate 6,688,500 shares of common stock at the initial conversion price of $1.15 per share. During the 12 and 28 week period ended July 13, 2010, the Company paid cash dividends on the Series B Preferred Stock totaling $0.5 million and $1.3 million, respectively. Accretion related to the Series B Preferred Stock for the 12 and 28 week periods ended July 13, 2010 was $0.1 million and $1.1 million, respectively.

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4. SHARE-BASED COMPENSATION

The Company maintains three share-based compensation plans (collectively, the Plans). The Company s Amended and Restated 2006 Employee, Director and Consultant Stock Plan, as amended (the 2006 Plan) was approved by the Company s stockholders on November 28, 2006, and provides for the granting of up to eight million shares of common stock in the form of nonqualified and incentive stock options, stock grants or other share-based awards to employees, nonemployee directors and consultants. The amendment and restatement to the 2006 Plan was approved by stockholders on May 20, 2010. In connection with the merger of Jamba, Inc. with Jamba Juice Company on November 28, 2006, the Company assumed the outstanding options under the Jamba Juice Company 1994 Stock Incentive Plan (the 1994 Plan) and the Jamba Juice Company 2001 Equity Incentive Plan (the 2001 Plan), both of which provided for the granting of nonqualified and incentive stock options to employees, nonemployee directors and consultants. No additional grants are available under the 2001 Plan and the 1994 Plan. As of July 12, 2011, there remained 3,102,672 shares available for grant under the Company s 2006 Plan. In December 2008, the Company also granted an option covering an aggregate of 1,500,000 shares of common stock under an inducement grant made outside of the Company s existing equity plans. A summary of stock option activity under the Plans as of July 12, 2011, and changes during the 28 week period then ended is presented below:

	Number of Options (in thousands)	Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 28, 2010	5,818	$ 2.60	
Options granted	283	2.31	
Options exercised	(76)	0.80	
Options cancelled	(504)	4.40	
Options outstanding at July 12, 2011	5,521	$ 2.43	$ 3,611
Options vested or expected to vest at July 12, 2011	4,847	$ 2.51	$ 3,381
Options exercisable at July 12, 2011	2,695	$ 3.33	$ 1,888

The fair value of options granted was estimated at the date of grant using a Black-Scholes option-pricing model. Option valuation models, including Black-Scholes, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility, and the expected life of the award. The risk-free interest rate is based on the yield of the treasury security at grant date with a maturity closest to the expected term of the award. Expected dividends are zero based on a history of not paying cash dividends on the Company s common stock and as the Company does not intend to pay dividends in the future. Expected volatility is based on a 75/25 blend of historic, daily stock price observations of the Company s common stock since its inception and historic, daily stock price observations of the Company s peers during the period immediately preceding the share-based award grant that is equal in length to the award s expected term. Estimated forfeitures are also included as a part of the grant date estimate. The Company used historical data to estimate expected employee behaviors related to option exercises and forfeitures. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models or assumptions, nor is there a means to compare and adjust the estimates to actual values, except for annual adjustments to reflect actual forfeitures.

Share-based compensation expense, which is included in general and administrative expense, was $0.3 million and $0.4 million for the 12 week periods ended July 12, 2011 and July 13, 2010, respectively. Share-based compensation expense was $0.6 million and $0.7 million for the 28 week periods ended July 12, 2011 and July 13, 2010, respectively. At July 12, 2011, non-vested share-based compensation for stock options and restricted stock awards, net of forfeitures totaled $0.9 million. This expense will be recognized over the remaining weighted average vesting period. There was no income tax benefit related to share-based compensation expense during the 12 and 28 week periods ended July 12, 2011 and July 13, 2010.

The following are the weighted-average assumptions used to value option grants for the 12 and 28 week periods ended July 12, 2011, and July 13, 2010:

	12 Week Period Ended		28 Week Period Ended	
	July 12, 2011	**July 13, 2010**	**July 12, 2011**	**July 13, 2010**
Weighted-average risk-free interest rate	1.79%	2.07%	1.79%	2.07%
Expected life of options (years)	6.25	6.25	6.25	6.22
Expected stock volatility	63.9%	65.5%	63.9%	65.4%
Expected dividend yield	0%	0%	0%	0%

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The estimated fair value per share of stock options granted during the 12 week periods ended July 12, 2011 and July 13, 2010, was $2.31 and $1.46, respectively. The estimated fair value per share of stock options granted during the 28 week periods ended July 12, 2011 and July 13, 2010, was $2.31 and $1.45, respectively.

