JONES SODA CO
Form 10-Q
August 12, 2011

Table of Contents

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2011
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From _______________ to _______________
Commission File Number 000-28820

Jones Soda Co.
(Exact name of registrant as specified in its charter)

Washington	**52-2336602**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
234 Ninth Avenue North Seattle, Washington	**98109**
(Address of principal executive offices)	**(Zip Code)**

(206) 624-3357
(Registrant s Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check 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 for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 þ No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of August 5, 2011, there were 31,992,675 shares of the Company s common stock issued and outstanding.

JONES SODA CO.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011
TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

Unless otherwise indicated or the context otherwise requires, all references in this Quarterly Report on Form 10-Q to we, us, our, Jones, Jones Soda, and the Company are to Jones Soda Co.®, a Washington corporation, and our wholly-owned subsidiaries Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., myJones.com Inc. and Whoopass USA Inc.

In addition, unless otherwise indicated or the context otherwise requires, all references in this Quarterly Report to *Jones Soda* refer to our premium soda sold under the trademarked brand name *Jones Soda Co*.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This Quarterly Report on Form 10-Q (Report) contains a number of forward-looking statements that reflect management s current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this Report other than statements of historical fact, including statements that address operating performance, the economy, events or developments that management expects or anticipates will or may occur in the future, including statements related to potential strategic transactions, distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, cash flows and financing, our ability to continue as a going concern, statements regarding future operating results and non-historical information, are forward-looking statements. In particular, the words such as believe, expect, intend, anticipate, estimate, may, will, can, plan, predict, could, future, variations of such words, and simila identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking.

Readers should not place undue reliance on these forward-looking statements, which are based on management s current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions and apply only as of the date of this Report. Our actual results, performance or achievements could differ materially from historical results as well as the results expressed in, anticipated or implied by these forward-looking statements. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In particular, our business, including our financial condition and results of operations and our ability to continue as a going concern may be impacted by a number of factors, including, but not limited to, the following:

- Our ability to successfully execute on our 2011 operating plan;
- Our ability to establish and maintain distribution arrangements with independent distributors, retailers, brokers and national retail accounts, most of whom sell and distribute competing products, and whom we rely upon to employ sufficient efforts in managing and selling our products, including re-stocking the retail shelves with our product, on which our business plan and future growth are dependent in part;
- Our ability to successfully launch new products or our failure to achieve case sales goals with respect to existing products;
- Our ability to secure additional financing or to generate sufficient cash flow from operations;
- Our ability to use the net proceeds from future financings to improve our financial condition or market value;
- Dilutive and other adverse effects on our existing shareholders and our stock price arising from future securities issuances;
- Our ability to manage our inventory levels and to predict the timing and amount of our sales;
- Our reliance on third-party contract manufacturers of our products, which could make management of our marketing and distribution efforts inefficient or unprofitable;
- Our ability to secure a continuous supply and availability of raw materials, as well as other factors affecting our supply chain;

Table of Contents

- Rising raw material, fuel and freight costs as well as freight capacity issues may have an adverse impact on our results of operations;
- Our ability to source our flavors on acceptable terms from our key flavor suppliers;
- Our ability to maintain brand image and product quality and the risk that we may suffer other product issues such as product recalls;
- Our ability to attract and retain key personnel, which would directly affect our efficiency and results of operations;
- Our inability to protect our trademarks and trade secrets, which may prevent us from successfully marketing our products and competing effectively;
- Litigation or legal proceedings, which could expose us to significant liabilities and damage our reputation;
- Our ability to maintain effective disclosure controls and procedures and internal control over financial reporting;
- Our ability to build and sustain proper information technology infrastructure;
- Our inability to maintain compliance with the continued listing requirements of The Nasdaq Capital Market which may adversely affect our market price and liquidity;
- Our ability to create and maintain brand name recognition and acceptance of our products, which are critical to our success in our competitive, brand-conscious industry;
- Our ability to compete successfully against much larger, well-funded, established companies currently operating in the beverage industry;
- Our ability to continue developing new products to satisfy our consumers changing preferences;
- Global economic conditions that may adversely impact our business and results of operations;
- Our ability to comply with the many regulations to which our business is subject.

