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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer  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 Act). Yes  No

The aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates as of the last day of the registrant's second fiscal quarter ended July 3, 2012 was \$125,740,931 (based upon the closing sales price of registrant's common stock on such date). For purposes of this disclosure, shares of common stock held by persons who held more than 5% of the outstanding shares of common stock and shares held by officers and directors of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of

affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of common stock of Jamba, Inc. issued and outstanding as of March 1, 2013 was 80,876,803.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended January 1, 2013, are incorporated by reference in Part III hereof. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part hereof.

**JAMBA, INC.****ANNUAL REPORT ON FORM 10-K****FISCAL YEAR ENDED JANUARY 1, 2013****Form 10-K**

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### Special Note Regarding Forward-Looking Statements

We believe that some of the information in this document constitutes forward-looking statements. You can identify these statements by forward-looking words such as “may,” “expect,” “anticipate,” “contemplate,” “believe,” “estimate,” “intend,” “plan,” and “continue” or words of similar meaning. Examples of such statements include references to accelerated growth, new store openings, Company Store comparable sales, expense management and the like. You should read statements that contain these words carefully because they:

- discuss future expectations;
- contain projections of future results of operations or financial condition; or
- state other “forward-looking” information.

We believe it is important to communicate our expectations to our stockholders. However, there may be events in the future that we are not able to accurately predict or over which we have no control. The risk factors and cautionary language discussed in this document outline examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described in the forward-looking statements, including among other things:

- our business strategy and financial performance;
- our revenue and customer volatility based upon weather and general economic conditions;
- fluctuations in various food and supply costs; and
- competition and other risks related to the food services business.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document.

All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

You should be aware that the occurrence of the events described in the “Risk Factors” portion of this annual report, the documents incorporated herein and our other SEC filings could have a material adverse effect on our business, prospects, financial condition or operating results.



## **PART I**

### **ITEM 1. BUSINESS**

#### **Background of Jamba, Inc.**

Jamba, Inc. through its wholly-owned subsidiary, Jamba Juice Company, is a healthy, active lifestyle brand with a robust 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 (“Smoothie Stations”), and Jamba-branded consumer packaged goods. 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, California 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 consumer packaged goods (“CPG”) and licensing its trademark to CPG products sold online and through retail channels such as grocery, mass, club and convenience stores.

Jamba, Inc. was incorporated in Delaware on January 6, 2005 as a blank check company formed to serve as a vehicle for the acquisition of a then unidentified operating business. On July 6, 2005, Jamba, Inc. consummated its initial public offering. On March 10, 2006, Jamba, Inc. entered into an Agreement and Plan of Merger with Jamba Juice Company, which first began operations in 1990. The merger between Jamba, Inc. and Jamba Juice Company (the “Merger”) was completed on November 29, 2006.

Unless the context otherwise requires, Jamba, Inc., the registrant, together with Jamba Juice Company, are referred to in this Form 10-K annual report (“Form 10-K”) as the “Company”, “Jamba”, “we”, “us” and “our.” Information regarding the Company’s fiscal periods is included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

#### **Narrative Description of Business**

As of January 1, 2013, there were 809 Jamba Juice stores globally, consisting of 301 Company-owned and operated stores (“Company Stores”), 473 franchise-operated stores (“Franchise Stores”) in the United States, and 35 franchise-operated stores at international locations (“International Stores”). As of January 1, 2013, Jamba Juice had a retail consumer products program that included direct selling of CPG products online and through retail channels and licensing its trademark to CPG products sold online and through retail channels such as grocery, mass, club and convenience stores.



## The BLEND Plan—Our Strategic Priorities

The BLEND Plan continues to guide the Company's strategic plan to transform the Jamba brand into a globally recognized healthy, active lifestyle brand. Since the introduction of the BLEND Plan in 2009, we successfully completed our financial and strategic turnaround (BLEND Plan 1.0) and accelerated our growth as a healthy, active lifestyle brand (BLEND Plan 2.0). As we continue our transformation, our new BLEND Plan 3.0 will provide continuity and a blueprint for focusing our resources on initiatives that will build total brand value. The strategic priorities of BLEND Plan 3.0 are as follows:

Brand Building and Total Innovation;

Lifestyle Engagement;

Expand Growth Initiatives;

New Products, Partners, Channels and Markets; and

Drive Enterprise Efficiencies.

These strategic priorities support the Company's mission to build Jamba into a \$1 billion lifestyle brand by 2015 in total retail sales from all businesses, by offering consumers differentiated products and experiences at Jamba Juice stores and through other retail distribution channels. During fiscal 2012, we accelerated growth through product and menu innovation, engaging marketing programs, new store formats and concepts, expansion of our consumer products platform and an ongoing pursuit of new ways to reduce cost and improve productivity. Additionally, one of the keys to our success is the Jamba culture, a unique set of core values and actions that manifest themselves in team members executing at the highest levels of service while expressing their passion for the brand.

### ***Brand Building and Total Innovation***

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

We provide a range of freshly blended beverages, sandwiches, wraps, baked goods and snacks. Product innovation is a high priority at Jamba and our menu items are designed to offer our customers products that are relevant to pursuing a healthy, active lifestyle. Our research and development team, composed of food scientists, quality assurance specialists and food industry experts, is continually developing and testing new and improved menu items that support not only the integrity of the Jamba Juice brand but our commitment to offering relevant and great tasting innovative products made from high quality ingredients.

We utilize premium ingredients in our menu offerings and other products, and offer a range of high-quality, better-for-you food products. Each item in our food portfolio is continually being refined and optimized to pair well with a smoothie. We continue to believe there is consumer demand for better-for-you, on-the-go food items that is not being fulfilled by other quick service restaurants. All of our menu options meet our four mandatory core standards: 0 grams of trans-fat, no high fructose corn syrup, no artificial preservatives, and no artificial flavors. Our goal is for Jamba Juice to be the leader in the specialty, better-for-you beverage retailer segment, offering beverage-centered meals.

Our research and development team continually seeks to enhance the product offerings available to customers, and where possible, reduce product and labor costs. Our research and development process includes both the development of new products and the optimization of existing menu items to ensure only the most appealing products are developed and offered to customers. We are passionate about creating differentiated, healthy, active lifestyle products that increasingly meet an even greater breadth and depth of customer health and wellness needs. During 2012, we entered a strategic partnership with the Department of Labor Job Employment and Training Administrations which operates the Corps Advanced Culinary Program through which we provided internship-based learning opportunities for students, while benefitting from the students' contribution of culinary knowledge and expertise.

We introduced several products in 2012 including:

- Fit 'n Fruitful smoothie platform with Lean Advantage™ Boost - a line of fruit forward tasting-meal substitutes with balanced nutrition, providing a good source of fiber, 14 essential vitamins and minerals and two or more servings of real, whole fruit. When used daily, in combination with a healthy diet and exercise program, the Lean Advantage

Boost can help support long-term weight management goals by stimulating muscle enzymes to burn more fat and promote lean muscle mass.

Toasted Bistro Sandwiches - a line of toasted-to-order sandwiches that include premium ingredients on artisan breads and are designed to pair with a smoothie. The sandwiches currently available include Three Cheese – Cheddar, Provolone & Harvarti; Roasted Chicken, Cheddar & Honey Dijon; Ham, Jarlsberg & Honey Dijon; and Brie, Apple & Sweet Fig.

Fresh Squeezed Juice platform expansion - the addition of six new fresh ingredients - kale, beet, pineapple, ginger, lemon and apple that combine into several proprietary juice recipes which are on trend and known for their nutritional benefits. These handcrafted juices are packed with vitamins, nutrients and micronutrients. The new Fresh Squeezed Juices provide at least two servings of fruits and/or vegetables in a delicious juice blend and speak to consumers' needs for a convenient way to increase their intake of both fruits and vegetables.

On January 3, 2013, we announced the launch of our first youth-oriented offerings, the Jamba Kids™ Meals. Our new kids' meals have the highest whole grain servings of any leading quick service restaurant kid's meals and include a 9.5-ounce smoothie paired with a child-friendly food choice. The smoothies have no added sugar and are made from only fruit and juice. The Berry Beet It!™ smoothie also contains vegetable juices. Each meal contains two and one-half servings of fruits and/or vegetables, one serving of whole grains and provides an excellent source of protein. The development of the kids-focused smoothies was based on the U.S. Department of Agriculture's MyPlate dietary guidelines.

All of our products are tested prior to roll-out. In 2010, we established the “iDistrict” (Innovation District), a group of Company Stores where we test all major process enhancements, promotions, and product initiatives. The testing of new initiatives in our iDistrict stores allows us to rapidly integrate relevant store and customer feedback and to quickly make adjustments to improve the quality of products and processes we ultimately deliver to the system. During 2012, the iDistrict was used to validate several new platform ideas such as the Toasted Bistro Sandwiches, and select stores within the iDistrict were key to implementing the expansion of our Fresh Squeezed Juice platform which is now fully operational at our flagship Emeryville and Santa Monica store locations in California.

### *Lifestyle Engagement*

We were founded on the belief that maintaining a balance of physical activity, good nutrition, and community involvement are critical to healthy living. Our focus continues to be on how we communicate with consumers, and engage them on achieving and maintaining healthy, active lifestyle. We continue to develop integrated programs that will deepen and broaden the health and wellness knowledge of the Jamba workforce across the system. Company spokespersons, tennis star Venus Williams and nutrition expert Tara Gidus, continue to educate and inspire consumers on leading a healthy, active lifestyle.

In May 2012, we established the Jamba® Healthy Living Council. The Healthy Living Council is comprised of nationally renowned nutrition and dietary experts Tara Gidus, MS, RD, CSSD, LD/N, Elizabeth M Ward MS, RD and Kathleen Zelman MPH RD LD, and provides consumers with useful, practical information that helps them live a healthier lifestyle. In addition, the council members are working with us to create healthy living education materials, produce online content for our website, develop school nutrition outreach initiatives, advise management on nutrition trends, and provide input on new menu concepts and healthy choice options as we continue to evolve our product line. The Jamba Kids Meals platform, which was announced in early January, 2013 was designed in partnership with the Healthy Living Council.

We are committed to raising awareness around the importance of a healthy, active lifestyle. To that end, during 2012 we were the “Official Blended Fruit Beverage and Smoothie” sponsor of seven events in the popular Rock’ n’Roll Marathon series, organized by the Competitor Group Inc. In addition, the Organic Center, the leading research and education institute focused on the science of organic food and farming, along with other partners including the WNBA, National PTA, USA Water Polo, the Golden State Warriors and nutrition expert Tara Gidus, supported our annual Team Up for a Healthy America™ program to raise awareness of the nation’s obesity epidemic. Venus Williams is the spokesperson for our Team Up for a Healthy America campaign.

We believe that engaging our customers in healthy lifestyle activities helps to improve the quality and consistency of customer service at our stores and will enhance their brand experience. We continue to believe that such customer engagement will heighten customer loyalty and satisfaction, and ultimately increase frequency of use of our products and our market share.

In March 2012, we developed a “Master of Blending Arts” (MBA) program to expand the nutritional expertise available to consumers in our stores. We continue to test this program and plan to rollout in 2013. We believe the program has elevated the customer experience at Jamba and reinforced our position as a premier provider of healthy lifestyle products by enhancing our team members’ knowledge in product nutrition, the benefits of juice and juicing, and their expertise in custom beverage creation. In addition, during 2012, we developed and tested new service standards called BOOST to create a unique and memorable experience for each customer. Our BOOST program is being launched in 2013 across the Jamba system. We remain focused on opportunities to refine our promotional and communication

efforts to drive traffic, build loyalty and to make Jamba a top-of-mind choice for a healthy, active lifestyle.

At our Company Stores, the team members enjoy access to a broad offering of benefits in support of maintaining a healthy, active lifestyle. During fiscal 2011 and fiscal 2012, Jamba was named one of the San Francisco Bay Area's healthiest employers by The Silicon Valley/San Jose Business Journal and the San Francisco Business Times. Jamba was also recognized as one of the largest employer participants in the second half San Francisco Half Marathon.

### ***Expand Growth Initiatives***

A primary driver to become a \$1 billion healthy, active lifestyle brand in total retail sales from all businesses, is our commitment to our growth initiatives. 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 will position us for growth in market share, 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.

We have an additional growth opportunity to expand the Jamba brand by establishing more points of distribution inherently achieving a broader brand awareness and deepening brand loyalty by making it easier for consumers to access and enjoy all the products and services Jamba has to offer. We also believe we have significant global market expansion opportunities.

*Jamba Juice—Domestic*

We have a portfolio of flexible store formats that can be utilized in a number of different venues. We generally categorize our stores as either traditional or non-traditional locations. A traditional location is characterized as a business premises that exists primarily as a Jamba Juice store. Traditional stores average approximately 1,200 -1,400 square feet in size. These stores are located either in major urban centers or in suburban strip mall centers. As of January 1, 2013, there were 581 traditional Jamba Juice store locations. A non-traditional location is characterized as a Jamba Juice store located within another primary business in conjunction with other businesses or at institutional settings such as colleges and universities, entertainment venues, shopping malls, transportation centers, supermarkets and airports. A “captive” audience is a common characteristic of non-traditional locations. We believe one benefit of the development of non-traditional stores is to increase awareness of the Jamba Juice brand to complement the traditional stores in the area. As of January 1, 2013, there were 193 non-traditional Jamba Juice store locations.

We continue to innovate in the design of traditional and non-traditional stores as well. Our goal is to vary the size and format of our stores to allow us to locate them in or near a variety of settings. As a result, the typical costs to construct a Jamba Juice non-traditional store ranges from \$185,000 to \$408,000 and the typical costs to construct a traditional Jamba Juice store ranges from \$264,000 to \$462,000. Our flexibility in store construction enables us to develop stores in a variety of venues, broadening the visibility of the Jamba brand and giving more customers easier, more convenient access. In turn, we hope format flexibility will help us to attract qualified franchisees and to assure them of potentially achieving a higher return on their investment in capital expenditures.

In 2012, we developed two new flexible formats, JambaGO and a limited-menu Smoothie Station that facilitate rapid expansion of healthy menu options into K-12 schools, and entertainment and convenience venues. The JambaGO format is a small footprint, low-capital and low-labor self-serve machine format and has proven to be an innovative and differentiated solution for foodservice providers seeking healthier beverage options for their constituents. This new format will better enable Jamba to rapidly expand brand presence. The JambaGO concept targets venues servicing captive audiences and with greater demand for higher volumes where the need for high-speed service is essential, and where a full-sized Jamba Juice store or kiosk would not be feasible. Such venues include K-12 schools, colleges and universities, grocery and convenience stores, stadiums, theaters, event centers and select airport locations.

The Jamba Smoothie Station concept was launched after completing our testing of the concept in 2012. This concept is also an express service utilizing existing technology to make select smoothie flavors in small, efficient spaces. The Smoothie Station concept is designed to target venues that require a smaller footprint than our typical non-traditional store. Smoothie Stations offer a limited menu and use pre-portioned fruit and yogurt to produce smoothies comparable to our traditional stores. Targeted venues include colleges and universities, grocery stores, airports, hospitals and business cafeterias. As of January 1, 2013, there were 14 Jamba Smoothie Stations open in four states. Jamba Smoothie Stations are included in the total Franchise Stores count.

As of January 1, 2013, we had 774 Jamba Juice store locations in the United States, operating in 28 states and Washington, D.C., consisting of 301 Company Stores, 473 Franchise Stores and 404 JambaGO served locations. We lease the real estate for all of our Company Stores. Our market planning has shown that there is potential for at least 2,700 total Jamba Juice stores in the United States, which we believe can be profitable and would meet our current store opening criteria. During fiscal 2012, Franchisees opened 39 new Franchise Stores, closed 10 Franchise Stores, and acquired one Company Store, which is now operating as a Franchise Store.

### *Franchise Opportunity*

Through our franchising program, we offer franchisees choices in store venue, format and number of stores they wish to operate including (i) traditional “stand alone” stores, (ii) nontraditional store venues such as mall, university, supermarket or transit hub locations; and (iii) multi-unit development agreements which grant the franchisee exclusive rights to develop and operate a specified number of stores within a specified period of time within a specified geographic area, which we call development agreements.

Our current traditional store franchise agreement provides for an initial 10-year term. The agreement is renewable for two consecutive 10-year terms, subject to various conditions and state law. The royalty rate in the current franchise agreement for domestic locations is generally 5.5% - 6% of revenue. Franchisees are also required to contribute an additional percentage of store revenue, not to exceed 4%, to a company-administered advertising fund. Throughout 2012, we typically charged 2% of revenue as the marketing contribution for both our traditional store franchisees and non-traditional stores in shopping malls. Franchisees for traditional stores and stores located in shopping malls are also expected to spend 1.5% of sales on local marketing efforts. There is typically up to a one-mile geographic radius restriction for traditional stores in non-downtown areas. The royalty rates and marketing contributions for non-traditional stores (excluding those in shopping malls) vary depending upon type (transit hub, college or university or supermarket) and format (standard or “blending station” utilizing pre-portioned ingredients). Franchisees typically pay an initial fee of \$20,000 or \$25,000 for traditional and shopping mall store locations and an initial fee ranging from zero to \$15,000 for non-traditional stores. We generally do not provide any form of financing to our franchisees.

As of January 1, 2013, we had 21 area developers with rights to develop additional Franchise Stores pursuant to development agreements. The exclusive territories covered by these agreements include selected markets in the states of Arizona, California, Colorado, Connecticut, Florida, Hawaii, Illinois, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Minnesota, Nevada, New Jersey, New York, Ohio, Oregon, Pennsylvania, Utah, Washington State, Washington, D.C., and Wisconsin. These developers have aggregated contractual commitments to open 95 additional new Franchise Stores in their respective territories over the next several years. Nine of the twenty-one development agreements were entered into in connection with refranchising transactions, where a purchaser of Company Stores also agreed to develop new Franchise Stores.

Area developers typically enter into a separate franchise agreement for each store opened. Under typical development agreements, upon execution of the multi-unit development agreement, the area developer generally pays, as a development fee, one-half of a \$20,000-\$25,000 initial fee, or \$10,000-\$12,500, for each store required to be developed. Area developers are obligated to finance their own build-out of each store location according to our specifications.

We also continue to strengthen our relationships with beverage and food concessionaires operating at non-traditional venues such as colleges, universities, airports and other transit hubs, and other retail and entertainment venues to help maximize our non-traditional franchise development. In addition to our own efforts, we are approached by sophisticated concessionaires and contract feeders whose independent research has identified us as ideal for locations such as colleges and universities, sport venues, airports, and other non-traditional venues where they have exclusive rights from venue owners to develop. When it fits our expansion strategies, these opportunities are incorporated into our own plans.

Our market planning and site selection process is integral to the successful execution of our growth strategy. We have processes for identifying, analyzing, and assigning undeveloped markets for either Company Store or Franchise Store development. Once a market is selected, we carefully screen trade areas for demand based on demographic, psychographic and Jamba Juice specific variables to assess the risk of developing a store or permitting a franchisee to do so. We review trade areas to ensure that they meet our guidelines for new store development and begin the site selection or approval process. Once a trade area is approved, we carefully screen prospective locations for visibility, traffic patterns, ease-of-use and co-tenancy for potential Company Store and Franchise Store locations. Our expansion strategy involves using this market planning and site selection process to leverage areas of demand within each market. We intend to use this approach to encourage the clustering of stores in specific geographic areas of demand, which we believe will drive brand awareness, improve operating and marketing efficiencies for Franchise Stores while leveraging the costs associated with regional supervision. Distribution efficiencies can also be realized through this strategy. In addition, we believe the ability to hire qualified team members is enhanced in markets where Jamba is a broadly recognized brand.