5. FAIR VALUE MEASUREMENT

The Company measures its cash equivalents at fair value. There is no difference between the fair value and cost of the Company s cash equivalents. 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.

The following table presents our financial assets that were accounted for at fair value on a recurring basis as of July 12, 2011 and December 28, 2011 by level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
July 12, 2011			
Assets:			
Cash invested in money market fund(1)	$ 1,428	$	$
December 28, 2010			
Assets:			
Cash invested in money market fund(2)	$ 1,825	$	$

(1) $1.4 million included in restricted cash on the consolidated balance sheet at July 12, 2011.
(2) $1.8 million included in restricted cash on the consolidated balance sheet at December 28, 2010.

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 July 12, 2011 and December 28, 2010. Total losses include losses recognized from all non-recurring fair value measurements for the 12 and 28 week periods ended July 12, 2011 and July 13, 2010:

	Level 1	Level 2	Level 3
July 12, 2011			
Assets:			
Long-lived assets(2)			$ 5,733
Total losses recognized for all non-recurring fair value measures for the 12 week period ended July 12, 2011			326
Total losses recognized for all non-recurring fair value measures for the 28 week period ended July 12, 2011			902
December 28, 2010			
Assets:			
Assets held for sale(1)			$ 3,877
Long-lived assets(2)			6,531
			2,121

Total losses recognized for all non-recurring fair value measures for the 12 week period ended July 13, 2010	
Total losses recognized for all non-recurring fair value measures for the 28 week period ended July 13, 2010	2,292

(1) Included in prepaid expenses and other current assets on the consolidated balance sheet.
(2) Included in property, fixtures and equipment, net on the consolidated balance sheet.

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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. We had cash invested in money market funds and active exchange funds of $1.4 million and $1.8 million as of July 12, 2011 and December 28, 2010, respectively.

Assets held for sale consists of Company Stores that the Company expects to refranchise. Such assets are recorded at the lower of the carrying amount or fair value less cost to sell. Fair value is determined based on the purchase price in the asset purchase agreement.

6. IMPAIRMENT OF LONG LIVED ASSETS AND STORE LEASE TERMINATION AND CLOSURE COSTS

Impairment of long-lived assets

The Company reviews its entire portfolio on a regular basis. The review includes an analysis of each store s past and present operating performance combined with projected future results. Impairment charges include the write-down of long-lived assets at stores that were assessed for impairment because of management s intention to close the store or because of changes in circumstances that indicate the carrying value of an asset may not be recoverable. The Company recorded impairment charges of $0.3 million and $2.1 million for the 12 week periods ended July 12, 2011 and July 13, 2010, respectively. Impairment charges of $0.9 million and $2.3 million were recorded for the 28 week periods ended July 12, 2011 and July 13, 2010, respectively.

Store lease termination and closure costs

Lease termination costs consist primarily of the costs of future obligations related to closed store locations. Discounted liabilities for future lease costs and the fair value of related subleases of closed locations are recorded when the stores are closed. All other costs related to closed units are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed stores, the Company makes assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, the Company may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each of the periods presented include the effect of such changes in estimates. Lease obligations are payable through 2021, less sublease amounts. The charges are noted below.

(In thousands)	**12 Week Period Ended**		**28 Week Period Ended**	
	July 12, 2011	**July 13, 2010**	**July 12, 2011**	**July 13, 2010**
Store lease termination and closure costs	$ 106	$ 391	$ 226	$ 721

A reconciliation of the beginning and ending store lease termination and closure accrual is as follows:

(In thousands)	**12 Week Period Ended**		**28 Week Period Ended**	
	July 12, 2011	**July 13, 2010**	**July 12, 2011**	**July 13, 2010**
Balance, beginning of period	$ 2,141	$ 1,782	$ 3,016	$ 2,333
Adjustments	106	391	226	721
Payments	(1,103)	(443)	(2,098)	(1,324)
Balance, end of period	$ 1,144	$ 1,730	$ 1,144	$ 1,730

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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 income tax expense (benefit) for the period is a result of applying the estimated annual effective tax rate to the period s actual pre-tax income (loss) and adjusting for discrete tax items.

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.

During the 12 and 28 week periods ended July 12, 2011, stock options related to certain former employees were cancelled. Once the requisite service has been provided, the prior book expense is not reversed. However, because a tax deduction will no longer be realized, there is no longer a temporary difference. The deferred income tax asset and related valuation allowance for these stock options at December 28, 2010 were adjusted during the 12 and 28 week periods ended July 12, 2011.

The Company s effective tax rate for the 12 and 28 week periods ended July 12, 2011 were 3.2% and 5.9%, 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 release of certain unrecognized tax benefits related to state tax credits and related interests as the statutes have expired.