For a more detailed discussion of some of the factors that may affect our business, results and prospects, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 21, 2011. Readers are also urged to carefully review and consider the various disclosures made by us in this Report and in our other reports we file with the Securities and Exchange Commission, including our periodic reports on Form 10-Q and current reports on Form 8-K, and those described from time to time in our press releases and other communications, which attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

JONES SODA CO.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,628	$ 5,448
Accounts receivable, net of allowance of $304 and $166	2,575	2,220
Taxes receivable	5	480
Inventory	3,025	2,279
Prepaid expenses and other current assets	212	305
Total current assets	10,445	10,732
Fixed assets, net of accumulated depreciation of $3,028 and $2,973	428	296
Other assets	595	435
Total assets	$ 11,468	$ 11,463
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,527	$ 853
Accrued expenses	1,855	1,592
Taxes payable	60	146
Capital lease obligations, current portion	22	
Total current liabilities	3,464	2,591
Capital lease obligations	94	
Long-term liabilities other	2	2
Commitments and contingencies (Note 7)		
Shareholders equity:		
Common stock, no par value:		
Authorized 100,000,000; issued and outstanding shares 31,992,581 and 30,418,301 at June 30, 2011 and December 31, 2010, respectively	50,089	47,917
Additional paid-in capital	6,866	6,570
Accumulated other comprehensive income	510	450
Accumulated deficit	(49,557)	(46,067)
Total shareholders equity	7,908	8,870
Total liabilities and shareholders equity	$ 11,468	$ 11,463

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JONES SODA CO.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share data)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
Revenue	$	4,914	$	5,365	$	9,001	$	9,258
Cost of goods sold		3,497		3,894		6,584		6,979
Write-down of excess GABA inventory				178				178
Gross profit		1,417		1,293		2,417		2,101
Licensing revenue		7		8		12		18
Operating expenses:								
Promotion and selling		1,873		1,078		3,153		2,302
General and administrative		1,313		1,745		2,793		3,428
		3,186		2,823		5,946		5,730
Loss from operations		(1,762)		(1,522)		(3,517)		(3,611)
Other income (expense), net		6		(3)		78		(8)
Loss before income taxes		(1,756)		(1,525)		(3,439)		(3,619)
Income tax expense, net		(64)		(29)		(51)		(67)
Net loss	$	(1,820)	$	(1,554)	$	(3,490)	$	(3,686)
Net loss per share basic and diluted	$	(0.06)	$	(0.06)	$	(0.11)	$	(0.14)
Weighted average basic and diluted common shares outstanding		31,990,645		26,451,211		31,724,816		26,439,596

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JONES SODA CO.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
OPERATING ACTIVITIES:		
Net loss	$ (3,490)	$ (3,686)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	86	228
Stock-based compensation	295	401
Change in allowance for doubtful accounts	138	35
Inventory write-down		246
Write-down of excess GABA inventory		178
Loss on disposal of fixed assets		155
Deferred income taxes		2
Other non-cash charges and credits		7
Changes in operating assets and liabilities:		
Accounts receivable	(477)	(965)
Taxes receivable	483	
Inventory	(732)	201
Prepaid expenses and other current assets	64	25
Other assets	23	74
Accounts payable	622	980
Accrued expenses	253	(436)
Taxes payable	(89)	37
Net cash used in operating activities	(2,824)	(2,518)
INVESTING ACTIVITIES:		
Purchase of certificate of deposit, restricted	(183)	
Redemption of certificate of deposit, restricted		376
Purchase of fixed assets	(173)	(16)
Sale of fixed assets	3	
Net cash (used in) provided by investing activities	(353)	360
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	2,185	
Proceeds from capital lease obligation	122	
Proceeds from exercise of stock options	17	60
Payments on capital lease obligations	(6)	
Repayment of note payable		(345)
Net cash provided by (used in) financing activities	2,318	(285)
Net decrease in cash and cash equivalents	(859)	(2,443)
Effect of exchange rate changes on cash	39	(10)
Cash and cash equivalents, beginning of period	5,448	4,975

Cash and cash equivalents, end of period	$ 4,628	$ 2,522
Supplemental disclosure:		
Cash received (paid) during period for:		
Interest	$ 50	$ (5)
Income taxes	361	1

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JONES SODA CO.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Jones Soda Co. develops, produces, markets and distributes premium beverages, including the following product lines and extensions:

- *Jones Soda*®, a premium carbonated soft drink;
  - *Jones Zilch* , with zero calories (and an extension of the *Jones Soda*® product line);
- *WhoopAss Energy Drink*®, an energy supplement drink; and
  - *WhoopAss Zero Energy Drink*®*, with zero sugar (and an extension of the WhoopAss Energy Drink*® *product line).*

We are a Washington corporation and have three operating subsidiaries, Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., and myJones.com, Inc., as well as one non-operating subsidiary, Whoopass USA Inc.