### ***Jamba Juice—International Franchising***



We work closely with all of our international partners to build the Jamba Juice brand and implement the Jamba Juice system locally, as well as to maximize revenue and margin growth opportunities, recognizing commercial, cultural and dietary diversity in each market. We have experienced significant growth in our international markets and increased the number of International Stores from 19 stores as of January 3, 2012 to 35 stores as of January 1, 2013, with stores located in South Korea, the Philippines, and Canada. Our store in the Bahamas closed during the year.

In 2010, we signed a master development agreement with SPC Group, a leading specialty food company in South Korea with over 5,000 retail locations across several brands, to develop 200 Jamba Juice stores in South Korea over the next 10 years. The first Jamba Juice store opened at the Incheon airport in January 2011. As of January 1, 2013, there were 21 Jamba Juice stores operating in South Korea.

In April 2011, Jamba announced a master development agreement with Max's Group of Companies, a well-established restaurant and franchise operator, to develop 40 stores in the Philippines over the next 10 years. The first store opened in Manila in November 2011. As of January 1, 2013, there were six Jamba Juice stores operating in the Philippines.

In May 2011, we signed a master development agreement with Canadian Juice Corp., the principals of which are world leaders in the frozen yogurt category with over 1,200 stores in 25 countries, to develop 80 Jamba Juice locations over the next 10 years. The first Jamba Juice store opened in Toronto in October 2011. As of January 1, 2013, there were eight Jamba Juice stores operating in Canada. In addition, we have been collaborating with our Canadian partner on plans to introduce the new flexible JambaGO and Smoothie Station formats in the Canadian market in 2013. We believe these new formats will enable a more rapid expansion, and strengthen brand awareness and loyalty in the Canadian market.

Our brand and products have international appeal and we continue to engage in discussions with additional potential partners regarding the expansion of Jamba Juice stores into new international markets. The success of further international expansion will depend on, among other things, local acceptance of the Jamba Juice concept and menu offerings, and our ability to attract qualified franchise partners. Our agreements take the form of development and franchise agreements under which we typically receive an initial territory fee, store opening fees, and ongoing royalty revenues based on a percentage of sales.

*New products, partners, channels and markets*

During 2012, we shifted our CPG business model from utilizing only a third party licensing structure to one that combines both licensing and direct selling, which allows us to secure greater control over product development, production, distribution, sales and profit. We initially started with our acquisition of Talbott Teas™ in January 2012 and our acquisition of the product formulation and intellectual property of the Jamba All- Energy Drink from Nestle in June 2012. We began the initial distribution expansion of our Jamba All-Energy Drink in the West Coast to add to our distribution in the Northeast Regional test geography, and we will continue with distribution focus in all mass retail channels across the United States. Talbott Teas had a strong showing on ABC's Shark Tank, at the NATO Summit and was sold on QVC, online and in select retail and hospitality channels.

Through our licensed partnerships we launched twelve new "better-for-you" SKUs that included two additional varieties of our make-at-home Smoothie Kits, two Multigrain Crisps, two Apple Chips, four Wraps and two Panini Sandwiches. The Jamba brand is available across multiple product categories and in major retailers across the country. As of January 1, 2013, we had approximately 40 individual Jamba SKUs at retail distribution points across 50 states. We continue to evaluate and meet with potential licensees regarding new product categories that leverage the core brand strength of Jamba.

We plan to further extend the presence of the Jamba Consumer Products Portfolio through a combination of licensing and direct selling. This growth will expand accessibility of the brand, will offer consumers unique new Jamba branded product solutions and reinforce Jamba as a healthy, active lifestyle brand.

*Drive enterprise efficiencies*

This strategic priority affects all aspects of our system in our efforts to continue to drive store-level profitability, and improve returns for Company Stores and Franchise Stores. Strong store-level economics are critical to the Company's success and therefore management is diligently focused on initiatives to improve these metrics.

In order to drive productivity across the Company and to enhance customer experience and speed of service at store-level, we introduced a variety of technology enhancements. These included innovative point of sale technologies such as PayPal payment cards, designed to increase the speed of payment at the point of sale and social networking for sharing and collaborating across the Jamba system.

Effective January 1, 2013, Systems Services of America (“SSA”) is our primary distributor service provider on the West Coast of the United States. Our alliance with SSA is expected to reduce costs and increase productivity through access to value-added resources and technology. We anticipate improved supply chain efficiencies and enhanced services to our existing Jamba store locations. In addition, this alliance will facilitate rapid supply chain distribution solutions as we expand into new territories to pursue future growth opportunities.

We continue to make improvements to our workforce management technology to help optimize work schedules, resulting in improved productivity and reduced labor costs as well as improved customer service. We also monitor our general and administrative expenses so that we may better leverage our existing infrastructure in support of our growth strategy. We continue to look for opportunities, including the use of innovative technological solutions, for functional improvement in order to drive down expenses and improve productivity.

## **Domestic Store Operations**

### ***Franchise Store Management***

We continuously review Franchise Store operations, principally through our Regional Franchise Leaders, who are Company representatives, who make both scheduled and unannounced visits of Franchise Stores. We also review the financial health, operations practices and procedures of our franchisees through business and financial reviews. We maintain a Franchise Advisory Council (“FAC”), which formalizes a channel of communication through a representative group of franchisees to provide advice, counsel and input to us on important issues impacting the business. Our agreement calls for franchise partners to meet certain operational and maintenance requirements, and we work diligently to ensure compliance.

We continue to leverage technology to improve communications, training and collaboration with our stores and franchise partners. As of January 1, 2013, the Jamba system had approximately 63% Franchise and International Stores and 37% Company Stores. Our ongoing commitment to building strong relationships with our franchisees has enabled better two-way feedback that has helped us to identify best practices and to facilitate more effective and efficient launch of new products and marketing campaigns.

### *Company Store Management*

We believe operational excellence throughout the Jamba system is vital to the Company's success. Our Company Store field and store operations team plays a critical role in maximizing the performance of our stores across the system. We recruit and retain leaders with broad experience in management and our industry. Our field leadership consists of a combination of Regional Directors of Operations and District Managers to support our Company Store operations.

Our typical Company Store operations team consists of a combination of a General Manager at each store, two to four Shift Managers and approximately 10 to 20 generally part-time team members depending on the time of year. We continually evaluate opportunities to optimize our labor planning algorithms further to achieve optimal staffing levels throughout the day, which may help us reduce staffing costs at certain stores under certain circumstances.

A major aspect of our BLEND Plan is to continue to engage our customers and to improve the quality and consistency of the customer experience at our stores. We are devoting significant resources to ensure that all stores across the system offer a superior customer experience, including engaging customers on healthy, active lifestyle activities, and updating the look and feel of the store environment to inspire healthy, active lifestyle. Our store excellence guide is designed to improve operational execution and performance by establishing comprehensive standards which we expect all of our stores to achieve and maintain. In addition, the bonus program for Company Store managers rewards customer service goal achievements. These factors continue to positively impact customer satisfaction during the year and ensure that all stores in the Jamba system are delivering against the key drivers of customer satisfaction on a consistent basis. We believe team members are the key to our success and support the development of a culture that fosters personal interaction, mutual respect, trust, empowerment, enthusiasm and commitment.

Maintaining a culture that embodies healthy, active lifestyle in an authentic, fun, friendly and efficient manner in Company Stores as well as Franchise Stores is essential as we continue to expand, and we believe that it is critical to developing our brand and ensuring our continued success.

### *Training*

We conduct various training programs for franchise partners, team members, support center staff and our leadership team on a regular basis. We are dedicated to providing a meaningful experience for all employees, with ample opportunity to develop leadership skills as they move up through the organization. Our training programs include formal programs such as the Manager-in-Training programs for new managers and informal one-on-one discussions held between General Managers, District Managers and Regional Directors of Operations. All of our training programs reinforce the importance of strong customer service and sales skills. We also make training materials and best practice information available to our franchisees to help create, preserve, and support a singular culture of

excellence within all of the stores that comprise our system.

### ***Recruiting and Retention***

We carefully screen potential employees to ensure that they hold many of our core values and fit into our culture. By maintaining this emphasis and encouraging responsibility and accountability at every level, we believe that we have created a sense of team member loyalty and an open and interactive work environment, resulting in a highly passionate workforce. Our employees are paid competitive wages and are offered opportunities for advancement. In addition to competitive wages, store managers are eligible for performance-based bonuses. We also provide best practice information, qualifications and other information to our franchisees to assist them with hiring and retention and to preserve a singular culture within the stores that comprise our system.

### ***Advertising and Marketing***

The Health and Wellness category remains strong with consumers increasingly seeking better-for-you food and beverage solutions as part of their lifestyle choices. In 2012, we leveraged this trend through a variety of innovative products and programs, encouraging consumers to Live Fruitfully™ by embracing healthy eating habits and engaging them in an array of initiatives designed to encourage and inspire increased physical activity.

We formed the Jamba Healthy Living Council, a panel of three renowned registered dietitians to share healthy living education and information with consumers via videos, articles, online webinars and Jamba's website. These nutrition experts offered insights at key industry conferences like the American Dietetic Association's FNCE conference and the School Nutritionist Association Convention. As parents themselves, the Healthy Living Council members relate to the dietary concerns of parents and families.

In the second year of our social responsibility program, Team Up for a Healthy America™, Jamba continued to lead its partners in raising awareness of the importance of physical activity and in supporting our focus on key national health issues such as childhood obesity. We received nationwide attention by providing local schools and community organizations with much needed athletic equipment. In 2012 we held two fit clinics led by celebrity athletes from the WNBA and USA Water Polo, inspiring children to stay fit and exercise. Our company spokesperson, Venus Williams, together with gold medal USA Water Polo athletes, the Golden State Warriors and other teams and athletes participated in our program as role models for active, healthy living. Community partners such as the National PTA, National Gardening Association, as well as our agencies, vendors and associates also joined forces with us in social media outreach and events to help us further this cause.

National and local marketing funds were used to create programs that expand our communication and reach with consumers through the technology they use and the healthy lifestyle activities they engage in. We developed local advertising tools and initiatives to drive deeper community engagement which resulted in notable increases in our consumer database and store traffic. The use of the Quick Response or QR Code, sweepstakes and scratcher tool added fun and excitement to our promotional offering. Our new product campaign launches, social media, advertising and promotion efforts attracted new users to our stores and increased our Facebook fan base to over 1.5M and Twitter followers to 32,000. We were a sponsor of the 2012 Rock & Roll marathon series as well as supported local youth soccer organizations.

Our marketing efforts in 2012 have exponentially extended our reach and relevance to consumers. By improving our use of technology, expanding our reach into sports and other lifestyle activities, helping communities and leading the cause to improve the health and wellness of our nation's youth, we have continued to inspire and simplify healthy living. Through continuous product innovation, we strive to provide consumers with more fun and meaningful solution, to further our significant progress toward our goal of being a leading health and wellness brand.

We partnered with companies such as Google, Isis and PayPal to assess new and preferred payment methods in our retail stores. In partnership with our IT group, our website was redesigned to be more synergistic to popular social media venues and allow for greater user engagement.

Jamba's inclusion into the culture and conversations of consumers was evident as we were featured in stories appearing in nationally syndicated journal and newspapers, including Nation's Restaurant News, Franchise World, Success Magazine, QSR Magazine, Black Enterprise, Forbes and The Wall Street Journal. We also received product placement in television shows and feature films. Our participation in local fundraising events also helped capture a significant amount of coverage from local television and radio stations.

## **Product Supply**

Jamba is committed to providing only the finest smoothies, juices and other food products. Smoothie and juice products depend heavily upon supplies of fresh and individually quick frozen (“IQF”) fruit. The quality of each smoothie depends to a large degree on the quality of the basic fruit ingredients from which it is made. It is essential that the supply of fruit is of the highest quality and is consistent throughout the year. To achieve these goals we purchase our projected requirements for the coming year from suppliers at the height of the season. The supply and price of fresh and IQF fruit are dependent upon the supply and demand at the time of purchase and are subject to volatility. Supply and price can be affected by multiple factors in the producing regions, including weather, natural disasters and regional political and economic conditions.

We buy certain fruits and dairy using fixed priced or to-be-fixed priced purchase commitments to secure adequate supply of quality ingredients for our products. As a result, we have purchase obligations with certain suppliers for certain fruits and dairy for various terms typically ranging from one year to five years. Also, we have one contract with a supplier for a 15 year term that ends in 2024. These contracts are commitments to purchase a minimum amount of fruit and other items used in the production of our products and the aggregate costs are estimated at \$78.2 million. We depend on our relationships with our suppliers for our supply of fruit, dairy and other products. We believe, based on our established relationships with our suppliers, the risk of non-delivery on our purchase commitments is remote.

Southwest Traders, Inc. was a distributor of proprietary products to our Company Stores and Franchise Stores during 2012 and distributed ingredients that made up approximately 98% of cost of goods for Jamba Juice Company. In October, 2012, we signed a new distributor agreement with Systems Services of America. Effective January 1, 2013, SSA replaced Southwest Traders as our primary distributor for Company and Franchise Stores in California, Arizona and Nevada. In addition, we have distributor agreements with SYGMA, a subsidiary of Sysco, McDonald, YHATA, and U.S. Foods. All of these distributors are leaders in selling, marketing and distributing food products to restaurants and other facilities. Our distributors do not manufacture or negotiate pricing agreements for products sold in our stores. They serve solely in a warehousing and distribution capacity.

Our supply chain and purchasing organization is partly funded by all stores across the Jamba system. This funding contributes to the cost of procurement and management of our supplies and supports our suppliers. The program allows for a mark-up of certain products purchased by Company Stores and Franchise Stores, which is subsequently rebated back to the Company by the supplier.

## **Competition**

The retail beverage and food industry is highly competitive and fragmented. Restaurants compete based on a number of factors, including quality, price-value relationships, customer service, name recognition, employee hiring and retention and location. We compete with a variety of purveyors of quick, convenient beverage and food products, including quick service restaurants/fast food establishments, coffee shops, donut shops, frozen yogurt shops and grocery stores. While competition in the beverage and food market is fragmented, competition is increasing, and a major competitor with substantially greater resources than the Company could enter the market at any time and compete directly against Jamba Juice stores.

We compete most directly with regional smoothie stores, most of which are franchises of other smoothie brands. The rising popularity of convenient and healthy food items resulted in increased competition from non-smoothie retailers as they increase their offerings of smoothies and other juice-related products, and as we increase our food offerings, we have placed ourselves into direct competition with other quick serve food concepts with well established businesses.

In addition, we also face intense competition from both restaurants and other specialty retailers for suitable sites for new stores and qualified personnel to operate both new and existing stores. There can be no assurance that the Company or our franchisees will be able to continue to secure adequate sites at acceptable rent levels or that the Company or franchisees will be able to attract a sufficient number of qualified personnel to operate our stores.

## **Government Regulation and Environmental Matters**

*Government Regulation.* We are subject to extensive and varied federal, state and local government regulation, including regulations relating to public health and safety and zoning codes. We operate each of our stores in accordance with standards and procedures designed to comply with applicable codes and regulations. However, if we could not obtain or retain food or other licenses, it would adversely affect our operations. Although we have not experienced, and do not anticipate, any significant difficulties, delays or failures in obtaining required licenses, permits or approvals, any such problem could delay or prevent the opening of, or adversely impact the viability of, a particular store or group of stores.



California and other states and local jurisdictions have enacted laws, rules, regulations and ordinances which may apply to the operation of a Company Store, including those which (a) establish general standards, specifications and requirements for the construction, design and maintenance of the store premises; (b) regulate matters affecting the health, safety and welfare of our customers, such as general health and sanitation requirements for restaurants; employee practices concerning the storage, handling, cooking and preparation of food; special health, food service and licensing requirements; restrictions on smoking; exposure to tobacco smoke or other carcinogens or reproductive toxicants and saccharin; availability of and requirements for public accommodations, including restrooms; (c) set standards pertaining to employee health and safety and mandatory health insurance; (d) set standards and requirements for fire safety and general emergency preparedness; (e) regulate the proper use, storage and disposal of waste, insecticides and other hazardous materials; (f) establish general requirements or restrictions on advertising containing false or misleading claims, or health and nutrient claims on menus or otherwise, such as “low calorie”, “healthy” or “organic”; (g) establish requirements concerning withholdings and employee reporting of taxes on tips and (h) regulate or ban the use of polystyrene cups.

In order to develop and construct more stores, we or our franchisees need to comply with applicable zoning, land use and environmental regulations. Federal and state environmental regulations have not had a material effect on our operations to date, but expansion of our menu offerings or more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or even prevent construction and increase development costs for new stores. We and our franchisees are also required to comply with the accessibility standards mandated by the U.S. Americans with Disabilities Act, which generally prohibits discrimination in accommodation or employment based on disability. We may, in the future, have to modify stores, for example, by adding access ramps or redesigning certain architectural fixtures, to provide service to or make reasonable accommodations for disabled persons. While these expenses could be material, our current expectation is that any such action will not require us to expend substantial funds.

We are subject to the U.S. Fair Labor Standards Act, the U.S. Immigration Reform and Control Act of 1986 and various federal and state laws governing various matters including minimum wages, overtime meal and rest periods, accommodations to certain employees, and other working conditions. Complying with these rules subjects us to substantial expense and can also expose us to liabilities from claims for non-compliance. In addition, we pay a significant number of our hourly staff at rates consistent with, but higher than, the applicable federal or state minimum wage. Accordingly, increases in the minimum wage would increase our labor cost. We are also subject to various laws and regulations relating to our current and any future franchise operations. See “Risk Factors—*Governmental regulation may adversely affect our ability to open new stores or otherwise adversely affect our existing and future operations and results.*”

We are also subject to various federal and state laws that regulate the offer and sale of franchises and aspects of the licensor-licensee relationships. Many state franchise laws impose restrictions on the franchise agreement, including the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew and the ability of a franchisor to designate sources of supply. The Federal Trade Commission, or the FTC, and some state laws also require that the franchisor furnish to prospective franchisees a franchise disclosure document that contains prescribed information and, in some instances, require the franchisor to register the franchise offering.

*Environmental Matters.* We are subject to federal, state and local environmental laws and regulations concerning the use of polystyrene products, and several counties in which our stores are located have already banned the use of our polystyrene cups. During 2012, we continued to make progress on certain eco-sustainability initiatives first launched in 2009, focusing on phasing out the use of polystyrene cups, as well as increasing the use of recyclable products, and reducing waste. Our new double-walled paper cup is scheduled to be in use by the summer of 2013, and will replace our use of polystyrene cups in the U.S. Our other green initiatives include the use of more environmentally friendly packaging for our cup carriers, oatmeal cups and lids, breakfast clear cups and lids, spoons and napkins, all of which are made from recycled material. We have also reduced the amount of corrugated cardboard used for bulk shipping, reduced labeling requirements, and reduced freight, resulting in lower fuel emissions. Our efforts have also resulted in the launch of several optimization programs to reduce waste, such as participation in recycling programs, as well as composting programs of our food waste where it is feasible for us to do so.

## **Trademarks and Domain Names**

The Company owns and/or has applied to register numerous trademarks and service marks in the United States and in other jurisdictions covering additional countries throughout the world. Some of the Company’s trademarks, including Jamba Juice® and the Jamba logo are of material importance to the Company. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained. In addition, the Company has registered and maintains numerous Internet domain names, including “jamba.com” and “jambajuice.com.”