As of July 12, 2011, there have been no material changes to the Company s uncertain tax positions disclosure as provided in Note 15 in the Notes to the Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 28, 2010.

8. OTHER OPERATING, NET

Other operating, net includes gains or losses recognized in connection with the refranchise of certain Company Stores. During the 12 and 28 week periods ended July 12, 2011, the Company recognized a net loss on sale of fixed assets of refranchised stores of $0 and $0.3 million, respectively. During the 12 and 28 week period ended July 13, 2010, the Company recognized a net gain on the sale of refranchised stores of $1.0 million and $3.2 million, respectively.

During the first fiscal quarter of 2011, the Company completed its refranchising initiative with the sale of 42 stores in the Chicago/Minnesota and Lake Tahoe markets.

9. 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.

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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, 2011 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 year ended December 28, 2010.

JAMBA, INC. OVERVIEW

Jamba, Inc. is a holding company which owns and franchises Jamba Juice stores through its wholly-owned subsidiary, Jamba Juice Company. Jamba Juice Company is a leading restaurant retailer of better-for-you beverage and food offerings which include great tasting fruit smoothies, juices and teas, hot oatmeal made with organic steel cut oats, veggie smoothies, Whirl ns frozen yogurt, wraps, salads, sandwiches, California Flatbreads, and a variety of baked goods and snacks. Jamba, Inc. was incorporated in January 2005 and went public through an initial public offering later that year. In November 2006, we completed our acquisition of Jamba Juice Company, which first began operations in 1990. As of July 12, 2011, there were 746 locations in the United States consisting of 310 company-owned and operated stores (Company Stores) and 436 franchise stores (Franchise Stores) and had six international stores.

EXECUTIVE OVERVIEW

Key Overall Strategies

The BLEND Plan represents our multi-year strategic plan to transform Jamba Juice from a made-to-order smoothie company to a healthy, active lifestyle brand. The key strategic priorities of the BLEND Plan include:

- continue to build a customer first operationally focused service culture;
- continue to expand our beverage and food menu offerings across all four day parts (breakfast, lunch, afternoon, and dinner);
- continue to accelerate the development of franchise and non-traditional stores;
- continue to build a consumer products growth platform; and
- continue to implement a disciplined expense management plan.

2011 Second Quarter Financial Highlights

- Net income was $3.9 million for the 12 weeks ended July 12, 2011 compared to $1.6 million for the prior year period. The increase in net income represents a 148% improvement and was driven primarily by:
  - A decrease in company store expenses as a percent of company store revenue of approximately 1.8%

An increase in franchise and license revenue of $1.1 million

Decreases in charges for impairment and general and administration expenses

Diluted earnings per share was $0.05 for the 12 weeks ended July 12, 2011, compared to $0.02 for the prior year period.

System-wide comparable store sales increased by 2.9% for the 12 weeks ended July 12, 2011, reflecting growth of 4.3% for Company Stores and growth of 1.4% for Franchise Stores. System wide comparable store sales, a non-GAAP financial measure, represent the change in year-over-year sales for all Company and Franchise Stores opened for at least 13 full fiscal periods.

Total revenue decreased to $58.9 million for the 12 weeks ended July 12, 2011, compared to $74.1 million for the prior year period. The change in total revenue was primarily due to the reduction in the number of Company Stores as a result of our refranchising initiative

During the 12 weeks ended July 12, 2011, three new domestic Franchise Stores, five new Company Stores, and four new international stores were opened.

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2011 Second Quarter Business Highlights

Store Sales

Sales at system-wide Jamba Juice Stores opened more than thirteen full fiscal periods increased 2.9% in the quarter, reflecting growth of 4.3% for Company Stores and growth of 1.4% for Franchise Stores compared to the prior year period. For Company Stores, this increase reflects our third consecutive quarter of positive Company Store comparable stores sales growth and eight out of nine sequential quarters of Company Store comparable store sales increases. The change in Company Store comparable sales in the second quarter was largely attributable to an average ticket increase related to a price increase and more effective promotional initiatives.

We continue to expand our beverage and food offerings with the goal of driving sales by increasing average check, traffic, and attachment rates. During the quarter, we launched our Fruit Refreshers with coconut water, our new natural hydrating beverage platform in three flavors. We introduced Fruit Refreshers leading into the hot summer months as an alternative for the customer seeking a natural way to stay hydrated. In our Company Stores, we expanded Whirl ns Frozen Yogurt, our all-natural, fruit-based frozen yogurt line in nine signature flavors, to an additional 100 stores in Southern California during the quarter. We believe the Whirl ns Frozen Yogurt will improve afternoon and evening day-part sales. During the quarter we also introduced a breakfast wrap platform system-wide to complement our recently introduced baked goods line with the goal of increasing morning day-part sales.