Basis of presentation and consolidation

The accompanying condensed consolidated balance sheet as of December 31, 2010, which has been derived from audited consolidated financial statements and the unaudited interim condensed consolidated financial statements as of June 30, 2011, have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the Securities and Exchange Commission (SEC) rules and regulations applicable to interim financial reporting. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions between the Company and its subsidiaries have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all material adjustments, consisting only of those of a normal recurring nature, considered necessary for a fair presentation of our financial position, results of operations and cash flows at the dates and for the periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Use of estimates

The preparation of the condensed consolidated financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, inventory valuation, depreciable lives and valuation of fixed assets, valuation allowances for receivables, trade promotion liabilities, stock-based compensation expense, valuation allowance for deferred income tax assets, contingencies, and forecasts supporting the going concern assumption and related disclosures. Actual results could differ from those estimates.

Seasonality

Our sales are seasonal and we experience fluctuations in quarterly results as a result of many factors. We historically have generated a greater percentage of our revenues during the warm weather months of April through September. Timing of customer purchases will vary each year and sales can be expected to shift from one quarter to another. As a result, management believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance or results expected for the fiscal year.

Liquidity

As of June 30, 2011, we had cash and cash equivalents of approximately $4.6 million and working capital of $7.0 million. Cash used in operations during the six months ended June 30, 2011 totaled $2.8 million. Our cash flows vary throughout the year based on seasonality. We traditionally use more cash in the first half of the year as we build inventory to support our historically seasonally-stronger shipping months of April through September, and expect cash used by operating activities to decrease in the second half of the year as we collect receivables generated during our stronger shipping months. We incurred a net loss of $1.8 million during the three months ended June 30, 2011.

We believe that our current cash and cash equivalents, which includes net proceeds of approximately $2.2 million received from our final draw down under the equity line of credit facility on February 1, 2011 (see Note 2), will be sufficient to meet our anticipated cash needs at least into the first half of 2012. This will depend, however, on our ability to successfully execute our 2011 operating plan, which is based on our realigned higher-margin product portfolio, including *Jones Soda* and our newly re-launched *WhoopAss Energy Drink*. The introduction of new and re-launched products involves a number of risks, and there can be no assurance that we will achieve the sales levels we expect or that justify the additional costs associated with such product introductions. We also plan to continue our efforts to reinforce and expand our distributor network by partnering with new distributors and replacing underperforming distributors. It is critical that we meet our volume projections and continue to increase volume going forward, as our operating plan already reflects prior significant general and administrative cost containment measures, leaving us little room for further reductions in such costs that do not jeopardize our growth plans.

Our operating plan factors in the use of cash to meet our contractual obligations. A substantial portion of these contractual obligations consists of obligations to purchase raw materials, including sugar and glass under our supply agreements. We enter into these supply agreements in order to fix the cost of these key raw materials, which we expect will be used in the ordinary course of our business. Our contractual obligations also relate to payments for sponsorships, and have been reduced by approximately $7.0 million through 2017 as the result of our termination of the sponsorship arrangement with the New Jersey Nets (see Note 7).

We intend to continually monitor and adjust our business plan as necessary to respond to developments in our business, our markets and the broader economy. Our current 2011 operating plan does not require us to obtain additional financing; however, this will depend on our ability to meet our sales volume goals and otherwise execute on our operating plan. We believe it is imperative to meet these objectives and continue to expand our distribution network and increase sales volume in order to lessen our reliance on external financing in the future. In order to execute on our growth strategy beyond our 2011 operating plan, we will require additional financing to support our working capital needs. The amount of additional capital we will require, and the timing of our capital needs, will depend on a number of factors, including the performance of our business for the remainder of 2011 and beyond and the market conditions for debt or equity financing. Although we believe we may have various debt and equity financing alternatives available to us, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. We continue to monitor whether credit facilities may be available to us on acceptable terms. There can be no assurance that any new debt or equity financing arrangement will be available to us when needed on acceptable terms, if at all. In addition, there can be no assurance that these financing alternatives would provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions in the best interest of the Company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, joint ventures with one or more strategic partners, strategic acquisitions and other strategic alternatives, but there can be no assurance that we will enter into any agreements or transactions.