## **Management Information Systems**

Each Company Store has computerized point-of-sale registers which collect transaction data used to generate pertinent information, including sales transactions and product mix. Additionally, the point-of-sale system is used to authorize, batch and settle credit card data. All product prices are programmed into the point-of-sale register from the Company's corporate office. Franchise Stores generally use the same point-of-sale registers as Company Stores, but may elect to use alternative systems provided Company approval and certain information is shared with the Company. Franchisees set their own menu prices.

Company Stores use the Company's licensed labor management software to record employee time clock information, schedule labor, and provide management reports. Company Stores and many Franchise Stores use the Company's licensed food cost management software to improve inventory management and provide management reports.

Our continued focus on technological and procedural enhancements, in areas such as labor and inventory management, has relieved our store managers from manual administrative tasks and enables them to better focus on delivering exceptional customer service.

## **Seasonality**

Our business is subject to day-to-day volatility based on weather and varies by season. A significant portion of the Company's revenue is realized during the second and third quarters of the fiscal year, which include the summer months. The fourth quarter of the fiscal year, which encompasses the winter months and the holiday season, has traditionally been our lowest revenue volume quarter. Our business will likely continue to be subject to seasonal patterns for the foreseeable future, given that the largest portion of our sales continues to be from the sale of smoothies during the warmer parts of the year. Because of the seasonality of the business, results for an individual quarter are not necessarily indicative of the results which may be achieved for the full fiscal year.

## **Executive Officers**

Our executive officers, their respective ages and positions as of March 6, 2013, and descriptions of their business experience are set forth below. There are no family relationships among any of the executive officers named below.

### **James D. White, Chairman, President and Chief Executive Officer, age 52**

Mr. White has served as the Company's President and Chief Executive Officer since December 2008. He was appointed Chairman in May 2010. From 2005 to 2008, Mr. White was Senior Vice President of Consumer Brands for Safeway, Inc. with responsibility for brand strategy, innovation, manufacturing and commercial sales. From 2002 to 2005, Mr. White was Senior Vice President of Business Development, North America at the Gillette Company.

### **Karen L. Luey, Executive Vice President, Chief Financial Officer, Chief Administrative Officer and Secretary, age 52**

Ms. Luey has served as the Company's Chief Financial Officer since August 2008, Executive Vice President, Chief Administrative Officer since May 2011, and Secretary since February 2012. She served as the Company's Senior Vice President from August 2008 to May 2011 and Principal Accounting Officer since April 2007. Ms. Luey joined Jamba Juice Company as Vice President and Controller in April 2007. From 2005 to 2007, Ms. Luey was Vice President, Corporate Controller, and Principal Accounting Officer of LeapFrog Enterprises.

### **Bruce Schroder, Executive Vice President and Chief Operating Officer, age 53**

Mr. Schroder has served as Executive Vice President and Chief Operating Officer of Jamba Juice Company since May 2011. He served as President, Store Operations of Jamba Juice Company from April 2010 to May 2011. From 2008 to 2010, Mr. Schroder was Chief Operating Officer of Adina for Life. From 2007 to 2008, Mr. Schroder served as Chief Operating Officer of Aimco Capital. From 2003 to 2007, Mr. Schroder held various positions with Peet's Coffee & Tea, lastly serving as Vice President and General Manager, Retail.

### **Julie S. Washington, Senior Vice President and Chief Brand Officer, age 47**

Ms. Washington has served as Senior Vice President and Chief Brand Officer of Jamba Juice Company since January 2012. Ms. Washington joined Jamba Juice Company as Vice President and General Manager, Consumer Products in 2010. During 2008 to 2010, Ms. Washington was Vice President of Marketing at Luxottica Retail. From 2005 to 2007, Ms. Washington was North America Director of Shopper Marketing at Procter and Gamble.

## **Employees**

As of January 1, 2013, we employed approximately 4,300 persons, approximately 180 of whom were at our corporate offices or part of our field, licensing, direct selling and franchise support and operations. The remainder of the employees was Company Store management and hourly store personnel. The Company also hires a significant number of seasonal employees during its peak selling season during the spring and summer. Our employees are not covered by a collective bargaining agreement. We consider our employee relations to be good. We place a priority on staffing our stores and support center positions with skilled team members who embrace our culture and invest in training programs to ensure the quality of our store operations.

## **Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available on our website at <http://ir.jambajuice.com>, free of charge as soon as reasonably practicable after we electronically file such reports with, or furnish those reports to, the Securities and Exchange Commission (the "SEC"). The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information that we file electronically with the SEC at <http://www.sec.gov>. The public may also read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Investors may obtain information on the operation of the SEC Public Reference Room by calling the SEC at 1-800-SEC-0330. Our Corporate Governance Principles and Practices, Board of Directors committee charters (including the charters of the Audit Committee, Compensation and Executive Development Committee and Nominating and Governance Committee) and our code of ethics entitled "Code of Business Conduct and Ethics" also are available at that same location on our website. Information on our website is not incorporated into this annual report. Stockholders may request free copies of these documents from:

**Jamba, Inc.**

c/o ICR, Inc.

825 Third Avenue, 31<sup>st</sup> Floor

New York, NY 10022

(646) 277-1212

*investors@jambajuice.com*

We included the certifications of the Chief Executive Officer and the Chief Financial Officer of Jamba, Inc. relating to the quality of our public disclosure, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, in this Annual Report on Form 10-K as Exhibits 31.1 and 31.2 hereto.

**ITEM 1A. RISK FACTORS**

You should carefully consider the risks described below. If any of the risks and uncertainties described below actually occurs, our business, financial condition and results of operations could be materially and adversely affected. The risk factors listed below, however, are not exhaustive. Other sections of this Annual Report on Form 10-K include additional factors that could materially and adversely impact our business, financial condition and results of operations. Moreover, we operate in a very competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all of these factors on our business, financial condition or results of operation.

**RISKS RELATED TO OUR BUSINESS**

*We may not be successful in implementing our strategic priorities, which may have a material adverse impact on our business and financial results.*

In fiscal 2012 we implemented our strategic priorities under our BLEND Plan 2.0, which we believed necessary to support the Company's continued growth and long-term stockholder value. On January 16, 2013, we announced our strategic priorities under the BLEND Plan 3.0, which we believe continues Jamba's path to a healthy, active lifestyle brand and creates long-term shareholder value, including:

Brand Building and Total Innovation;

Lifestyle Engagement;

Expand Growth Initiatives;

New Products, Partners, Channels and Markets; and

Drive Enterprise Efficiencies.

There can be no assurance that we will be able to continue to successfully implement these strategic priorities or whether these strategic priorities will be successful, and a failure of either could impede our growth and operating results.

***We have a history of net losses and may incur losses in the future.***

We have incurred net losses in five of the last six fiscal years. We may continue to incur net losses in the future and we cannot assure you that we will sustain profitability.

***A worsening of economic conditions or a decrease in consumer spending may substantially decrease our revenues and may adversely impact our ability to implement our business strategy.***

To a significant extent, our success depends on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. While there are signs that conditions may be improving, there is no certainty that this trend will continue or that credit and financial markets and confidence in economic conditions will not deteriorate again. Accordingly, we may experience declines in revenue during economic turmoil or during periods of uncertainty. Any material decline in the amount of discretionary spending, leading cost-conscious consumers to be more selective in restaurants visited, could have a material adverse effect on our revenue, results of operations, business and financial condition.

***The challenges of competing with the many food services businesses may result in reductions in our revenue and operating margins.***

We compete with many well-established companies, food service and otherwise, on the basis of taste, quality and price of product offered, customer service, atmosphere, location and overall consumer experience. Our success depends, in part, upon the popularity of our products and our ability to develop new menu items that appeal to consumers across all four day-parts. Shifts in consumer preferences away from our products, our inability to develop

new menu items that appeal to consumers across all day-parts, or changes in our menu that eliminate items popular with some consumers could harm our business. We compete with other smoothie and juice bar retailers, specialty coffee retailers, yogurt and ice cream shops, bagel shops, fast-food restaurants, delicatessens, cafés, take-out food service companies, supermarkets and convenience stores. Our competitors change with each of the four day-parts, ranging from coffee bars and bakery cafés to casual dining chains. Many of our competitors or potential competitors have substantially greater financial and other resources than we do, which may allow them to react to changes in the market quicker than we can. In addition, aggressive pricing by our competitors or the entrance of new competitors into our markets, could reduce our revenue and operating margins.



***We are subject to risks associated with climate change and climate change regulation.***

Laws and regulations regarding climate change, energy usage and emissions controls may impact the Company directly through higher cost of goods. The potential impacts of climate change and climate change regulations are highly uncertain at this time, and the Company cannot anticipate or predict the material adverse effect on our financial condition, results of operations or cash flows as a result of climate change and climate change regulations.

***Our revenue is subject to volatility based on weather and varies by season.***

Seasonal factors cause our revenue to fluctuate from quarter to quarter. Because the majority of our revenue results from the sale of smoothies, our revenue is typically lower during the winter months and the holiday season and during periods of inclement weather (because fewer people choose cold beverages) and higher during the spring, summer and fall months (for the opposite reason).

***Fluctuations in various food and supply costs, particularly fruit and dairy, could adversely affect our operating results.***

Supplies and prices of the various products that we use to prepare our offerings can be affected by a variety of factors, such as weather, seasonal fluctuations, demand, politics and economics in the producing countries. These factors subject us to shortages or interruptions in product supplies, which could adversely affect our revenue and profits. In addition, the prices of fruit and dairy, which are the main products in our offerings, can be highly volatile. The quality of fruit we seek tends to trade on a negotiated basis, depending on supply and demand at the time of the purchase. An increase in pricing of any fruit that we use in our products could have a significant adverse effect on our profitability. In addition, higher diesel and gasoline prices may affect our supply or transportation costs and may affect our profitability. Although we attempt to mitigate the risks of volatile commodity prices and allow greater predictability in pricing by entering into fixed price or to-be-fixed priced purchase commitments for a portion of our fruit and dairy requirements, we cannot assure you that these activities will be successful or that they will not result in our paying substantially more for our fruit supply than would have been required absent such activities. Declines in sales may also adversely affect our business to the extent we have long-term purchase commitments in excess of our needs.

***We are dependent upon a limited number of distributors for a significant amount of our food distribution for our Stores.***

For Company Stores, we maintain food distribution contracts primarily with one distributor, Systems Services of America (“SSA”), and a majority of Franchise Stores are serviced by The SYGMA Network, Inc. (“SYGMA”) Although we believe our relationships with these distributors will result in increased operation efficiencies and cost savings, we cannot assure you that we will be successful or that we will not have to pay substantially more for distributor services in the event SSA or SYGMA have operational problems. Should either distributor have operational problems, our operations could be adversely affected.

*We may face difficulties entering into new or modified arrangements with existing or new suppliers or new service providers.*

If we expand our operations into new geographic areas through new Company Stores, Franchise Stores and/or the JambaGO platform, or introduce new products with special manufacture, storage or distribution requirements, we may have to seek new suppliers and service providers or enter into new arrangements with existing ones. We may also encounter difficulties or be unable to negotiate pricing or other terms as favorable as those we currently enjoy, which could harm our business and operating results. For example, the potential growth in smaller format stores may cause the frequency of shipments to increase and the average number of cases per shipment to decrease, thereby increasing the Company’s per case shipment costs.

***The Company's success depends on the value of the Jamba Juice and Jamba brands.***

The Jamba Juice brand practice is to inspire and simplify healthy living. We believe we must preserve and grow the value of the Jamba Juice brand in order to be successful in building our business and particularly in building a consumer products growth platform primarily under the Jamba brand. Brand value is based in part on consumer perceptions, and the Jamba Juice brand has been highly rated in several recent brand studies. We intend to reinforce and extend these perceptions for the Jamba brand to help support our licensing efforts. Our brand building initiatives involve increasing our product offerings, opening new Franchise Stores, expanding the JambaGO and Jamba Smoothie Station platforms and entering into licensing arrangements to increase awareness of our brands and create and maintain brand loyalty. Our licensees are often authorized to use our logos and provide branded beverages, food and other products directly to customers. We provide training and support to, and monitor the operations of, these business partners, but the product quality and service they deliver may be diminished by any number of factors beyond our control, including financial pressures. We believe customers expect the same quality of products and service from our licensees as they do from us. Any shortcoming of one of our business partners, particularly an issue affecting the quality of the service experience or the safety of beverages or food, may be attributed by customers to us, thus damaging our reputation and brand value and potentially affecting our results of operations. If our brand building initiatives are unsuccessful, or if business incidents occur which erode consumer perceptions of our brand, then the value of our products may diminish and we may not be able to implement our business strategy.

***We may experience higher than anticipated costs in connection with the refresh and remodel of existing Stores.***

Updating the format and design of our Stores is important to maintaining a positive consumer association with the Jamba Juice brand. While we intend for such remodeling efforts to inure to the benefit of the Company, the associated costs may be higher than expected, and our revenues and expenses could be negatively impacted.

***We may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.***

Our intellectual property is material to the conduct of our business. Our ability to implement our business plan successfully depends in part on our ability to build further brand recognition using our trademarks, service marks, trade dress and other proprietary intellectual property, including our name and logos and the unique ambiance of our stores, both domestically and overseas. We have secured the ownership and rights to our marks in the United States and have filed or obtained registrations in select classes including restaurant services in most other significant foreign jurisdictions. We undertake similar efforts to protect our brands in other relevant consumer product categories in relevant jurisdictions. If our efforts to protect our intellectual property are inadequate, or if any third party misappropriates or infringes on our intellectual property, the value of our store brand and our consumer products brands may be harmed, which could have a material adverse effect on our business. While we have not encountered claims from prior users of intellectual property relating to restaurant services in areas where we operate or intend to

conduct material operations in the near future, there can be no assurances that we will not encounter such claims. If so, this could harm our image, brands or competitive position and cause us to incur significant penalties and costs.

***Our business could be adversely affected by increased labor or healthcare costs. Self-insurance plan claims could materially impact our results.***

Labor is a primary component in the cost of operating our business. We compete with other employers in our markets for hourly workers and may become subject to higher labor costs as a result of such competition. We devote significant resources to recruiting and training our team members. A considerable number of the team members employed by us are paid at rates related to the federal minimum wage. In 2009, the federal minimum wage increased to \$7.25 per hour. Additionally, many of our Company Store team members work in stores located in states where the minimum wage is greater than the federal minimum wage and receive compensation equal to the state's minimum wage. The current California minimum wage is \$8.00 per hour. Moreover, municipalities may set minimum wages above the applicable state standards, such as in San Francisco, which raised the minimum wage to \$10.55 per hour as of January 1, 2013. Any further increases in the federal minimum wage or the enactment of additional state or local minimum wage increases where our employees may be located will increase our labor costs. Competition for employees in various markets could also result in higher required wage rates. Furthermore, the Company is self-insured for employee healthcare and dental benefits. The Company pays a substantial part of the healthcare benefits for team members at the general manager level and above and for those working at the Company's corporate office. Liabilities associated with the risks that the Company retains are estimated in part, by considering historical claims experience, demographic factors, severity factors, and other actuarial assumptions. The estimated accruals for these liabilities are based on statistical analyses of historical industry data as well as the Company's actual historical trends. If actual claims experience differs from the Company's assumptions, historical trends, and estimates, changes in the Company's insurance reserves could materially impact our results of operations.

The Patient Protection and Affordable Care Act enacted in 2010, as well as other healthcare reform legislation being considered by Congress and state legislatures, may have a material adverse impact on our business. We are currently evaluating the potential effects of the Patient Protection and Affordable Care Act on our business. While the costs of such legislation will occur after 2013, due to provisions requiring phasing-in over time, changes to our healthcare costs structure could have a significant, negative impact on our future business.

***We are subject to all of the risks associated with leasing space subject to long-term non-cancelable leases.***

We and our franchisees compete for real estate and our or their inability to secure appropriate real estate or lease terms could impact our respective abilities to grow. Our leases generally have initial terms of between five and 15 years, and generally can be extended only in five-year increments if at all. We generally cannot cancel these leases. If an existing or new store is not profitable, and we decide to close it, as we have done in the past and may do in the future, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Additionally, because we sublease the premises of Company Stores sold to franchisees in our refranchising program, we are still legally liable to the landlords under the prime leases, and we will need to assume obligations under the prime lease should a franchisee default on its sublease obligations. Current locations of our stores and franchised locations may become unattractive as demographic patterns change. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close stores in desirable locations.

***Our business and results may be subject to disruption from work stoppages, terrorism or natural disasters.***

Our operations may be subject to disruption for a variety of reasons, including work stoppages, acts of war, terrorism, pandemics, fire, earthquake, flooding or other natural disasters. These disruptions can result in, among other things, lost sales when consumers stay home or are physically prevented from reaching our stores, property damage, lost sales when our stores are forced to close for extended periods of time and interruptions in supply when vendors suffer damages or transportation is affected. In addition, our corporate offices and support center is located in Northern California near known earthquake fault lines. If a major earthquake or other natural disaster were to occur in Northern California, our corporate offices and support center may be damaged or destroyed. Such a disruption could result in the temporary or permanent loss of critical data, suspension of operations, delays in shipments of product, and disruption of business in both the affected region and nationwide, which would adversely affect our revenue and results of operations.

***The unexpected loss of one or more members of our executive management team could adversely affect our business.***

Our success depends substantially on the contributions and abilities of our executive management team and other key employees. We believe that these individuals understand our operational strategies and priorities and the steps necessary to drive our long-term growth and stockholder value. Competition for personnel in our industry is strong and the ability to retain key employees during a revitalization effort can be difficult. While we have entered into employment agreements with each of our executive officers, we cannot make any assurances that we can retain these individuals for the period necessary for us to achieve and sustain profitability. Our failure to continue to recruit, retain, and motivate executive management and other key employees sufficient to maintain a competitive position within our industry and to implement our strategic priorities would adversely affect our results of operations.

***We are highly dependent on the financial performance of stores concentrated in certain geographic areas.***

Our financial performance is highly dependent on stores located in California. Stores located in California comprise over 95% of Company Stores and generate a significant portion of our Company Store revenue. These stores also comprise over 35% of our total system stores. In recent years, California and other states have experienced significant negative economic impact due to the current economic climate. If geographic regions in which we have a high concentration of stores continue to experience significant economic pressures, our sales and operating results could be negatively impacted. In addition, state and local laws, government regulations, weather conditions and natural disasters affecting California and other regions where we have a high concentration of stores may have a material impact upon our operating results.

***We may not realize the anticipated benefits of any acquisitions, joint ventures and strategic investments.***

We expect to continue to evaluate and consider a wide array of potential strategic transactions, including acquisitions, joint ventures and strategic investments. At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations. We may not realize the anticipated benefits of any or all of our acquisitions, joint ventures or strategic investments, or we may not realize them in the time frame expected. Future acquisitions, joint ventures or strategic investments may require us to issue additional equity securities, spend a substantial portion of our available cash, or incur debt or liabilities, amortize expenses related to intangible assets or incur write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our stockholders.

***Governmental regulation may adversely affect our ability to open new stores or otherwise adversely affect our existing and future operations and results.***

We and our franchisees are subject to various federal, state and local regulations. Each of our stores is subject to state and local licensing and regulation by health, sanitation, food and workplace safety and other agencies. We and our franchisees may experience material difficulties or failures in obtaining the necessary licenses or approvals for new stores, which could delay planned store openings. In addition, stringent and varied requirements of local regulators with respect to zoning, land use and environmental factors could delay or prevent development of new stores in particular locations.

Our operations are also subject to the U.S. Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, along with the U.S. Americans with Disabilities Act, family leave mandates and a variety of similar laws enacted by the states that govern these and other employment law matters. In recent years, there has been an increased legislative, regulatory and consumer focus on nutrition and advertising practices in the food industry. Establishments operating in the quick-service and fast-casual segments have been a particular focus, and compliance with additional regulations can become costly and affect our operating results.