Despite a continuing challenging economy, we believe these efforts, our more relevant and focused marketing promotions and consumer communications program, and our enhanced customer satisfaction initiatives will continue to drive sales improvements across the system.

Franchising

During the second quarter, we opened three new domestic Franchise Stores, consisting of one traditional venue and two non-traditional venues. Since the completion of our refranchising program during the first quarter of fiscal 2011, our system has approximately 58% franchise and approximately 42% Company-owned stores as of the end of the second quarter. We will continue to pursue our strategy of growing our retail concept primarily through our less capital intensive, asset light franchise model. We expect to open 50-70 stores in fiscal 2011 primarily through franchises. The actual number of openings may differ from our expectations due to various factors, including economic conditions and franchisee access to capital.

We believe a more heavily franchised business model would require less capital investment and reduce the volatility of cash flow performance over time. An expected outcome of our franchising effort is that for fiscal 2011 and the near-term future, total revenue will continue to trend downward as we trade retail sales at Company Stores for royalties and franchise fees to be received from our franchisees in the United States.

Our international franchise development represents a significant growth opportunity for us. Our Korean master developer opened four new Jamba Juice locations in South Korea, bringing their total number of stores to five. Also during the second quarter, we announced a new master development agreement with Max s Group of Companies to develop 40 Jamba Juice locations in the Philippines over the next 10 years, with the first one scheduled to open in late 2011. In addition, we signed a master development agreement with Canadian Juice Corp. to develop 80 stores across Canada over the next 10 years, with the first one scheduled to open in late 2011. We continue to actively pursue international development opportunities.

Store-level Margins

During the second quarter, our Company Store-level margins increased as compared to the prior year period primarily due to increased focus on labor and store operating expense initiatives, gained leverage in our fixed costs as a result of our increased comparable store sales, and improved cost of sales. While we have locked in pricing for several major commodity contracts for the remainder of 2011, we expect price increases in areas such as dairy, fuel and apple and pear juice to put pressure on our costs of sales. Accordingly, we continue to focus on cost savings initiatives to help mitigate these anticipated price increases.

Consumer Products

During the second quarter, we focused on helping our nine licensees in accelerating the commercialization of their existing products. With over 30 individual Jamba products on shelves in retail outlets across all 50 states, totaling approximately

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25,000 points of retail distribution, we are generating increasing levels of royalty revenue as well as increasing brand awareness. We believe the Jamba consumer products licensing program represents a strategic growth opportunity for us, and we intend to actively pursue additional licensing opportunities.

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RESULTS OF OPERATIONS 12 WEEK PERIOD ENDED JULY 12, 2011 AS COMPARED TO 12 WEEK PERIOD ENDED JULY 13, 2010 (UNAUDITED)

	12 Week Period Ended			
(In thousands)	**July 12, 2011**	**% [1]**	**July 13, 2010**	**% [1]**
Revenue:				
Company stores	$ 55,969	95.1%	$ 72,250	97.5%
Franchise and other revenue	2,886	4.9%	1,823	2.5%
Total revenue	58,855	100.0%	74,073	100.0%
Costs and operating expenses:				
Cost of sales	12,807	22.9%	17,124	23.7%
Labor	16,610	29.7%	21,424	29.7%
Occupancy	6,725	12.0%	9,363	13.0%
Store operating	7,668	13.7%	9,896	13.7%
Depreciation and amortization	2,860	4.9%	3,490	4.7%
General and administrative	8,038	13.7%	9,361	12.6%
Impairment of long-lived assets	326	0.6%	2,121	2.9%
Other operating, net	(68)	(0.1)%	(397)	(0.5)%
Total costs and operating expenses	54,966	93.4%	72,382	97.7%
Income from operations	3,889	6.6%	1,691	2.3%
Other expense, net:				
Interest income	27	0.0%	14	0.0%
Interest expense	(106)	(0.1)%	(112)	(0.2)%
Total other expense, net	(79)	(0.1)%	(98)	(0.2)%
Income before income taxes	3,810	6.5%	1,593	2.1%
Income tax benefit (expense)	123	0.2%	(9)	0.0%
Net income	3,933	6.7%	1,584	2.1%
Preferred stock dividends and deemed dividends	(538)	(0.9)%	(660)	(0.9)%
Net income available to common stockholders	$ 3,395			