The uncertainties relating to our ability to successfully execute our 2011 operating plan, combined with our inability to implement further meaningful cost containment measures that do not jeopardize our growth plans and the difficult financing environment, continue to raise substantial doubt about our ability to continue as a going concern. Our financial statements for the quarters ended June 30, 2011 and 2010 were prepared assuming we would continue as a going concern, which contemplates that we will continue in operation for the foreseeable future and will be able to realize assets and settle liabilities and commitments in the normal course of business. These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should we be unable to continue as a going concern.

Table of Contents

2. Equity Financing

In June 2010, we entered into an equity line of credit arrangement (Equity Line) with Glengrove Small Cap Value, Ltd (Glengrove), pursuant to which Glengrove committed to purchase, upon the terms and subject to the conditions of the purchase agreement establishing the facility, up to $10 million worth of shares of our common stock, subject to a maximum aggregate limit of 5,228,893 common shares. The facility provided that we may, from time to time, over the 24-month term of the facility and at our sole discretion, present Glengrove with draw down notices to purchase our common stock at a price equal to the daily volume weighted average price of our common stock on each date during the draw down period on which shares are purchased, less a discount of 6.0%. During 2010, we completed draw downs and sales under the facility of an aggregate of 3,632,120 shares for net proceeds of approximately $4.0 million. On February 1, 2011, we completed our final draw down and sale of 1,596,773 shares for net proceeds of approximately $2.2 million. We sold to Glengrove a total of 5,228,893 shares, which is the maximum number of shares issuable under the terms of the Equity Line and the Equity Line by its terms automatically has terminated.

3. Inventory

Inventory consists of the following (in thousands):

	June 30, 2011	December 31, 2010
Finished goods	$ 2,438	$ 1,695
Raw materials	587	584
	$ 3,025	$ 2,279

Finished goods primarily include product ready for shipment, as well as promotional merchandise held for sale. Raw materials primarily include ingredients, concentrate and packaging.

4. Capital Lease

In January 2011, we entered into capital lease agreements totaling $122,000 for the lease of two branded vehicles used for marketing. The debt is payable over a 60-month period at 6.99% interest. Our remaining scheduled lease payments, which include $20,000 in interest, are $15,000 for 2011, $29,000 for each of the years 2012 through 2015, and $5,000 for 2016.

5. Lease Obligations

In June 2011, we entered into an office building sublease for use as our principal headquarters, as our previous lease expires in August 2011 and does not include an option to renew. The term of the sublease is five years with an option to extend for up to three additional five year terms. Under the terms of the sublease, we were required to deliver a Letter of Credit (LOC) issued by KeyBank National Association in an amount equivalent to 50% of the total Subtenant Improvement Allowance (as defined in the sublease agreement), or $183,000, which will be released after year three of the sublease term, provided we have not been late in the payment of rent more than five times during such period. As a condition of and to secure the LOC, KeyBank National Association required us to place $183,000 in an interest bearing restricted reserve account, invested in a certificate of deposit which is recorded in other assets.

Our scheduled sublease payments as of June 30, 2011 are as follows (in thousands):

	Operating Lease
2011	$
2012	201
2013	206
2014	211
2015	216
Thereafter	127

	$	961

Table of Contents

6. Stock-Based Compensation

At our Annual Meeting held on May 25, 2011, our shareholders approved the Jones Soda Co. 2011 Incentive Plan (2011 Plan). As a result, the 2002 Stock Option and Restricted Stock Plan (2002 Plan) was terminated, and equity awards granted after the 2011 Annual Meeting will be made under the 2011 Plan. Awards outstanding under the 2002 Plan will remain outstanding in accordance with their existing terms.

The 2011 Plan initially authorizes the issuance of 3,000,000 shares of the Company s common stock. Starting in 2012, the number of shares authorized under the 2011 Plan also may be increased each January 1st by an amount equal to the least of (a) 1,300,000 shares, (b) 4.0% of our outstanding common stock as of the end of our immediately preceding fiscal year, and (c) a lesser amount determined by the Board of Directors (the Board), provided that the number of shares that may be granted pursuant to awards in a single year may not exceed 10% of the Company s outstanding shares of common stock on a fully diluted basis as of the end of the immediately preceding fiscal year.