***Our federal, state and local tax returns may, from time to time, be selected for audit by the taxing authorities, which may result in tax assessments, interest or penalties that could have a material adverse impact on our results of operations and financial position.***

We are subject to federal, state and local taxes in the U.S. In making tax estimates and paying taxes, significant judgment is often required. Although we believe our tax positions and estimates are reasonable, if a taxing authority disagrees with the positions taken by the Company, we could have an additional tax liability, including interest and penalties. If material, payment of such additional amounts could have a material impact on our results of operations and financial position.

***We rely heavily on information technology and a material failure of that technology could impair our ability to efficiently operate our business.***

Our business operations rely heavily on information systems, including point-of-sale processing in our stores, management of our supply chain and distribution system, vendor and franchisee invoicing, and various other processes and procedures. The efficient management of our business depends significantly on the reliability and capacity of these systems, and any related failure and/or breach of security could cause delays in customer service and reduce efficiency in our operations. Significant capital investments might be required to remediate any problems.

***Failure to protect the integrity and security of individually identifiable data of customers, vendors or employees could expose us to data loss, litigation and liability, and our reputation could be significantly harmed.***

Our business operations might require us to process and/or maintain certain personal, business and financial information about customers, vendors and employees. The use of such information by us is regulated by federal, state and foreign laws, as well as certain third party agreements. If our security and information systems are compromised or if our employees or franchisees fail to comply with the applicable laws and regulations, and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation and result in litigation and settlement costs, damage awards, or penalties and fines. As privacy and information security law and regulations change, we may incur additional costs to ensure that we remain in compliance.

***A failure or breach of our security systems or infrastructure as a result of cyber-attacks could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.***

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. These threats may derive from fraud or malice on the part of our employees or third parties, or may result from human error or accidental technological failure. These threats include cyber-attacks such as computer viruses, malicious code, phishing attacks or information security breaches.



To date, we have not experienced any material impact relating to cyber-attacks or other information security breaches. Any actual attacks could lead to damage to our reputation, additional costs (such as repairing systems and investigation or compliance costs), penalties, financial losses to both us and our customers and partners and the loss of customers and business opportunities. If such attacks are not detected immediately, their effect could be compounded. As cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could materially adversely affect our overall business and results of operations.

## **RISKS RELATED TO OUR FRANCHISE BUSINESS**

### ***Our growth strategy depends on increasing franchise ownership.***

Because our current growth strategy is to emphasize Franchise Store development, we receive an increasingly significant amount of our revenues in the form of royalties from our franchisees. Accordingly, the success of our business is increasingly dependent upon the operational and financial success of our franchisees. This strategy is subject to risks and uncertainties. While our franchise agreements set forth certain operational standards and guidelines, we have limited control over how our franchisees' businesses are run, and any significant inability of our franchisees to operate successfully could adversely affect our operating results through decreased royalty payments. We may not be able to identify franchisee candidates with appropriate experience and financial resources or to negotiate mutually acceptable agreements with those that do. Our franchisee candidates may not have access to the financial or management resources that they need to open or continue operating the stores contemplated by their franchise agreements with us. In addition, franchisees may not be able to find suitable sites on which to develop new stores or negotiate acceptable lease terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. If our franchisees incur too much debt or if economic or sales trends deteriorate such that they are unable to repay existing debt, it could result in financial distress or even possible insolvency or bankruptcy. Some of our franchisees experienced financial pressures during fiscal 2012. If a significant number of our franchisees become financially distressed, this could harm our operating results through reduced or delayed royalty payments or increased rent obligations for leased properties on which we are contingently liable.

### ***Expansion into new geographic markets may present increased risks.***

Franchise growth is planned in new geographic areas in the United States and select international markets for fiscal 2013. Our future results, and the results of new Franchise Stores, depend on various factors, including successful selection and expansion into these new geographic markets and market acceptance of the Jamba Juice experience. Those markets may have different competitive conditions, consumer tastes and discretionary spending patterns as compared to existing markets. As a result, those new stores may be less successful than stores in our existing markets. Consumers in a new market may not be familiar with the Jamba Juice brand, and we may need to build brand awareness in that market through greater investments in advertising and promotional activity than we originally

planned. Franchisees may find it more difficult in new markets to hire, motivate and keep qualified employees who can project our vision, passion and culture. Stores opened in new markets may also have lower average store revenue than stores opened in existing markets, and may have higher construction, occupancy or operating costs than stores in existing markets. Furthermore, we may have difficulty in finding reliable suppliers or distributors or ones that can provide us, either initially or over time, with adequate supplies of ingredients meeting our quality standards. Revenue at stores opened in new markets may take longer to increase and reach expected revenue levels, and may never do so, thereby affecting our overall royalty income. As with the experience of other retail food concepts that have tried to expand nationally and internationally, we may find that the Jamba Juice concept has limited appeal to customers in new markets or we may experience a decline in the popularity of the Jamba Juice experience. Newly opened stores may not succeed, future markets and stores may not be successful and, even if we are successful, our average store revenue, and the royalty income generated therefrom, may not increase and may even decline.

*Our efforts to expand internationally may not be successful and could impair the value of our brand.*

Our current strategy includes international expansion in a number of countries around the world. Expanding into international markets will expose us to new risks and uncertainties, including product supply, import/export limitations and regulations to which we are not currently bound and may not be currently set up to handle, consumer preferences, occupancy costs, operating expenses and labor and infrastructure challenges. If stores open in international markets and such stores are unable to source inventory locally, franchisees may be required to import inventory from our U.S. distributors and any resulting import duties, tariffs, transportation or other charges may disproportionately impact such stores' cost of goods which could harm the viability of such stores. Finally, international operations have inherent risks such as foreign currency exchange rate fluctuations, the application and effect of local laws and regulations and enforceability of intellectual property and contract rights. Additionally, effectively managing growth can be challenging, particularly as we continue to expand into new international markets where we must balance the need for flexibility and a degree of autonomy for local management against the need for consistency with our goals, philosophy and standards. Failure of our international expansion strategy could have a material adverse impact on our results of operations.

***Termination or non-renewal of franchise agreements may disrupt store performance.***

Each franchise agreement is subject to termination by us in the event of default by the franchisee after the applicable cure period. Upon the expiration of the initial term of a franchise agreement, the franchisee generally has an option to renew for an additional term. There is no assurance that franchisees will meet the criteria for renewal or will desire or be able to renew their franchise agreements. If not renewed, a franchise agreement and payments required thereunder will terminate. We may be unable to find a new franchisee to replace such lost revenue. Furthermore, while we will be entitled to terminate franchise agreements following a default that is not cured within the applicable cure period, if any, the disruption to the performance of the stores could materially and adversely affect our business.

***Our franchisees could take actions that harm our reputation and reduce our royalty revenue.***

While we have franchise agreements in place with our franchisees that provide certain operational requirements, we do not exercise control over the day-to-day operations of our Franchise Stores. Any operational or development shortcomings of our Franchise Stores, including their failure to comply with applicable laws, are likely to be attributed to our system-wide operations in the eyes of consumers and could adversely affect our reputation and have a direct negative impact on the royalty revenue we receive from those stores.

***We could face liability from our franchisees and from government agencies.***

A franchisee or government agency may bring legal action against us based on the franchisor/franchisee relationship. Various state and federal laws govern our relationship with our franchisees and our potential sale of a franchise. If we fail to comply with these laws, we could be liable for damages to franchisees, fines or other penalties. Expensive litigation with our franchisees or government agencies may adversely affect both our profits and our important relations with our franchisees.

**RISKS RELATED TO THE FOOD SERVICE BUSINESS**

***Litigation and publicity concerning food quality, health claims, and other issues can result in liabilities, increased expenses, distraction of management, and can also cause customers to avoid our products, which could adversely affect our results of operations, business and financial condition.***

Food service businesses can be adversely affected by litigation and complaints from customers or government authorities resulting from food quality, health claims, allergens, illness, injury or other health concerns or operating issues stemming from one retail location or a number of retail locations. Adverse publicity about these allegations may negatively affect us, regardless of whether the allegations are true, by discouraging customers from buying our products.

Our customers occasionally file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to our stores, or that we have problems with food quality or operations. We are also subject to a variety of other claims arising in the ordinary course of our business, including false advertising claims, personal injury claims, contract claims and claims alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters, and we could become subject to class action or other lawsuits related to these or different matters in the future. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment significantly in excess of our insurance coverage, or for which we are not covered by insurance, could materially and adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also materially and adversely affect our reputation or prospects, which in turn could adversely affect our results.

In addition, the food services industry has been subject to a growing number of claims based on the nutritional content of food products they sell, and disclosure and advertising practices. We may also be subject to this type of proceeding in the future and, even if not, publicity about these matters (particularly directed at the quick-service and fast-casual segments of the industry) may harm our reputation or prospects and adversely affect our results.

We are also impacted by trends in litigation, including class-action allegations brought under various consumer protection and employment laws, including wage and hour laws. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, these proceedings could result in substantial costs and may require that we devote substantial resources to defend our Company and could affect the future premiums we would be required to pay on our insurance policies. Further, changes in governmental regulations could have adverse effects on our business and subject us to additional regulatory actions.

*Food safety concerns and instances of food-borne illnesses could harm our customers, result in negative publicity and cause the temporary closure of some stores and, in some cases, could adversely affect the price and availability of fruits and vegetables, any of which could harm our brand reputation, result in a decline in revenue or an increase in costs.*

We consider food safety a top priority and dedicate substantial resources toward ensuring that our customers enjoy high-quality, safe and wholesome products. However, we cannot guarantee that our internal controls and training will be fully effective in preventing all food-borne illnesses. Furthermore, our reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents (such as e. coli, hepatitis A, salmonella or listeria) could occur outside of our control and at multiple locations. Instances of food-borne illnesses, whether real or perceived, and whether at our stores or those of our competitors, could harm customers and otherwise result in negative publicity about us or the products we serve, which could adversely affect revenue. If there is an incident involving our stores serving contaminated products, our customers may be harmed, our revenue may decrease and our brand name and reputation may be impaired. If our customers become ill from food-borne illnesses, we could be forced to temporarily close some stores. In addition, we may have different or additional competitors for our intended customers as a result of making any such changes and may not be able to compete successfully against those competitors. Food safety concerns and instances of food-borne illnesses and injuries caused by food contamination have in the past, and could in the future, adversely affect the price and availability of affected ingredients and cause customers to shift their preferences, particularly if we choose to pass any higher ingredient costs along to consumers. As a result, our costs may increase and our revenue may decline. A decrease in customer traffic as a result of these health concerns or negative publicity, or as a result of a change in our menu or dining experience or a temporary closure of any of our stores, could materially and adversely impact our business, financial condition and results of operations.

*Bans on the use of polystyrene products can negatively impact our operating results.*

We are subject to regulations regarding the use of polystyrene products, and several counties in which our stores are located have already banned the use of our polystyrene cups. As more state and local governments take similar actions, we may be subject to further bans on the use of polystyrene cups. Although our new double-walled paper cup is scheduled to be in use by summer of 2013 and is intended to replace our use of polystyrene cups system-wide, a national ban on the use of polystyrene cups could potentially increase our costs and create customer satisfaction issues that could materially and adversely impact our business, financial condition and results of operations.

## **RISKS RELATED TO OWNERSHIP OF COMMON STOCK**

*Failure of the Company's internal control over financial reporting could harm its business and financial results.*

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes: (i) maintaining reasonably detailed records that accurately and fairly reflect our transactions; and (ii) providing reasonable assurance that we (a) record transactions as necessary to prepare the financial statements, (b) make receipts and expenditures in accordance with management authorizations, and (c) would timely prevent or detect any unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure could cause an immediate loss of investor confidence in us and a sharp decline in the market price of our common stock.

***Our anti-takeover provisions may delay or prevent a change of control of us, which may adversely affect the price of our common stock.***

Certain provisions in our corporate documents and Delaware law may delay or prevent a change of control of us, which could adversely affect the price of our common stock. For example, we have adopted a stockholder rights plan, commonly known as a “poison pill,” which would make it difficult for someone to acquire the Company without the approval of the Board of Directors. Also, the Company’s amended and restated certificate of incorporation and bylaws include other anti-takeover provisions such as:

- limitations on the ability of stockholders to amend our charter documents, including stockholder supermajority voting requirements;

- the inability of stockholders to act by written consent or to call a special meeting absent the request of the holders of a majority of the outstanding common stock; and

- advance notice requirements for nomination for election to the board of directors and for stockholder proposals.

The Company is also afforded the protections of Section 203 of the Delaware General Corporation Law which prevents it from engaging in a business combination with a person who acquires at least 15% of its common stock for a period of three years from the date such person acquired such common stock, unless board of directors or stockholder approval is obtained.

***Our stock price may fluctuate significantly.***

The trading price of our common stock has been volatile and is likely to continue to be volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors. The stock market has experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. Broad market factors, including the effect of international political instability, armed conflict, natural disasters, financial markets, and general economic conditions, may have a material adverse effect on our stock price, regardless of our actual performance.

***The securities purchase agreement for the sale of shares of the Series B Preferred (the “Securities Purchase Agreement”) and the certificate of designation governing the Series B Preferred (the “Series B Certificate of Designation”) grant certain rights and privileges to the holders of our Series B Preferred in preference to the holders of our common stock.***

Under the Securities Purchase Agreement and the Series B Certificate of Designation, the holders of our Series B Preferred are entitled to the following rights and privileges:

- dividends at a rate of 8% per annum payable quarterly in cash at the option of the Company, increasing to 10% in the event the Company fails to satisfy certain obligations;
- a liquidation preference prior to the payment of any amount with respect to shares of our common stock;
- rights to prohibit the Company from, directly or indirectly, taking or agreeing to take certain actions involving a broad array of corporate activities;
- redemption rights to require us to redeem all or any portion of the outstanding shares of Series B Preferred on or after June 16, 2016; and

- preemptive rights to purchase a portion of any new securities sold by us, subject to certain exceptions.

These rights and privileges may result in restrictions which could limit our ability to plan for or react to market conditions or meet extraordinary capital needs or could otherwise restrict corporate activities, any of which could have a material adverse impact on our business.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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**ITEM 2. PROPERTIES**

The Company's corporate headquarters is located at 6475 Christie Avenue, Emeryville, California. This facility is occupied under a lease for approximately 37,000 square feet, at a cost of approximately \$1.1 million per year and has a lease term that expires on January 31, 2017.

The Company, including our franchisees, currently operates all of its stores under leases and typically signs five to 15 year leases. The Company does not intend to purchase real estate for any of its sites in the future. The Company believes that the size and flexibility of its format provide it with a competitive advantage in securing sites. At January 1, 2013, the Company served its customers primarily through a combination of Company Stores and Franchise Stores in 28 different states, the District of Columbia, South Korea, Canada, and the Philippines.

**Store Count as of January 1, 2013**

	<b>Company Stores</b>	<b>Franchise Stores</b>	<b>Total</b>
United States			
Arizona	—	33	33
California	286	111	397
Colorado	—	21	21
Connecticut	—	1	1
District of Columbia	—	2	2
Florida	—	18	18
Georgia	—	1	1
Hawaii	—	33	33
Idaho	—	8	8
Illinois	—	39	39
Indiana	—	4	4
Kentucky	—	3	3
Louisiana	—	3	3
Maryland	—	3	3
Massachusetts	—	3	3
Minnesota	—	9	9
North Carolina	—	4	4
New Jersey	1	8	9
Nevada	—	16	16
New York	14	10	24
Ohio	—	2	2
Oklahoma	—	8	8
Oregon	—	23	23
Pennsylvania	—	2	2
Texas	—	47	47
Utah	—	22	22

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Virginia	—	1	1
Washington	—	36	36
Wisconsin	—	2	2
Total in United States	301	473	774
International			
Korea	—	21	21
Philippines	—	6	6
Canada	—	8	8
Total International	—	35	35
Totals	301	508	809

As of January 1, 2013, the Company had expanded its JambaGO pre-blended smoothie concept into 404 served locations in 16 states, including 355 K-12 school sites.

### **ITEM 3. LEGAL PROCEEDINGS**

The Company is party to various legal proceedings arising in the ordinary course of its business, but it 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 4. MINE SAFETY DISCLOSURE**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR JAMBA, INC.'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The shares of Jamba, Inc. common stock are currently quoted on the NASDAQ Global Market under the symbol JMBA.

The closing price per share of Jamba, Inc. common stock as reported on the NASDAQ Global Market on March 1, 2013, was \$2.80. Shares of our Series B Preferred are not publicly traded and there is no market for these securities.

The following table sets forth, for the fiscal quarter indicated, the quarterly high and low closing sales prices of our shares of common stock as reported on the NASDAQ Global Market, as applicable, for each quarter during the last two fiscal years.

	<b>Common Stock</b>	
	<b>High</b>	<b>Low</b>
2011 First Quarter	2.55	2.02
2011 Second Quarter	2.48	2.05
2011 Third Quarter	2.20	1.29
2011 Fourth Quarter	1.73	1.26
2012 First Quarter	2.21	1.32
2012 Second Quarter	2.10	1.80
2012 Third Quarter	2.84	2.23
2012 Fourth Quarter	2.42	1.82

We have not historically paid any cash dividends on our common stock. We intend to continue to retain earnings, to the extent we have earnings, for use in the operation and expansion of our business, and therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future.

As of March 1, 2013, there were 102 holders of record of our common stock.



**Performance Graph**

The following graph compares our cumulative total stockholder return since January 1, 2008 with the cumulative total return of (i) the NASDAQ Composite Index, (ii) the Russell 2000 Index and (iii) Russell MicroCap Index. The graph assumes that the value of the investment in our common stock and each index (including reinvestment of dividends) was \$100 on January 1, 2008 in the case of our common stock and an investment in an index.

	1/1/08	12/30/08	12/29/09	12/28/10	1/3/12	1/1/13
Jamba Inc.	100.00	12.42	45.95	63.51	35.68	60.54
NASDAQ Composite	100.00	59.03	82.25	97.32	98.63	110.78
Russell 2000	100.00	66.21	84.20	106.82	102.36	119.09
Russell MicroCap	100.00	60.22	76.77	98.95	89.77	107.50

**ITEM 6. SELECTED FINANCIAL DATA**

The table below summarizes the Company's recent financial information. The historical information was derived from the consolidated financial statements of Jamba, Inc. and subsidiary for the fiscal years ended January 1, 2013, January 3, 2012, December 28, 2010, December 29, 2009 and December 30, 2008. The data set forth below should be read in conjunction with the consolidated financial statements and notes thereto in Item 8 and with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

(In thousands, except share data and per share amounts)

**Statements of Operations Data**

	<b>Fiscal Year Ended January 1, 2013</b>	<b>Fiscal Year Ended January 3, 2012 <sup>(1)</sup></b>	<b>Fiscal Year Ended December 28, 2010</b>	<b>Fiscal Year Ended December 29, 2009</b>	<b>Fiscal Year Ended December 30, 2008</b>
Revenue:					
Company stores	\$215,125	\$214,837	\$254,491	\$295,607	\$333,784
Franchise and other revenue	13,664	11,597	8,162	6,030	9,106
Total revenue	228,789	226,434	262,653	301,637	342,890
Costs and operating expenses (income):					
Cost of sales	50,215	49,503	61,307	72,669	89,163
Labor	63,086	67,868	85,189	100,589	120,251
Occupancy	29,473	31,092	38,561	43,888	44,868
Store operating	33,612	32,847	38,358	38,734	43,714
Depreciation and amortization	11,062	12,463	14,610	18,271	24,717
General and administrative	40,771	37,798	37,262	37,044	48,057
Store pre-opening	604	965	648	516	2,044
Impairment of long-lived assets	711	1,291	2,778	12,639	27,802
Store lease termination and closure	421	721	4,255	1,234	10,029
Trademark and goodwill impairment	—	—	—	—	84,061
Other operating, net	(1,779)	210	(4,292)	(3,840)	3,817
Total costs and operating expenses	228,176	234,758	278,676	321,744	498,523
Income (loss) from operations	613	(8,324)	(16,023)	(20,107)	(155,633)

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Other (expense) income:					
Gain on derivative liabilities	—	—	—	1,597	7,895
Interest income	61	159	73	404	365
Interest expense	(217)	(473)	(547)	(6,905)	(2,064)
Total other (expense) income	(156)	(314)	(474)	(4,904)	6,196
Income (loss) before income taxes	457	(8,638)	(16,497)	(25,011)	(149,437)
Income tax (expense) benefit	(155)	340	(159)	1,066	274
Net income (loss)	302	(8,298)	(16,656)	(23,945)	(149,163)
Preferred stock dividends and deemed dividends	(2,181)	(2,331)	(4,077)	(1,860)	—
Net loss attributable to stockholders	\$(1,879)	\$(10,629)	\$(20,733)	\$(25,805)	\$(149,163)
Weighted-average shares used in the computation of loss per share:					
Basic	70,699,438	66,310,654	58,711,495	53,632,299	53,252,855
Diluted	70,699,438	66,310,654	58,711,495	53,632,299	53,252,855
Loss per share:					
Basic	\$(0.03)	\$(0.16)	\$(0.35)	\$(0.48)	\$(2.80)
Diluted	\$(0.03)	\$(0.16)	\$(0.35)	\$(0.48)	\$(2.80)

(1)Fiscal year ended January 3, 2012 contains the results of operations for 53 weeks.



**Selected Balance Sheet Data (at period end)**

	<b>January 1, 2013</b>	<b>January 3, 2012</b>	<b>December 28, 2010</b>	<b>December 29, 2009</b>	<b>December 30, 2008</b>
Cash and cash equivalents	\$ 31,486	\$ 19,607	\$ 29,024	\$ 28,757	\$ 20,822
Total assets	93,613	88,293	100,054	125,818	145,720
Note payable	—	—	—	—	22,829
Total liabilities	72,101	68,109	72,112	80,213	105,299
Series B redeemable preferred stock	7,916	17,880	20,554	31,069	—
Total stockholders' equity	13,596	2,304	7,388	14,536	40,421
Total liabilities and stockholders' equity	93,613	88,293	100,054	125,818	145,720

**KEY FINANCIAL METRICS**

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 its performance based on the Company's consolidated GAAP results, including Company Store comparable sales.

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

The following table sets forth operating data that do not otherwise appear in our consolidated financial statements as of and for the fiscal years ended January 1, 2013 and January 3, 2012:

	<b>Fiscal Year Ended</b>		
	<b>January 2013</b>	<b>January 3, 2012</b>	
Percentage change in Company Store comparable sales <sup>(1)</sup>	5.1 %	4.0	%
Total Company Stores	301	307	
Total Franchise Stores—Domestic	473	443	
Total International Stores	35	19	
Total Stores	809	769	

- (1) Percentage change in Company Store comparable sales compares the sales of Company Stores during the full fiscal year ended 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 its first full fiscal year of operations. Sales from Franchise and International Stores are excluded in the Company Store comparable sales.

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

	Fiscal year ended		
	January 3, 2013	January 3, 2012	December 28, 2010
Company Stores:			
Beginning of year	307	351	478
Company Stores opened	1	9	1
Company Stores closed	(6 )	(11 )	(23 )
Company Stores sold to franchisees	(1 )	(42 )	(105 )
Total Company Stores	301	307	351

	Fiscal year ended		
	January 3, 2013	January 3, 2012	December 28, 2010
Franchise Stores—Domestic:			
Beginning of year	443	391	260
Franchise Stores opened	39	22	30
Franchise Stores closed	(10 )	(12 )	(4 )
Franchise Stores purchased from Company	1	42	105
Total Franchise Stores—Domestic	473	443	391

	Fiscal year ended		
	January 3, 2013	January 3, 2012	December 28, 2010
International Stores:			
Beginning of year	19	1	1
International Stores opened	19	18	—
International Stores closed	(3 )	—	—
Total International Stores	35	19	1

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

*You should read the following discussion and analysis in conjunction with Part II, Item 6 “Selected Financial Data” and our audited consolidated financial statements and the related notes thereto included in Item 8 “Financial Statements and Supplementary Data.” In addition to historical consolidated financial information, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Actual results could differ from these expectations as a result of factors including those described under Item 1A, “Risk Factors,” “Special Note Regarding Forward-Looking Statements” and elsewhere in this Form 10-K.*

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

Jamba, Inc. through 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. 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, California 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 consumer packaged goods (“CPG”) products and licensing its trademark.

Jamba, Inc. was incorporated in January 2005, and went public through an initial public offering later that year. In November 2006, the Company completed its acquisition of Jamba Juice Company, which first began operations in 1990. As of January 1, 2013, there were 809 Jamba Juice stores globally, consisting of 301 Company-owned and operated stores (“Company Stores”), 473 franchise-operated stores (“Franchise Stores”) in the United States, and 35 franchise-operated stores at international locations (“International Stores”).

### **Fiscal Year**

Our fiscal year ends each year on the Tuesday closest to December 31<sup>st</sup> and therefore we have a 52 or 53 week fiscal year. This is the first fiscal year the Company’s results are being reported on the basis of four 13 week fiscal quarters which result in 12 fiscal periods. In a 53 week fiscal year, the fourth fiscal quarter has 14 weeks. The first and second periods of the fiscal quarters have four weeks each and the third period of each fiscal quarter has five or six weeks. In the prior fiscal years, the first fiscal quarter had sixteen weeks, the second and third quarters had twelve weeks each, and the fourth quarter had twelve or thirteen weeks. Unless otherwise stated, references to years in the report relate to fiscal years rather than to calendar years. The following fiscal periods are presented in this report.

<b>Fiscal Period</b>	<b>Period Covered</b>	<b>Weeks</b>
Fiscal Year 2012	January 4, 2012 to January 1, 2013	52
Fiscal Year 2011	December 29, 2010 to January 3, 2012	53
Fiscal Year 2010	December 30, 2009 to December 28, 2010	52

All references to store counts, including data for new store openings, are reported net of related store closures, unless otherwise noted.

## **EXECUTIVE OVERVIEW**

### **Key Overall Strategies**

During 2012, we accomplished our BLEND Plan 2.0 strategic priorities which continued to accelerate our growth as a healthy, active lifestyle brand. The key strategic priorities of our multi-year BLEND Plan have been focused on the transformation of our brand into a globally recognized lifestyle brand with strategically aligned initiatives aimed at product and menu innovation, engaging marketing programs, strong retail growth in the United States and globally, new formats and store concepts, expansion of our consumer products platform and an ongoing pursuit of new ways to reduce costs and improve productivity.

Our strategic plans to date have provided a strong foundation for accelerated growth and continued progress in transforming the Jamba brand. In 2013, we will focus our resources on initiatives that build total brand value through multi-channel brand building, product and menu innovation, store format and design and leveraging unique partnerships. We believe our BLEND Plan 3.0 provides the blueprint for growing our global footprint and expanding our business model. Therefore, our key strategic priorities for our BLEND Plan 3.0 include:

Brand Building and Total Innovation;  
Lifestyle Engagement;  
Expand Growth Initiatives;  
New Products, Partners, Channels and Markets; and  
Drive Enterprise Efficiencies.

These strategic priorities support our mission to accelerate growth and development of 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 2012, we experienced comparable store sales growth over our entire system, resulting in two consecutive fiscal years of Company Store comparable sales growth. Contributing to the increase in comparable store sales was our continued product and menu innovation across all day-parts, engaging marketing programs, and accelerated retail growth across the system.

We opened 59 stores on a global basis, serviced an additional 369 JambaGO locations and launched the Jamba Smoothie Station, our flexible, limited-menu growth concepts. The CPG model has expanded to include direct selling, which allowed us to acquire Talbott Teas and reacquire the product formulation and intellectual property for the Jamba All-Energy Drink from Nestle. We have begun to expand distribution of the Energy Drink beyond the Northeastern Coast to retailers on the West Coast.

### **Fiscal 2012 Financial and Operational Summary**

- Net income was \$0.3 million compared to a net loss of \$(8.3) million for the prior year. It marks the first time Jamba has recorded annual net income since becoming a public company.
  - Company Stores comparable sales increased 5.1% for the year compared to the prior year, reflecting a second consecutive fiscal year comparable store sales growth.
- Both system-wide and Franchise Store comparable sales increased 5.1% for the year compared to the prior year.
- System-wide and Franchise Store comparable store sales are non-GAAP financial measures and represent the change in year-over-year sales for all Company and Franchise Stores (system-wide) and for all Franchise Stores, respectively, opened for at least one full fiscal year.
  - Total revenue for the year increased 1.0% to \$228.8 million from \$226.4 million for the prior year, primarily due to the 5.1% increase in system-wide comparable store sales and increased CPG branded product revenues, partially

offset by customer value-price promotions and the approximately \$3.6 million effect of 52 weeks in fiscal 2012 compared to 53 weeks in fiscal 2011.

- General and administrative expenses were \$40.8 million for the year compared to \$37.8 million for the prior year.

- 39 new Franchise Stores and one new Company Store were opened in the U.S. during fiscal 2012, bringing total store count in the U.S. to 774 stores, of which 473 are Franchise Stores and 301 are Company Stores.

- Jamba's master developer in South Korea opened six stores, our master developer in Canada opened eight stores and our master developer in the Philippines opened five stores.

- 369 new JambaGO locations were opened, bringing our total number of locations served to 404.

### **Fiscal 2012 Highlights**

Our fiscal 2012 accomplishments were based on our BLEND Plan 2.0 strategic priorities that accelerated our growth as a healthy lifestyle brand through product innovation, engaging marketing programs, accelerated retail growth in the United States and internationally, expansion of our consumer package goods platform and our ongoing pursuit of new ways to reduce cost and improve productivity.

#### *Make Jamba a Top of Mind Healthy Food and Beverage Brand*

During fiscal 2012, sales at system-wide Jamba Juice Stores open more than one full fiscal year increased 5.1% reflecting increases of 5.1% for Company Stores and for Franchise Stores compared to the prior year. For Company Stores, this increase resulted in two consecutive full fiscal years of Company Store comparable sales growth. The increase in Company Store comparable sales during fiscal 2012 was largely attributable to an average check increase, increased traffic for all day-parts and more engaging marketing promotions.

In order to deepen the education and nutritional expertise available to consumers in our stores, we launched a “Master of Blending Arts” (MBA) program during fiscal 2012. We have perfected the program for a system wide rollout in 2013. We believe the program has elevated the customer experience of Jamba as a premier provider of healthy lifestyle products by enhancing our team members’ knowledge in product nutrition, the benefits of juice and juicing, and their expertise in custom beverage creation.

Product innovation during fiscal 2012 resulted in the introduction of new menu items that are more relevant and habitual to the consumer. The new products we launched during the fiscal year include our line of Fit ‘n Fruitful™ smoothies made with a Lean Advantage Boost; our Make It Light™ versions of our top 10 classic smoothie beverages; our three new fresh squeezed juice blend beverages and our line of toasted bistro sandwiches. A Fit’n Fruitful smoothie is a meal substitute with balanced nutrition that provides a good source of fiber and essential vitamins and minerals, as well as two servings of real, whole fruit. The Make It Light smoothies contain one-third fewer calories, carbohydrates and sugar than the original recipes. We also launched our new juice bar concept, which introduces an additional six fresh fruit and vegetable ingredients (kale, beet, lemon, ginger, apple and pineapple) at our flagship stores in Emeryville and Santa Monica locations in California. Our food line-up continues to grow and includes toasted bistro sandwiches made with premium ingredients on artisan breads, are designed to pair with our smoothies.

In November 2012, we participated in our first ever major theatrical motion picture partnership with Summit Entertainment, a LIONSGATE® company, for the release of its fifth installment of the Twilight Saga film franchise, “The Twilight Saga: Breaking Dawn – Part 2.” We designed special activities to engage fans, including special screenings and social-media promotions. Additionally, we created a Limited Time Only movie-themed smoothie, Berry Bitten™ for fans to enjoy during the promotion period.

In January 2013, we launched our first kids-focused offerings, the Jamba Kids™ Meals. During 2012, we designed our new kids’ meals in partnership with the Jamba Healthy Living Council and the design was based on the U.S. Department of Agriculture’s MyPlate dietary guidelines.

#### *Embody a Healthy, Active Lifestyle*

We implemented various marketing promotions and consumer communications including value offerings, targeted discounts, sampling, improved messaging focusing on the better-for-you qualities of our menu offerings, and expanding our social media and community activities to further drive consumer awareness and customer usage frequency. We successfully completed our second year of our “Team Up for a Healthy America™” campaign, which was established in 2011 to help raise awareness of our nation’s obesity epidemic and encourage healthy, active lifestyle.



As part of raising awareness, we developed relevant programs and entered into partnerships with a variety of individuals and organizations with healthy lifestyle objectives. The Organic Center, the leading research and education institute focused on the science of organic food and farming, along with other partners including the WNBA, National PTA, USA Water Polo, the Golden State Warriors and nutrition expert Tara Gidus, supported our annual Team Up for a Healthy America™ program. We were the “Official Blended Fruit Beverage and Smoothie” sponsor of seven events in the popular Rock’n’Roll Marathon series, organized by Competitor Group, Inc., a leading active lifestyle sports media and event entertainment company. In addition, the Jamba® Healthy Living Council (the “Council”) was established with the goal to provide consumers with useful, practical information to help them live a healthier lifestyle. The Council is comprised of nationally renowned nutrition and dietary experts who work with Jamba to create healthy living education materials, online content for Jamba’s website, develop school nutrition outreach initiatives, advise management on nutrition trends, and provide input on new menu concepts and healthy choice options as we continue to evolve our product line.

In August 2012, we formed a strategic relationship with the Global Green USA’s Coalition Recovery (CoRR), an industry working group dedicated to accelerating waste diversion programs. Our alliance with CoRR is helping us to reduce waste and energy consumption and increase use of more environmentally friendly materials. We have been collaborating with CoRR during our work to phase out the use of polystyrene cups, currently used for cold beverages, during 2013.

We remain focused on opportunities to develop our beverage and food portfolio in order to optimize each of the offerings across all day-parts, and to refine our promotional and communication efforts to make Jamba a top-of-mind healthy food and beverage brand that offers consumers solutions for leading a healthy, active lifestyle.

### *Accelerate Global Retail Growth*

We accelerated the growth of our restaurant concept primarily through the development of new Franchise Stores. We believe a more heavily franchised business model requires less capital investment and reduces the volatility of cash flow performance over time. Jamba Juice store locations at the end of fiscal 2012 were comprised of approximately 37% Company Store locations and 63% Franchise and International Store locations globally. At the end of fiscal 2011, Jamba Juice store locations were comprised of approximately 40% Company Store locations and 60% Franchise and International Store locations. As of January 1, 2013, we have 809 Jamba Juice stores, globally, represented by 301 Company Stores, 473 Franchise Stores in the United States, and 35 International Stores. We expect to open 60 to 80 U.S. and international store locations in fiscal 2013 primarily through franchises. The actual number of openings may differ from our expectations due to various factors, including franchisee access to capital and economic conditions.

### **Domestic**

In fiscal 2012, franchisees in the United States also developed and opened 39 new Franchise Stores, including eight traditional stores and 31 non-traditional stores. Our new store openings are consistent with our initiative to launch flexible, non-traditional franchise formats in travel hubs, grocery outlets, malls and colleges and universities.

In July 2012, two Jamba Juice stores were opened in Washington D.C. by International tennis star and Jamba franchise owner and spokesperson, Venus Williams. Ms. Williams is a member of the Washington Kastles, a Washington, D.C. professional tennis team and is a long-time philanthropist and supporter of academic enrichment and sports programs in the Washington, D.C. area. We also announced expansion plans into five new markets and five existing markets with new and existing franchise partners, to develop a total of 32 new Jamba Juice store locations in ten states, including New York, Wisconsin, Kentucky, California and Connecticut over the next five to seven years.

Additionally, in November 2012, we announced our intent to expand throughout our home state of California with a growth plan that includes the opening of up to 120 new Jamba Juice stores in select territories across Northern, Central and Southern California over the next six-to-seven years. We intend to enter into multi-store development agreements with existing and new franchise partners.

In fiscal 2012, we launched two new flexible formats, JambaGO and Jamba Smoothie Station. JambaGO uses a low-capital and low-labor self-serve machine format and can be used for venues such as K-12 schools and college campuses. The Jamba Smoothie Station concept has a limited menu and uses pre-portioned fruit and yogurt to produce smoothies comparable to our traditional stores and can be used in entertainment venues, college campuses and other venues. As of January 1, 2013, there were 404 JambaGO locations served and 14 Jamba Smoothie Stations opened.

## **International**

We have experienced significant growth in the number of stores in our international markets during the year. In South Korea, our master developer, SPC Group, opened six stores during 2012. Our master developer in the Philippines, Max's Group of Companies, opened five stores, and our master developer in Canada, Canadian Juice Corp., opened eight stores during the year. A total of three International Stores closed in the year, resulting in a total of 35 International Stores as of the end of January 1, 2013.

In addition, we plan to partner with Canadian Juice Corp., on the introduction of the new JambaGO and Smoothie Station formats in the Canadian market in 2013. We believe these new formats will enable a more rapid expansion, and will strengthen brand awareness and loyalty in the Canadian market.

Our brand and products have international appeal and we continue to engage in discussions with other potential partners regarding the expansion of Jamba Juice stores into new international markets. The success of further international expansion will depend on, among other things, local acceptance of the Jamba Juice concept and menu offerings, and our ability to attract qualified franchise partners.

### *Build a Global CPG Platform in Jamba-Relevant Categories*

Jamba's CPG business model successfully shifted from utilizing only a third party licensing structure to one that combines both licensing and direct selling, which allowed Jamba to secure greater control over product development, production, distribution, sales and profit. In February 2012, we acquired Talbott Teas, a Chicago-based boutique, premium tea company. The founder of Talbott Teas, certified master tea blender, Shane Talbott, joined us as Vice President, Innovations. In addition, we acquired the product formulation and intellectual property of our Jamba All-Energy Drink from Nestle and have initiated the expansion of its distribution beyond the Northeastern markets to the West Coast.

We commercialized 12 new SKUs, including two additional varieties of the Jamba-branded make-at-home frozen smoothie kits, two Multigrain Crisps, two varieties of Apple Chips, four varieties of Wraps and two varieties of Panini Sandwiches. We had approximately 40 individual Jamba SKUs at retail distribution points across all 50 states. We believe extending the Jamba brand into mass retail by continued development of our CPG platform provides significant growth opportunities. Therefore, we continue to evaluate and meet with potential licensees regarding new product categories that leverage our core brand strength.

Our CPG products will help extend brand accessibility, offer additional product solutions and increase usage occasions. We plan to build a global CPG platform in Jamba-relevant categories and to reinforce Jamba as a healthy, active lifestyle brand with products that are better-for-you, convenient and portable.