Under the terms of the 2011 Plan, the Board may grant awards to employees, officers, directors, consultants, agents, advisors and independent contractors. Awards may consist of stock options, stock appreciation rights, stock awards, restricted stock, stock units, performance awards or other stock or cash-based awards. As of June 30, 2011, there were 3,000,000 shares available for issuance under the 2011 Plan.

(a) Stock options:

A summary of our stock option activity is as follows:

	Outstanding Options		
	Number of Shares		**Weighted Average Exercise Price**
Balance at January 1, 2011	1,789,784	$	1.96
Options granted	480,000		1.35
Options exercised	(25,288)		0.68
Options cancelled/expired	(176,243)		1.20
Balance at June 30, 2011	2,068,253	$	1.68
Exercisable, June 30, 2011	1,096,879	$	2.17
Vested and expected to vest	2,024,156	$	1.70

(b) Restricted stock awards:

A summary of our restricted stock activity is as follows:

	Restricted Shares		**Weighted-Average Grant Date Fair Value**
Non-vested restricted stock at January 1, 2011	158,581	$	1.52
Granted			
Vested	(107,264)		1.52
Cancelled/expired	(47,781)		1.42
Non-vested restricted stock at June 30, 2011	3,536	$	2.80

A total of 47,352 shares were withheld by the Company as payment for withholding taxes due in connection with the vesting of restricted stock awards issued under the 2002 Plan for the six months ended June 30, 2011, and the average price paid per share of $1.32, reflects the average market value per share of the shares withheld for tax purposes. There were no shares withheld by the

Table of Contents

Company for the three months ended June 30, 2011. A total of 808 and 1,715 shares were withheld by the Company as payment for withholding taxes due in connection with the vesting of restricted stock awards issued under the 2002 Plan for the three and six months ended June 30, 2010, respectively, and the average price paid per share of $2.03 and $1.82, respectively, reflects the average market value per share of the shares withheld for tax purposes.

(c) Stock-based compensation expense:

Stock-based compensation expense is recognized using the straight-line attribution method over the employees requisite service period. We recognize compensation expense for only the portion of stock options or restricted stock expected to vest. Therefore, we apply estimated forfeiture rates that are derived from historical employee termination behavior. If the actual number of forfeitures differs from those estimated by management, additional adjustments to stock-based compensation expense may be required in future periods.

At June 30, 2011, the unrecognized compensation expense related to stock options and non-vested restricted stock awards was $683,000 and $4,300, respectively, which is to be recognized over weighted-average periods of 2.2 years and 0.4 years, respectively.

The following table summarizes the stock-based compensation expense (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Type of awards:				
Stock options	$ 115	$ 213	$ 200	$ 348
Restricted stock	5	21	95	53
	$ 120	$ 234	$ 295	$ 401
Income statement account:				
Promotion and selling	$ 28	$ 25	$ 86	$ 58
General and administrative	92	209	209	343
	$ 120	$ 234	$ 295	$ 401

We employ the following key weighted-average assumptions in determining the fair value of stock options, using the Black-Scholes option pricing model:

	Six Months Ended June 30	
	2011	**2010**
Expected dividend yield		
Expected stock price volatility	99.4%	91.9%
Risk-free interest rate	2.5%	2.8%
Expected term (in years)	5.9 years	5.6 years
Weighted-average grant date fair-value	$ 1.06	$ 0.60

The aggregate intrinsic value of stock options outstanding at June 30, 2011 and 2010 was $135,000 and $311,000 and for options exercisable was $257,000 and $188,000, respectively. The intrinsic value of outstanding and exercisable stock options is calculated as the quoted market price of the stock at the balance sheet date less the exercise price of the option. The total intrinsic value of options exercised during the three and six months ended June 30, 2011 and 2010 was $700 and $57,000 and $14,000 and $58,000, respectively.

7. Commitments and contingencies

Commitments

In August 2011, we announced that we agreed to terminate the Amended Sponsorship Agreement with the New Jersey Nets, dated October 29, 2007, effectively ending the agreement five years early. In connection with the termination, we agreed to pay $500,000, which is recorded in accrued liabilities as of June 30, 2011. The payment includes a $150,000 payment owed under the Amended Sponsorship