#### *Pursue New Ways to Reduce Costs and Drive Productivity*

We continue to experience improvements in cost of sales, labor and store operating expenses, as well as leverage in our fixed costs, as a result of our comparable sales growth. We were able to improve Company Store financial performance by continuing to reduce labor expenses through operational efficiencies, leveraging technology, improving labor planning, and by implementing initiatives to lower costs of goods and mitigate waste. Although we have been experiencing commodity pricing pressure, primarily in the areas of dairy and fuel, we continue to focus on cost savings to mitigate such cost increases.

In our drive to increase productivity, we formed an alliance with Systems Services of America (“SSA”) for service in the West Coast of the United States. The alliance is expected to reduce costs and increase productivity through access to value-added resources and technology. We anticipate improved supply chain efficiencies and enhanced services to our existing Jamba store locations. In addition, this alliance will facilitate rapid supply chain distribution solutions as we expand into new territories to pursue future growth opportunities.

We continue to extend the benefits of our cost saving initiatives to Franchise Stores with the goal of improving store-level economics for our franchisees. As a result, franchisees continue to receive the benefit of our negotiated volume rates with suppliers and vendors. The combination of increased sales and continued cost and expense management improvements are expected to drive better store-level economics for Company Stores and Franchise Stores.

We continued to manage our general and administrative expenses. We will continue to explore new ways to reduce costs and drive productivity, for example, by strategically leveraging new technology, implementing process improvements and other available means.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (“GAAP”) requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements and related notes. Since future events and their impact cannot be determined with certainty, actual results may differ from our estimates. Such differences may be material to the consolidated financial statements.

We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change.

Our accounting policies are more fully described in Note 1 “*Business and Summary of Significant Accounting Policies*” in the “Notes to Consolidated Financial Statements,” included elsewhere in this Form 10-K. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing the consolidated financial statements.

### *Impairment of Long-Lived Assets*

We evaluate 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 individual store asset group level. We first compare 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, we measure an impairment loss 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, franchising expectations and the maturity of the relevant market.

Our estimates of cash flows used to assess impairment are subject to a high degree of judgment. If our estimates of future cash flows differ from actual cash flows due to, among other things, changes in economic conditions, changes to our business model or changes in operating performance, it would result in an adjustment to results of operations.

### *Intangible Asset Impairment*

#### *Goodwill*

We evaluate goodwill for impairment on an annual basis during our fourth fiscal quarter, or more frequently if circumstances, such as material deterioration in performance, indicate carrying values may exceed their fair values. The goodwill impairment analysis is a two-step process: First, the reporting unit's estimated fair value is compared to its carrying value, including goodwill. If we determine that the estimated fair value of the reporting unit is less than its carrying value, we move to the second step to determine the implied fair value of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds its fair value, an impairment loss is recognized. In September 2011, the FASB issued new guidance allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If impairment is deemed more likely than not, management would perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. We apply the qualitative approach when appropriate. When reviewing goodwill for impairment, we assess whether goodwill should be allocated to operating levels lower than our single operating segment for which discrete financial information is available and reviewed for decision-making purposes. These lower levels are referred to as reporting units. Currently, our one reporting unit was determined to be the Company's one operating segment.

#### *Other Intangible Assets*

We evaluate intangible assets not subject to amortization for impairment on an annual basis during our fourth fiscal quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We perform our test for impairment on trademarks by comparing the fair value of the trademarks to their carrying amounts. An impairment loss is generally recognized when the carrying amount of the trademarks exceeds the fair value. The fair value of trademarks was estimated using the income approach, which is based on assumptions about future cash flows resulting from our franchise, license agreements and acquired businesses.

Intangible assets subject to amortization (primarily franchise agreements, reacquired franchise rights and a favorable lease portfolio intangible asset recognized in the purchase of Jamba Juice in 2006 and acquired customer relationships) are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Intangible assets are amortized over their estimated useful lives using a method of

amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. Estimated useful lives for the franchise agreements are 13.4 years. The useful life of reacquired franchise rights is the remaining term of the respective franchise agreement. The useful life of the favorable lease portfolio intangible is based on the related lease term.

#### *Jambacard Revenue Recognition*

We sell our jambacards to our customers in our retail stores and through our website at [www.jambajuice.com](http://www.jambajuice.com). Our jambacards do not have an expiration date. We recognize income from jambacards when (i) the jambacard is redeemed by the customer or (ii) the likelihood of the jambacard being redeemed by the customer is remote (also referred to as “breakage”), and we determine that we do not have a legal obligation to remit the value of unredeemed jambacards to the relevant jurisdictions. We determine the jambacard breakage amount based upon historical redemption patterns. We have concluded that after three years of inactivity the likelihood of redemption becomes remote, and we recognize breakage at that time. Jambacard breakage income is included in other operating, net in the consolidated statements of operations. If the historical redemption pattern changes, our financial statements could be materially affected.

We have sold jambacards since November of 2002. The jambacard works as a reloadable gift or debit card. At the time of the initial load, in an amount between \$5 and \$500, we record an obligation that is reflected as jambacard liability on the consolidated balance sheets. We relieve the liability and record the related revenue at the time a customer redeems any part of the amount on the card. The card does not have any expiration provisions and is not refundable, except as otherwise required by law.

### *Self-Insurance Reserves*

We are self-insured for healthcare benefits. The estimated accruals for these liabilities are based on statistical analyses of historical industry data as well as actual historical trends. For our workers' compensation benefits, we were self-insured for existing and prior years' exposures through September 30, 2008. Liabilities associated with the risks that we retain for workers compensation benefits are estimated in part, by considering historical claims experience, demographic factors, severity factors, and other actuarial assumptions.

If actual claims experience differs from our assumptions, historical trends, and estimates, changes in our insurance reserves would impact the expense recorded in our consolidated statements of operations.

### *Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. In establishing deferred income tax assets and liabilities, we make judgments and interpretations based on enacted tax laws and published tax guidance applicable to our operations. We record deferred tax assets and liabilities and evaluate the need for valuation allowances to reduce deferred tax assets to amounts more likely than not of being realized. Changes in our valuation of the deferred tax assets or changes in the income tax provision may affect our annual effective income tax rate.

A valuation allowance is provided for deferred tax assets when it is "more likely than not" that some portion of the deferred tax asset will not be realized. Because of our recent history of operating losses, we believe the recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, have maintained a full valuation allowance against our deferred tax assets as of January 1, 2013.

The benefits of uncertain tax positions are recognized as the greatest amount more than 50% likely of being sustained upon audit based on the technical merits of the position. On a quarterly basis, we review and update our inventory of tax positions as necessary to add any new uncertain tax positions taken, or to remove previously identified uncertain positions that have been adequately resolved. Additionally, uncertain positions may be re-measured as warranted by changes in facts or law. Accounting for uncertain tax positions requires significant judgments, including estimating the amount, timing and likelihood of ultimate settlement. Although we believe that these estimates are reasonable, actual results could differ from these estimates. We classify estimated interest and penalties related to the



underpayment of income taxes as a component of income taxes in the consolidated statements of operations.

*Share-based compensation*

We account for share-based compensation based on fair value measurement guidance. The fair value of options granted is 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 rate of interest is based on the zero coupon U.S. Treasury rates appropriate for the expected term of the award. Expected dividends are zero based on history of not paying cash dividends on our common stock. Expected volatility is based on a 100% of historic daily stock price observations of our common stock since our inception during the period immediately preceding the share-based award grant that is equal in length to the award's expected term. We make assumptions for the number of awards that will ultimately not vest ("forfeitures") in determining the share-based compensation expense for these awards. We use historical data to estimate expected employee behaviors related to option forfeitures. We apply the guidance provided by the SEC Staff Accounting Bulletin No. 110 to determine expected life. Currently, there is 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.

The fair value of restricted stock units is determined based on our closing stock price on the date of grant. The restricted stock units granted to employees typically vest and become unrestricted three years after the date of grant. The restricted stock units granted to non-employee directors typically vest and become unrestricted one year after the date of grant. Share-based compensation expense is recognized ratably over the vesting periods for restricted stock units.

**RESULTS OF OPERATIONS**

The discussion that follows should be read in conjunction with the consolidated financial statements and notes thereto. Our consolidated results of operations for fiscal 2012, 2011 and 2010 are summarized below.

(In thousands, except share data and per share amounts)

	<b>Year ended January 1, 2013</b>	<i>%<sup>(1)</sup></i>	<b>Year ended January 3, 2012</b>	<i>%<sup>(1)</sup></i>	<b>Year ended December 28, 2010</b>	<i>%<sup>(1)</sup></i>
Revenue:						
Company Stores	\$215,125	94.0 %	\$214,837	94.9 %	\$254,491	96.9 %
Franchise and other revenue	13,664	6.0 %	11,597	5.1 %	8,162	3.1 %
Total revenue	228,789	100.0 %	226,434	100.0 %	262,653	100.0 %
Costs and operating expenses (income):						
Cost of sales	50,215	23.3 %	49,503	23.0 %	61,307	24.1 %
Labor	63,086	29.3 %	67,868	31.6 %	85,189	33.5 %
Occupancy	29,473	13.7 %	31,092	14.5 %	38,561	15.2 %
Store operating	33,612	15.6 %	32,847	15.3 %	38,358	15.1 %
Depreciation and amortization	11,062	4.8 %	12,463	5.5 %	14,610	5.6 %
General and administrative	40,771	17.8 %	37,798	16.7 %	37,262	14.2 %
Store pre-opening	604	0.3 %	965	0.4 %	648	0.2 %
Impairment of long-lived assets	711	0.3 %	1,291	0.6 %	2,778	1.1 %
Store lease termination and closure.	421	0.2 %	721	0.3 %	4,255	1.6 %
Other operating, net	(1,779 )	(0.8 )%	210	0.1 %	(4,292 )	(1.6 )%
Total costs and operating expenses	228,176	99.7 %	234,758	103.7 %	278,676	106.1 %
Income (loss) from operations	613	0.3 %	(8,324 )	(3.7 )%	(16,023 )	(6.1 )%
Other income (expense):						
Interest income	61	0.0 %	159	0.1 %	73	0.0 %
Interest expense	(217 )	(0.1 )%	(473 )	(0.2 )%	(547 )	(0.2 )%
Total other expense, net	(156 )	(0.1 )%	(314 )	(0.1 )%	(474 )	(0.2 )%
Income (loss) before income taxes	457	0.2 %	(8,638 )	(3.8 )%	(16,497 )	(6.3 )%
Income tax benefit (expense)	(155 )	(0.0 )%	340	0.2 %	(159 )	(0.1 )%

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Net income (loss)	\$ 302	0.2 %	\$(8,298 )	(3.6 )%	\$(16,656 )	(6.4 )%
Preferred stock dividends and deemed dividends	(2,181 )	(1.0 )%	(2,331 )	(1.0 )%	(4,077 )	(1.5 )%
Net loss attributable to common stockholders	\$(1,879 )	(0.8 )%	\$(10,629 )	(4.6 )%	\$(20,733 )	(7.9 )%
Weighted-average shares used in the computation of loss per share:						
Basic	70,699,438		66,310,654		58,711,495	
Diluted	70,699,438		66,310,654		58,711,495	
Loss per share:						
Basic	\$(0.03 )		\$(0.16 )		\$(0.35 )	
Diluted	\$(0.03 )		\$(0.16 )		\$(0.35 )	

(1) Cost of sales, labor, occupancy and store operating expense percentages are calculated using Company Stores revenue. All other line items are calculated using Total revenue. Certain percentage amounts do not sum to total due to rounding.

**Revenue**

(in 000s)

	<b>Year Ended January 1, 2013</b>	<b>% of Total Revenue</b>		<b>Year Ended January 3, 2012</b>	<b>% of Total Revenue</b>		<b>Year Ended December 28, 2010</b>	<b>% of Total Revenue</b>	
Revenue:									
Company Stores	\$ 215,125	94.0	%	\$ 214,837	94.9	%	\$ 254,491	96.9	%
Franchise and other revenue	13,664	6.0	%	11,597	5.1	%	8,162	3.1	%
Total revenue	\$ 228,789	100.0	%	\$ 226,434	100.0	%	\$ 262,653	100.0	%

***Fiscal Year 2012 to Fiscal Year 2011***

Total revenue for the fiscal 2012 was \$228.8 million, an increase of \$2.4 million or 1.0%, compared to \$226.4 million for fiscal 2011. Total revenue is comprised of revenue from Company Stores, royalties and fees from Franchise Stores in the U.S. and at International locations, license income from sales of Jamba-branded CPG products and sales of consumer packaged goods.

***Company Store revenue***

Company Store revenue for fiscal 2012 was \$215.1 million, an increase of \$0.3 million or 0.1% compared to \$214.8 million for fiscal 2011. The increase in Company Store revenue is primarily due to the increase in comparable store sales, partially offset by a net reduction in Company Stores due to the refranchising initiative, and there being one fewer week in the 52 week period ended January 1, 2013 compared to the 53 week period ended January 3, 2012, and as illustrated by the following table:

	<b>Company Store Increase in Revenue (in 000's) 2012 vs. 2011</b>	
Company Store comparable sales increase	\$ 10,203	
Reduction in the number of Company Stores, net	(6,296	)
Due to one less week in fiscal 2012 <sup>(1)</sup>	(3,619	)
Total change in Company Store revenue	\$ 288	

(1) Calculated by exclusion of Company Store revenue for the one additional week in fiscal 2011.

Company Store comparable sales increased \$10.2 million in fiscal 2012, or 5.1%, attributable to an increase of 2.5% in transaction count and 2.6% in average check. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least one full fiscal year. As of January 1, 2013, 99.7% 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 fiscal 2012 to the sales from the same Company Stores for the equivalent prior year period.

#### *Franchise and other revenue*

Franchise and other revenue in fiscal 2012 was \$13.7 million, an increase of \$2.1 million, or 17.8%, compared to franchise and other revenue of \$11.6 million in fiscal 2011 primarily due to an increase in CPG income and the net increase in the number of Franchise and International Stores.

The number of Franchise Stores and International Stores grew to 508 as of January 1, 2013 compared to 462 as of January 3, 2012.

#### *Fiscal Year 2011 to Fiscal Year 2010*

Total revenue for fiscal 2011 was \$226.4 million, a decrease of \$36.3 million, or 13.8%, compared to \$262.7 million for the prior year. Total revenue is comprised primarily of revenue from Company Stores, royalties and fees from Franchise Stores in the U.S. and at International locations, and license income from sale of Jamba-branded CPG products.

*Company Store revenue*

Company Store revenue in fiscal 2011 was \$214.8 million, a decrease of \$39.7 million, or 15.6%, compared to Company Store revenue in fiscal 2010 of \$254.5 million. The decrease in Company Store Revenue was due primarily to a net decrease of 44 Company Stores operating since the prior year period, which includes opening nine new Company Stores, closing 11 Company Stores (nine through natural lease expiration and two through early termination) and refranchising 42 Company Stores in connection with our refranchising initiative, partially offset by the increase in Company Store comparable sales and the sales effect of the 53<sup>rd</sup> week in fiscal 2011, as illustrated by the following table:

	<b>Company Store Decrease in Revenue (in 000s)</b>	
	2011 vs. 2010	
Reduction in number of Company Stores, net	\$ (51,171	)
Company Store comparable sales increase	7,899	
Effect of the 53 <sup>rd</sup> week in FY 2011	3,619	
<b>Total change in Company Store Revenue</b>	<b>\$ (39,653</b>	<b>)</b>

Company Store comparable sales increased \$7.9 million in 2011, or 4.0%, attributable to an increase of 4.8% in average check, partially offset by a decrease of 0.8% in transaction count as compared to the prior year. The effect of the fifty third week in fiscal 2011 was additional sales of \$3.6 million. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least one full fiscal year. At the end of fiscal 2011, approximately 97% of our Company Stores base had been open for at least one full fiscal year.

*Franchise and other revenue*

Franchise and other revenue in fiscal 2011 was \$11.6 million, an increase of \$3.4 million, or 42.1%, compared to franchise and other revenue in fiscal 2010 of \$8.2 million. The increase in franchise and other revenue was due primarily to a net increase in Franchise Stores since the prior year period (approximately \$2.5 million), an increase in income from the sale of licensed Jamba CPG products (approximately \$0.5 million) and an increase in other franchise-related revenue (approximately \$0.4 million). The number of Franchise Stores as of January 3, 2012 and December 28, 2010 was 462 (including 19 International Stores) and 392 (including one International Store), respectively.

**Cost of sales**

***Fiscal Year 2012 to Fiscal Year 2011***

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 23.3% in fiscal 2012, compared to 23.0% in fiscal 2011. The increase of cost of sales as a percentage of Company Store revenue was primarily due to increases in commodity costs (approximately 0.6%), partially offset by a net favorable product mix shift (approximately 0.3%). Cost of sales for fiscal 2012 was \$50.2 million, an increase of \$0.7 million, or 1.4%, compared to \$49.5 million for fiscal 2011. The increase in cost of sales was primarily due to an increase in sales.

***Fiscal Year 2011 to Fiscal Year 2010***

Cost of sales in fiscal 2011 was \$49.5 million, a decrease of \$11.8 million, or 19.3%, compared to \$61.3 million for the prior year. Our refranchising initiative resulted in a decrease in Company Stores and the related costs and expenses to operate, manage, and support these refranchised Company Stores. As a percentage of Company Store revenue, costs of sales decreased to 23.0% for fiscal 2011 compared to 24.1% for the prior year. The decrease of cost of sales as a percentage of Company Store revenue was primarily due to improved commodity management (approximately 2.4%) partially offset by product shift mix (approximately 0.8%) and increased commodity costs (approximately 0.6%). Vendor rebates offset the costs of managing our procurement program.

**Labor**

***Fiscal Year 2012 to Fiscal Year 2011***

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 decreased to 29.3% in fiscal 2012, compared to 31.6% in fiscal 2011. The 2.3% decrease of labor costs as a percentage of Company Store revenue was primarily due to labor efficiencies, improved sales volumes and more effective wage management achieved through a smaller, more geographically concentrated Company Store base. Labor costs for fiscal 2012 were \$63.1 million, a decrease of \$4.8 million, or 7.0 %, compared to \$67.9 million for fiscal 2011. Our refranchising initiative 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. In addition, the change from a 53 week fiscal 2011 to a 52 week fiscal 2012 resulted in a decrease in Company Stores labor costs attributed to the period.

***Fiscal Year 2011 to Fiscal Year 2010***

Labor costs in fiscal 2011 were \$67.9 million, a decrease of \$17.3 million or 20.3%, compared to \$85.2 million for the prior year. Our refranchising initiative resulted in a decrease in Company Stores and the related costs and expenses to operate, manage, and support these refranchised Company Stores. As a percentage of Company Store revenue, labor costs decreased to 31.6% for fiscal 2011 compared to 33.5% for the prior year. The decrease of labor costs as a percentage of Company Store revenue was primarily due to improvements in hourly labor from effective wage management and improved productivity (approximately 3.2%), partially offset by increased employee benefits resulting from performance based bonus payments and increased health costs (approximately 1.2%).

**Occupancy**

***Fiscal Year 2012 to Fiscal Year 2011***

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 decreased to 13.7% in fiscal 2012, compared to 14.5% in fiscal 2011. The decrease in occupancy costs as a percentage of Company Store revenue was primarily due to the impact of leverage as a result of the increase in Company Store comparable sales (approximately 0.8%). Occupancy costs for fiscal 2012 were \$29.5 million, a decrease of \$1.6 million, or 5.2%, compared to \$31.1 million for fiscal 2011. Our refranchising initiative 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. In addition, the change from a 53 week fiscal 2011 to 52 week fiscal 2012 resulted in a decrease in Company Stores occupancy costs attributed to the period.

***Fiscal Year 2011 to Fiscal Year 2010***

Occupancy costs in fiscal 2011 were \$31.1 million, a decrease of \$7.5 million, or 19.4%, compared to \$38.6 million for the prior year. Our refranchising initiative resulted in a decrease in Company Stores and the related costs and expenses to operate, manage, and support these refranchised Company Stores. As a percentage of Company Store revenue, occupancy costs decreased to 14.5% for fiscal 2011 compared to 15.2% for the prior year. The decrease in occupancy costs as a percentage of Company store revenue was primarily due to the impact of leverage resulting from the increase in Company Store comparable sales.

**Store operating**



***Fiscal Year 2012 to Fiscal Year 2011***

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 15.6% in fiscal 2012, compared to 15.3% in fiscal 2011. The increase in total store operating expenses as a percentage of Company Store revenue was primarily due to increased marketing expenses (approximately 0.6%). Total store operating expenses for fiscal 2012 were \$33.6 million, an increase of \$0.8 million, or 2.3%, compared to \$32.8 million for fiscal 2011, and the increase is primarily due to the aforementioned marketing expenses.

***Fiscal Year 2011 to Fiscal Year 2010***

Total store operating expenses in fiscal 2011 were \$32.8 million, a decrease of \$5.6 million, or 14.4%, compared to \$38.4 million for the prior year. Our franchising initiative resulted in a decrease in Company Stores and the related costs and expenses to operate, manage, and support these franchised Company Stores. As a percentage of Company Store Revenue, total store operating expenses increased to 15.3% for fiscal 2011 compared to 15.1% for the prior year. The increase in total store operating expenses as a percentage of Company Store revenue was primarily due to an increase in marketing expense (approximately 0.3%) and increased credit card usage as a percentage of Company Store sales (approximately 0.2%) partially offset by reduced repair costs (approximately 0.2%).

## **Depreciation and amortization**

### ***Fiscal Year 2012 to Fiscal Year 2011***

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 4.8% in fiscal 2012, compared to 5.5% in fiscal 2011. The decrease in depreciation and amortization as a percentage of total revenue was primarily due to the impact of leverage as a result of the increase in Company Store comparable sales (approximately 0.3%), certain assets becoming fully depreciated and the net reduction in the number of Company Stores. Depreciation and amortization for fiscal 2012 was \$11.1 million, a decrease of \$1.4 million, or 11.2%, compared to \$12.5 million for fiscal 2011. The decrease is primarily due to the reduction in carrying value of Company Store fixed assets.

### ***Fiscal Year 2011 to Fiscal Year 2010***

Depreciation and amortization in fiscal 2011 was \$12.5 million, a decrease of \$2.1 million, or 14.7%, compared to \$14.6 million for the prior year. Our refranchising initiative resulted in a decrease in Company Stores and related assets, resulting in a reduction in the carrying value of Company Store fixed assets. As a percentage of total revenue, depreciation and amortization is essentially flat at 5.5% for fiscal 2011 as compared to 5.6% for the prior year. Depreciation and amortization as a percentage of total revenue reflected the impact of leverage due to the increase in Company Store comparable sales (approximately 0.3%), partially offset by investments in technology infrastructure (approximately 0.3%).

## **General and administrative**

### ***Fiscal Year 2012 to Fiscal Year 2011***

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, G&A expenses increased to 17.8% in fiscal 2012, compared to 16.7% in fiscal 2011. Total G&A expenses for fiscal 2012 were \$40.8 million, an increase of \$3.0 million, or 7.9%, compared to \$37.8 million for fiscal 2011. The increase of total G&A expenses was primarily due to costs resulting from accelerated investment in new and expanded growth initiatives (approximately \$2.3 million), the increase in expenses for our semi-annual performance related incentives (approximately \$1.3 million), and increased non-cash share-based compensation (approximately \$0.8 million), partially offset by the decrease in

litigation charges (approximately \$1.0 million) and the change to 52 weeks in fiscal 2012 compared to 53 weeks in fiscal 2011 (approximately \$0.5 million).

***Fiscal Year 2011 to Fiscal Year 2010***

Total G&A expenses in fiscal 2011 were \$37.8 million, an increase of \$0.5 million, or 1.4%, compared to \$37.3 million for the prior year. As a percentage of total revenue, total G&A expenses increased to 16.7% for fiscal 2011 compared to 14.2% for the prior year, primarily due to the sales reduction from refranchising as described above. The increase of total G&A expenses was primarily due to increases in bonuses for the accomplishment and acceleration of our strategic objectives (approximately \$2.3 million) and the effect of the fifty third week in fiscal 2011 (approximately \$0.5 million), partially offset by the decrease in legal expenses (approximately \$1.4 million), reduced expense for share-based compensation (approximately \$0.5 million) and reduced consulting fees (approximately \$0.4 million). During fiscal 2011, we recorded a charge of \$1.0 million relating to settlement of outstanding litigation and related costs compared to \$2.1 million during fiscal 2010.

**Store pre-opening**

***Fiscal Year 2012 to Fiscal Year 2011***

Store pre-opening costs are primarily expenses incurred for training new store personnel, pre-opening marketing and pre-opening rent. Store pre-opening costs in fiscal 2012 were \$0.6 million, a decrease of \$0.4 million, or 37.4%, compared to \$1.0 million for the prior year. The decrease in expense is primarily due to the opening of one new Company Store in fiscal 2012 and lower per unit costs associated with the opening of 39 new Franchise Stores and 19 new International Stores in fiscal 2012 as compared to the prior year, when nine new Company Stores, 22 new Franchise Stores and 18 new International Stores were opened.

***Fiscal Year 2011 to Fiscal Year 2010***

Store pre-opening costs in fiscal 2011 were \$1.0 million, an increase of \$0.4 million, or 48.9%, compared to \$0.6 million for the prior year. The increase in Store pre-opening expenses was primarily due to the opening of nine new Company Stores, 22 new Franchise Stores and 18 new International Stores in fiscal 2011 as compared to the opening of one new Company Store and 30 new Franchise Stores in the prior year.

**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. For more information, please refer to the discussion under “*Business and Summary of Significant Accounting Policies—Impairment of Long-Lived Assets*” included in Note 1 in the Notes to Consolidated Financial Statements.

***Fiscal Year 2012 to Fiscal Year 2011***

Impairment of long-lived assets in fiscal 2012 was \$0.7 million, a decrease of \$0.6 million, or 44.9%, compared to \$1.3 million in fiscal 2011. The decrease of impairment charge for long-lived assets was primarily due to fewer underperforming stores that had not been previously impaired compared to the prior year.

***Fiscal Year 2011 to Fiscal Year 2010***

Impairment of long-lived assets in fiscal 2011 was \$1.3 million, a decrease of \$1.5 million, or 53.5%, compared to \$2.8 million for the prior year. The decrease of impairment of long-lived assets is primarily due to improved operating performance and impairment charges for refranchised stores recognized in fiscal 2010, which charges did not recur during fiscal 2011.

**Store lease termination and closure**

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. These amounts are subject to adjustments as liabilities are settled. In assessing the discounted liabilities for future costs of obligations related to closed stores, we make assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, we 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 net effect of such changes in estimates (See Note 7 in the Notes to Consolidated Financial Statements).

***Fiscal Year 2012 to Fiscal Year 2011***

Store lease termination and closure costs were \$0.4 million in fiscal 2012, a decrease of \$0.3 million, or 41.6%, compared to \$0.7 million for the prior year. The decrease of store lease termination and closure costs reflected the closing of six Company Stores, at or near the natural expiration of their leases in fiscal 2012. During fiscal 2011, we closed 11 Company Stores, and two were closed prior to their respective lease expiration dates. Lease obligations are payable through 2023.

***Fiscal Year 2011 to Fiscal Year 2010***

Store lease termination and closure costs were \$0.7 million in fiscal 2011, a decrease of \$3.6 million, or 83.1%, compared to \$4.3 million for the prior year. The decrease of store lease termination and closure costs reflected the closing of 11 Company Stores, of which only two were closed prior to their respective lease expiration dates, in fiscal 2011. During fiscal 2010, we closed 23 Company Stores, and nine were closed prior to their respective lease expiration dates. Lease obligations are payable through 2023.

**Other operating, net**

***Fiscal Year 2012 to Fiscal Year 2011***

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, store lease termination, and closure costs, jambacard-related fees, and expenses related to our franchise and consumer packaged goods activities. For fiscal 2012, other operating, net was \$1.8 million of income, compared to expense of \$0.2 million for fiscal 2011. The increase in income of \$2.0 million is primarily due to lower loss on disposal of fixed assets as sale of Company Stores pursuant to our refranchising initiative ended in April 2011 (approximately \$1.4 million), a reduction in international franchise expense (approximately \$0.6 million), gain on sale of our investment in our Hawaiian joint venture (approximately \$0.5 million) and an increase in jambacard breakage income for fiscal 2012, net

of franchise-related jambacard fees and other related expense (approximately \$0.3 million), partially offset by an increase in expenses related to our CPG business (approximately \$0.3 million) and an increase in JambaGO related expense (approximately \$0.3 million).

***Fiscal Year 2011 to Fiscal Year 2010***

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, franchise related occupancy expense and jambacard-related fees. In fiscal 2011, other operating, net was \$0.2 million of expense compared to other operating, net of \$4.3 million of income for fiscal 2010. The increase in expense of \$4.5 million is primarily due to a decrease in jambacard breakage income for fiscal 2011 (approximately \$0.8 million), a reversal of breakage income recorded in prior years (approximately \$0.7 million), an increase in the net loss on disposal of fixed assets resulting primarily from replacement of equipment (approximately \$1.5 million), and an increase in international and other franchise-related expense (approximately \$0.5 million). In addition, during fiscal 2011, we recorded jambacard-related fees and charges of approximately \$1.0 million in other operating, whereas in the prior year we recorded \$0.5 million for such fees in store operating expense.

## **Interest expense**

### ***Fiscal Year 2012 to Fiscal Year 2011***

Interest expense in fiscal 2012 was \$0.2 million compared to \$0.5 million in fiscal 2011 primarily due to lower lease termination obligations. In addition, during fiscal 2012 and fiscal 2011, we paid cash dividends on the Series B Preferred Stock totaling \$1.3 million and \$1.6 million, respectively. During the third quarter of fiscal 2012, holders of 93,500 shares of outstanding Series B-1 Preferred Stock and 2,000 shares of outstanding Series B-2 Preferred Stock converted such stock into an aggregate of 9,550,000 shares of common stock resulting in related accelerated accretion charges or deemed dividends of \$0.7 million.

### ***Fiscal Year 2011 to Fiscal Year 2010***

Interest expense in fiscal 2011 and 2010 was \$0.5 million and relates primarily to leasing arrangements and obligations recorded as a result of early lease terminations.

During fiscal 2011 and 2010, we paid cash dividends on the Series B Preferred Stock totaling \$1.6 million and \$2.3 million, respectively. This amount is recorded in stockholders' equity.

## **Income tax (expense) benefit**

### ***Fiscal Year 2012 to Fiscal Year 2011***

Income tax expense in fiscal 2012 was \$(0.2) million compared to an income tax benefit of \$0.3 million for the prior year. The increase in income tax expense was primarily due to the change in valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes. We started to have U.S. taxable income in fiscal 2012 and due to the net operating loss carryforwards which can offset regular taxable income, we began to be subject to the alternative minimum taxes. The increase in foreign withholding taxes was primarily due to the increase in our franchise and royalty income in the foreign countries in fiscal 2012.

***Fiscal Year 2011 to Fiscal Year 2010***

Income tax benefit in fiscal 2011 was \$0.3 million compared to an income tax expense of \$(0.2) million for the prior year. The decrease in income tax expense was primarily due to the write-off of tax goodwill and the change in liability related to uncertain tax positions in fiscal 2011.

**Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results**

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 domestic 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 period 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 52 week period ended January 1, 2013 and the 53 week period ended January 3, 2012:

	<b>52 Week Period Ended January 1, 2013</b>		<b>53 Week Period Ended January 3, 2012</b>	
Percentage change in Company Store comparable sales <sup>(1)</sup>	5.1	%	4.0	%
Percentage change in Franchise Store comparable sales <sup>(2)</sup>	5.1	%	3.4	%
Percentage change in system-wide comparable sales <sup>(2)</sup>	5.1	%	3.7	%
Total Company Stores	301		307	
Total Franchise Stores	473		443	
Total International Stores	35		19	
Total JambaGO Served Locations	404		35	

Percentage change in Company Store comparable sales compares the sales of Company Stores during fiscal year 2012 to the sales from the same Company Stores for fiscal year 2011. A Company Store is included in this calculation after its first full fiscal year of operations. Sales from Franchise and International Stores are not included in the Company Store comparable sales.

(2)

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Percentage change in system-wide comparable sales compares the combined sales of Company and Franchise Stores during fiscal year 2012 to the combined sales from the same Company and Franchise Stores for the fiscal year 2011. A Company or Franchise Store is included in this calculation after its first full fiscal period of operations. System-wide comparable store sales do not include International Stores and JambaGO locations.

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

	52 week period ended January 1, 2013		53 week period ended January 3, 2012	
	Domestic	International	Domestic	International
Company Stores:				
Beginning of period	307	—	351	—
Company Stores opened	1	—	9	—
Company Stores closed	(6 )	—	(11 )	—
Company Stores sold to franchisees	(1 )	—	(42 )	—
Total Company Stores	301	—	307	—

	52 week period ended January 1, 2013		53 week period ended January 3, 2012	
	Domes	Internat	Domes	Internat
Franchise and International Stores:				
Beginning of period	443	19	391	1
Stores opened	39	19	22	18
Stores closed	(10 )	3	(12 )	—
Stores purchased from Company	1	—	42	—
Total Franchise Stores	473	35	443	19

### Refranchising Initiative

In May 2009, we announced our refranchising initiative under which we stated our intent to sell existing Company Stores to new or existing franchisees who want to operate multiple store locations. We believe our refranchising initiative helped us to accelerate growth and to achieve certain operational efficiencies. This initiative also helped to shift our business to an asset light model. We initially planned to complete the sale of up to 150 Company Stores to new or existing franchisees. By the close of fiscal 2011, we had completed the sale of 174 Company Stores, the last 42 of which were sold in the first quarter of fiscal 2011.

In many refranchising transactions, we entered into development agreements committing buyers to build additional Franchise Stores in regions their purchased stores occupy. In addition, as part of these refranchising transactions, buyers of mature Company Stores are obligated to refresh and refurbish these stores.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows Summary

The following table summarizes our cash flows for each of the past three full fiscal years (in thousands):

January 1, 2013	January 3, 2012	December 28, 2010
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Net cash provided by (used in) operating activities	\$ 17,568	\$ (1,080 )	\$ (953 )
Net cash (used in) provided by investing activities	(4,498 )	(7,010 )	3,598
Net cash used in financing activities	(1,191 )	(1,327 )	(2,378 )
Net increase (decrease) in cash and cash equivalents	\$ 11,879	\$ (9,417 )	\$ 267

## Liquidity

As of January 1, 2013, we had cash and cash equivalents of \$31.5 million compared to \$19.6 million in cash and cash equivalents as of January 3, 2012. As of January 1, 2013 and January 3, 2012, 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 a revolving line of credit with Wells Fargo Bank, National Association for \$10.0 million, which we may utilize as described below. In the future, and as permitted under the Securities Purchase Agreement for the Series B Preferred Stock, we may enter equipment leasing arrangements and incur additional indebtedness as necessary up to an aggregate amount of \$10.0 million. We cannot assure, however, that such financing will be available on favorable terms or at all.

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, Series B Preferred Stock dividend payments 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. 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 (as amended, the “Credit Agreement”), provides us with a revolving line of credit of up to \$10.0 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 3.00% per annum. Under the terms of the Credit Agreement, we are required to maintain minimum levels of trailing annual consolidated EBITDA and liquidity and are subject to limits on annual capital expenditures. The Credit Agreement terminates January 31, 2014, 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 \$1.1 million.

During fiscal 2012, 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 January 1, 2013, the unamortized commitment fee amount was less than \$0.1 million and is recorded in prepaid expenses and other current assets on the balance sheet. As of January 1, 2013, we were in compliance with all related covenants and the unused borrowing capacity under the agreement was \$8.9 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 \$17.6 million in fiscal 2012, compared to net cash used in operating activities of \$1.1 million in fiscal 2011, reflecting a net increase of cash flows of \$18.6 million. The increase was primarily due to improved cash flows related to receivables and prepaid rent (approximately \$10.5 million) and accounts payable (approximately \$5.6 million), an increase in net income adjusted for noncash items (approximately \$5.3 million), partially offset by a net decrease in cash flows related to other operating assets and liabilities (approximately \$2.8 million). Collections of receivables during fiscal 2012 included amounts (approximately \$7.0 million) from Costco which were not included in fiscal 2011, as we recommenced our jambacard program in the fall of 2011. In the Costco jambacard program, we sell jambacards to Costco who resells them to its customers.

The amount of cash used in 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.

Net cash used in operating activities increased by \$0.1 million in fiscal 2011 compared to fiscal 2010 primarily due to decreased cash flows associated with an increase in working capital (approximately \$7.5 million), partially offset by the decrease in net loss adjusted for noncash items (approximately \$7.4 million). Our decreased cash flows were primarily due to rent prepayments partially offset by receipts from our franchisees and licensees. In addition, our decision not to repeat, in 2010, the holiday season Jambacard program we established with Costco in 2009 contributed to the decrease in cash flows.

During the fiscal 2010, we received cash proceeds of approximately \$6.2 million from Costco for sales of jambacards in the previous winter holiday season. We did not participate in a 2010 winter holiday season program with Costco. In September 2011, we resumed the Jambacard program with Costco for the winter holiday season of fiscal year 2011, resulting in cash inflows during the fall of fiscal 2011 and fiscal 2012. Our decreased cash flows were partially offset by increased fees from our franchisees and licensees as we expanded our franchise store base and CPG program.

## **Investing Activities**

Net cash used in investing activities was \$4.5 million in fiscal 2012, compared to \$7.0 million in fiscal 2011. Net cash used in investing activities decreased \$2.5 million for fiscal 2012, compared to fiscal 2011 primarily due to a decrease in spending for the purchase of property and equipment (approximately \$5.2 million) and proceeds from the sale of our investment in JJC Hawaii, LLC (approximately \$ 1.0 million), partially offset by proceeds from our refranchising initiative which were included in fiscal 2011 (approximately \$3.7 million) and which were not included in fiscal 2012 due to the completion of the refranchising initiative in April 2011 and cash used in the acquisition of Talbott Teas in fiscal 2012 (approximately \$0.4 million).

Net cash used in investing activities was \$7.0 million in fiscal 2011 compared to net cash provided by investing activities of \$3.6 million in fiscal 2010, primarily reflecting a decrease in proceeds received from the refranchising initiative (approximately \$10.0 million) and a net increase in spending on company-owned store investment in nine new stores, store refreshes and technology infrastructure (approximately \$0.6 million).

In fiscal 2013, we expect capital expenditures to be approximately \$9.0 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 five new Company Stores as we focus our growth on expanding and accelerating the development of traditional and non-traditional Franchise Stores and implementing our new retail growth formats including juice bars and drive-thru locations. Included in our capital expenditure we expect to incur \$4 to \$5 million on refresh and remodel of up to 100 Company Store locations, some of which will include the new Juice concept.

## **Financing Activities**

Net cash used in financing activities was \$1.2 million in fiscal 2012, compared to \$1.3 million in fiscal 2011, primarily due to lower preferred stock dividend payments resulting from the conversion of preferred stock to common stock (approximately \$0.3 million), partially offset by a decrease in proceeds from employee stock plan activities (approximately \$0.2 million).

Net cash used in financing activities decreased by \$1.1 million in fiscal 2011 compared to fiscal 2010, due to a decrease in preferred stock dividend payments (approximately \$0.7 million), due to the conversion of shares of preferred stock to common stock, a reduction in capital lease payments (approximately \$0.2 million) and an increase in proceeds pursuant to stock plans (approximately \$0.2 million).

**Contractual Obligations**

The following table summarizes contractual obligations and borrowings as of January 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.

	<b>Payments Due by Period (in 000s)</b>				
	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-2 Years</b>	<b>3-4 Years</b>	<b>5 or More Years</b>
Operating lease obligations <sup>(1)</sup>	\$90,863	\$ 23,660	\$ 21,213	28,008	17,982
Purchase obligations <sup>(2)</sup>	78,235	48,389	5,982	4,763	19,101
Series B redeemable preferred stock redemption	8,382	—	—	8,382	—
Dividends for Series B redeemable preferred stock	2,347	671	1,341	335	—
<b>Total</b>	<b>\$179,827</b>	<b>\$ 72,720</b>	<b>\$ 28,536</b>	<b>\$ 41,488</b>	<b>\$ 37,083</b>

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 January 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 from year to year. Total CAM charges, insurance, contingent rent obligations, license, permits and real estate taxes for our fiscal year ended January 1, 2013 were \$6.8 million.

We negotiate pricing and quality specifications for many of the products used in Company Stores and Franchise Stores. This allows for volume pricing and consistent quality of products that meet our standards. Although we negotiate and contract directly with manufacturers, co-packers or growers for our products, we purchase these products from third-party centralized distributors. These distributors source, warehouse and deliver specified products to both Company Stores and Franchise Stores.



### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

### **New Accounting Standards**

See the Recent Accounting Pronouncements section in Note 1 of our Notes to Consolidated Financial Statements for a summary of new accounting standards.

### **SEASONALITY AND QUARTERLY RESULTS**

Our business is subject to day-to-day volatility based on weather and varies by season. A significant portion of our revenue is realized during the second and third quarters of the fiscal year, which include the summer months. The fourth quarter of the fiscal year, which encompasses the winter months and the holiday season, has traditionally been our lowest revenue volume quarter. Although we have expanded the number of stores offering our hot oatmeal, hot beverages, sandwiches and California Flatbread selections, our business will likely continue to be subject to seasonal patterns for the foreseeable future, given that the largest portion of our sales continues to be from the sale of smoothies during the warmer parts of the year. Because of the seasonality of the business, results for an individual quarter are not necessarily indicative of the results which may be achieved for the full fiscal year.

### **INFLATION**

We do not believe that inflation has had a material impact on our results of operations in recent years. However, we cannot predict what effect inflation may have on our operations in the future.

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

#### **Interest Rates**

We do not enter into market risk sensitive instruments for trading purposes. We are exposed to financial market risks due primarily to changes in interest rates in our interest bearing accounts. We do not believe a change in interest rate will materially affect our financial position or results of operations. A one percent change of the interest rate would result in an annual change in the results of operations of \$0.3 million.

### **Commodities Prices**

We are exposed to the impact of commodity and utility price fluctuations related to unpredictable factors such as weather and various market conditions over which we do not have control. We purchase significant amounts of fruits and dairy products to support the needs of our Company Stores. The price and availability of these commodities directly impacts the results of operations and can be expected to impact the future results of operations.

We purchase fruit based on short-term seasonal pricing agreements. These short-term agreements generally set the price of procured frozen fruit and 100% pure fruit 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 our 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 hurricanes in 2004 that destroyed the Florida orange crop and more recently with the 2007 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. Our objective is to maximize our revenue through increased customer traffic.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Jamba, Inc.:

We have audited the accompanying consolidated balance sheets of Jamba, Inc. and subsidiaries (the Company) as of January 1, 2013 and January 3, 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for the fiscal years ended January 1, 2013, January 3, 2012 and December 28, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jamba, Inc. and subsidiaries as of January 1, 2013 and January 3, 2012, and the results of their operations and their cash flows for the fiscal years ended January 1, 2013, January 3, 2012 and December 28, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 1, 2013, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California

March 6, 2013



**JAMBA, INC.****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except share and per share amounts)	<b>January 1, 2013</b>	<b>January 3, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,486	\$ 19,607
Restricted cash	205	1,352
Receivables, net of allowances of \$103 and \$294	11,327	13,040
Inventories	3,143	2,228
Prepaid and refundable taxes	655	574
Prepaid rent	3,080	2,761
Prepaid expenses and other current assets	1,681	1,509
<b>Total current assets</b>	<b>51,577</b>	<b>41,071</b>
Property, fixtures and equipment, net	38,442	44,760
Goodwill	1,336	—
Trademarks and other intangible assets, net	1,412	1,130
Other long-term assets	846	1,332
<b>Total assets</b>	<b>\$ 93,613</b>	<b>\$ 88,293</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 8,206	\$ 4,155
Accrued compensation and benefits	7,566	6,566
Workers' compensation and health insurance reserves	1,087	1,092
Accrued jambacard liability	33,634	33,256
Other current liabilities	9,728	9,961
<b>Total current liabilities</b>	<b>60,221</b>	<b>55,030</b>
Deferred rent and other long-term liabilities	11,880	13,079
<b>Total liabilities</b>	<b>72,101</b>	<b>68,109</b>
Commitments and contingencies (Notes 9 and 16)		
Series B redeemable preferred stock, \$.001 par value, 304,348 shares authorized; 72,889 and 168,389 issued, and outstanding, respectively	\$ 7,916	\$ 17,880
Stockholders' equity:	78	68

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Common stock, \$.001 par value, 150,000,000 shares authorized; 77,408,909 and 67,280,485 shares issued, and outstanding, respectively

Additional paid-in capital	380,007	369,027
Accumulated deficit	(366,489 )	(366,791)
Total stockholders' equity	13,596	2,304
Total liabilities and stockholders' equity	\$93,613	\$88,293

See Notes to Consolidated Financial Statements.

**JAMBA, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Dollars in thousands, except share and per share amounts)	<b>Fiscal Year Ended January 1, 2013</b>	<b>Fiscal Year Ended January 3, 2012</b>	<b>Fiscal Year Ended December 28, 2010</b>
Revenue:			
Company stores	\$215,125	\$214,837	\$ 254,491
Franchise and other revenue	13,664	11,597	8,162
Total revenue	228,789	226,434	262,653
Costs and operating expenses (income):			
Cost of sales	50,215	49,503	61,307
Labor	63,086	67,868	85,189
Occupancy	29,473	31,092	38,561
Store operating	33,612	32,847	38,358
Depreciation and amortization	11,062	12,463	14,610
General and administrative	40,771	37,798	37,262
Store pre-opening	604	965	648
Impairment of long-lived assets	711	1,291	2,778
Store lease termination and closure	421	721	4,255
Other operating, net	(1,779 )	210	(4,292 )
Total costs and operating expenses	228,176	234,758	278,676
Income (loss) from operations <sup>1</sup>	613	(8,324 )	(16,023 )
Other income (expense):			
Interest income	61	159	73
Interest expense	(217 )	(473 )	(547 )
Total other expense, net	(156 )	(314 )	(474 )
Income (loss) before income taxes	457	(8,638 )	(16,497 )
Income tax (expense) benefit	(155 )	340	(159 )
Net income (loss)	302	(8,298 )	(16,656 )
Redeemable preferred stock dividends and deemed dividends	(2,181 )	(2,331 )	(4,077 )
Net loss attributable to common stockholders	\$(1,879 )	\$(10,629 )	\$(20,733 )



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Weighted-average shares used in the computation of loss per share:

Basic	70,699,438	66,310,654	58,711,495	
Diluted	70,699,438	66,310,654	58,711,495	
Loss per share:				
Basic	\$(0.03	) \$(0.16	) \$(0.35	)
Diluted	\$(0.03	) \$(0.16	) \$(0.35	)

See Notes to Consolidated Financial Statements.

**JAMBA, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid-In	Accumulated	Stockholders'
(Dollars in thousands, except share amounts)	Shares	Amount	Capital	Deficit	Equity
Balance as of December 29, 2009	52,712,528	53	356,320	(341,837 )	14,536
Share-based compensation expense	—	—	1,146	—	1,146
Issuance of common stock pursuant to stock plans	278,133	—	149	—	149
Conversion of redeemable preferred stock	10,686,300	11	12,279	—	12,290
Accretion of redeemable preferred stock	—	—	(1,775 )	—	(1,775 )
Redeemable preferred stock dividends	—	—	(2,302 )	—	(2,302 )
Restricted stock units vested	58,000	—	—	—	—
Net loss	—	—	—	(16,656 )	(16,656 )
Balance as of December 28, 2010	63,734,961	64	365,817	(358,493 )	7,388
Share-based compensation expense	—	—	1,256	—	1,256
Issuance of common stock pursuant to stock plans	587,924	1	942	—	943
Conversion of redeemable preferred stock	2,909,600	3	3,343	—	3,346
Accretion of redeemable preferred stock	—	—	(672 )	—	(672 )
Redeemable preferred stock dividends	—	—	(1,659 )	—	(1,659 )
Restricted stock units vested	48,000	—	—	—	—
Net loss	—	—	—	(8,298 )	(8,298 )
Balance as of January 3, 2012	67,280,485	\$ 68	\$ 369,027	\$ (366,791 )	\$ 2,304
Share-based compensation expense	—	—	2,091	—	2,091
Issuance of common stock pursuant to stock plans	286,422	1	97	—	98
Conversion of redeemable preferred stock	9,550,000	9	10,973	—	10,982
Accretion of redeemable preferred stock	—	—	(1,018 )	—	(1,018 )
Redeemable preferred stock dividends	—	—	(1,163 )	—	(1,163 )
Exercise of warrant	292,002	—	—	—	—
Net income	—	—	—	302	302
Balance as of January 1, 2013	77,408,909	\$ 78	\$ 380,007	\$ (366,489 )	\$ 13,596

See Notes to Consolidated Financial Statements.



**JAMBA, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)	<b>Fiscal Year Ended January 1, 2013</b>	<b>Fiscal Year Ended January 3, 2012</b>	<b>Fiscal Year Ended December 28, 2010</b>
Cash provided by (used in) operating activities:			
Net income (loss)	\$ 302	\$ (8,298 )	\$ (16,656 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	11,062	12,463	14,610
Impairment of long-lived assets	711	1,291	2,778
Lease termination, store closure costs and disposals	820	1,501	(324 )
Gain from sale of investment in joint venture	(545 )	—	—
Contingent consideration fair value measurement	(57 )	—	—
Jambacard breakage income and amortization, net	(4,275 )	(3,685 )	(5,252 )
Share-based compensation	2,091	1,256	1,146
Bad debt and purchase obligation reserves	600	164	528
Deferred rent	(1,138 )	(457 )	(869 )
Deferred income taxes	—	40	958
Equity income from joint ventures	(70 )	(51 )	(61 )
Changes in operating assets and liabilities:			
Receivables	1,637	(6,717 )	3,333
Inventories	(1,348 )	148	957
Prepaid and refundable taxes	(319 )	(35 )	(48 )
Prepaid rent	(81 )	(2,253 )	(22 )
Prepaid expenses and other current assets	(172 )	95	(482 )
Other long-term assets	(215 )	1,937	838
Restricted cash from operating activities	1,147	473	898
Accounts payable	3,115	(2,494 )	1,152
Accrued compensation and benefits	1,000	1,005	(928 )
Workers' compensation and health insurance reserves	(5 )	(214 )	(948 )
Accrued jambacard liability	4,653	7,185	(3,247 )
Other current liabilities	(517 )	(2,793 )	2,332
Other long-term liabilities	(828 )	(1,643 )	(1,646 )
Cash provided by (used in) operating activities	17,568	(1,080 )	(953 )
Cash provided by (used in) investing activities:			
Capital expenditures	(5,249 )	(10,744 )	(10,165 )
Business acquisition	(390 )	—	—
Proceeds from the sale of stores	4	3,734	13,763

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Proceeds from sale of investment in joint venture	1,032	—	—
Capital distributions from investment, net	105	—	—
Cash provided by (used in) investing activities	(4,498 )	(7,010 )	3,598
Cash provided by (used in) financing activities:			
Redeemable preferred stock dividends paid	(1,289 )	(1,621 )	(2,302 )
Payment on capital lease obligations	—	(20 )	(225 )
Proceeds pursuant to stock plans	98	314	149
Cash used in financing activities	(1,191 )	(1,327 )	(2,378 )
Net increase (decrease) in cash and equivalents	11,879	(9,417 )	267
Cash and equivalents at beginning of period	19,607	29,024	28,757
Cash and equivalents at end of period	\$ 31,486	\$ 19,607	\$ 29,024
Supplemental cash flow information:			
Cash paid for interest	\$ 168	\$ 237	\$ 293
Income taxes paid	277	36	18
Noncash investing and financing activities:			
Noncash property, fixtures and equipment additions	\$ 937	\$ 202	\$ 1,705
Accretion of redeemable preferred stock	1,018	672	1,775
Redeemable preferred stock dividends	36	38	50
Conversion of redeemable preferred stock	10,982	3,346	12,290
Contingent consideration	1,304	—	—

See Notes to Consolidated Financial Statements.

**JAMBA, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED JANUARY 1, 2013, JANUARY 3, 2012 AND DECEMBER 28, 2010**

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business** —Jamba, Inc. consummated its initial public offering in July 2005. On March 10, 2006, Jamba, Inc. entered into an Agreement and Plan of Merger with Jamba Juice Company (the “Merger Agreement”). On November 29, 2006 (the “Merger Date”), the Jamba, Inc. consummated the merger with Jamba Juice Company (the “Merger”) whereby Jamba Juice Company became its wholly owned subsidiary. Jamba, Inc. was incorporated in January 2005, and went public through an initial public offering later that year. In November 2006, the Company completed its acquisition of Jamba Juice Company, which first began operations in 1990.

Jamba, Inc. through 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. 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, California 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 consumer packaged goods (“CPG”) products and licensing its trademark.

As of January 1, 2013, there were 809 Jamba Juice stores globally, consisting of 301 Company-owned and operated stores (“Company Stores”), 473 franchise-operated stores (“Franchise Stores”) in the United States, and 35 franchise-operated stores at international locations (“International Stores”).

**Basis of Presentation**—The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Jamba Juice Company. All intercompany balances and transactions have been eliminated. The equity method of accounting is used to account for the joint venture owned by Jamba Juice Company because Jamba Juice Company exercises significant influence over operating and financial policies of its partners. Accordingly, the carrying value of this investment is reported in other long-term assets, and the Company’s equity in the net income and losses of this investment is reported in other operating, net.

**Fiscal Year End**— Our fiscal year ends on the Tuesday closest to December 31. The Company’s most recently completed fiscal year, referred to as fiscal 2012, started on January 4, 2012, and ended on January 1, 2013, and had 52

weeks. The Company's fiscal 2011, started on December 29, 2010, and ended on January 3, 2012, and had 53 weeks and fiscal 2010 started on December 30, 2009, and ended on December 28, 2010.

**Significant Estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods.

**Concentrations of Risk**—During fiscal 2012, the Company maintained food distribution contracts primarily with one supplier, Southwest Traders, Inc. This supplier provided approximately 98%, 94% and 75% of foods and products sold in Company Stores, in fiscal 2012, fiscal 2011 and fiscal 2010, respectively, which potentially subjects the Company to a concentration of business risk. As of January 1, 2013, Southwest Traders, Inc. was replaced by Systems Service of America. If the supplier had operational problems or ceased making product available to the Company, operations could be adversely affected.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents with high-quality financial institutions. Balances in the Company's cash accounts frequently exceed the Federal Deposit Insurance Corporation insurance limit. The Company has not experienced any losses related to these balances and believes the credit risk to be minimal.

**Self-Insurance Reserves**—The Company is self-insured for healthcare benefits, and liabilities are based on statistical analyses of historical industry data as well as actual historical trends. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends. For workers' compensation benefits, the Company was self-insured for existing and prior years' exposures through September 30, 2008. Liabilities associated with the risks that the Company retains for workers compensation benefits are estimated in part, by considering historical claims experience, demographic factors, severity factors, and other actuarial assumptions.

**Cash and Cash Equivalents**—The Company considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

**Restricted Cash and Investments**— Restricted cash represents cash held in money market accounts or certificates of deposits. As of January 1, 2013, the Company had restricted cash of \$0.2 million representing obligations under the Company's contract termination arrangements with Southwest Traders, Inc. As of January 3, 2012, restricted cash was \$1.4 million and collateralized outstanding letters of credit required because the Company was self-insured for workers' compensation.

**Receivables**—Receivables primarily represent amounts due from sale of jambacards, royalty fees, advertising fees, construction allowances, amounts receivable from suppliers and CPG customers, jambacards issued by the franchisees and rent receivable from franchisees. The allowance for doubtful accounts is the Company's estimate of the amount of probable credit losses in the Company's existing accounts receivable.

**Inventories**—Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method (FIFO). Inventories consist of food, beverages and available-for-sale promotional products. The Company records inventory reserves for obsolete and slow-moving inventory and for estimated shrinkage between physical inventory counts.

**Property, Fixtures and Equipment**—Property, fixtures and equipment are recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life. The estimated useful life for leasehold improvements is the lesser of 10 years or the term of the underlying lease. The estimated useful life for furniture, fixtures and equipment is three to 10 years.

**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 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, the Company measures an impairment loss 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.



***Goodwill, Trademarks and Other Intangible Asset Impairment***

Goodwill is evaluated for impairment on an annual basis during the Company's fourth fiscal quarter, or more frequently if circumstances, such as material deterioration in performance, indicate carrying values may exceed their fair values. The goodwill impairment analysis is a two-step process: First, the reporting unit's estimated fair value is compared to its carrying value, including goodwill. If the Company determines that the estimated fair value of the reporting unit is less than its carrying value, it moves to the second step to determine the implied fair value of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds its fair value, an impairment loss is recognized. In September 2011, the FASB issued new guidance allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If impairment is deemed more likely than not, management would perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The Company applies the qualitative approach when appropriate. When reviewing goodwill for impairment, the Company assesses whether goodwill should be allocated to operating levels lower than its single operating segment for which discrete financial information is available and reviewed for decision-making purposes. These lower levels are referred to as reporting units. Currently, the Company's one reporting unit was determined to be its one operating segment. During the fiscal year ended January 1, 2013 no goodwill impairment was recorded.

Intangible assets not subject to amortization are evaluated for impairment on an annual basis during our fourth fiscal quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The test for impairment on the intangible assets is performed by comparing the fair value of the trademarks to their carrying amounts. An impairment loss is generally recognized when the carrying amount of the trademarks exceeds the fair value. The fair value of trademarks was estimated using the income approach, which is based on assumptions about future cash flows resulting from our franchise, license agreements and acquired businesses.

Intangible assets subject to amortization (primarily franchise agreements, reacquired franchise rights and a favorable lease portfolio intangible asset recognized in the purchase of Jamba Juice in 2006) are tested for impairment annually (at year-end) or more frequently if changes in circumstances indicate that their carrying amounts may not be recoverable. Intangible assets are amortized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. Useful life for the franchise agreements is 13.4 years. The useful life of reacquired franchise rights represents the remaining term of the franchise agreement. The useful life of the favorable lease portfolio intangible is based on the related lease term.

**Jambacards**—The Company, through its subsidiary, Jamba Juice Company, has been selling jambacards to its customers in its retail stores and through its website since November 2002. The Company’s jambacards do not have an expiration date. An obligation is recorded at the time of either an initial load or a subsequent reload in accrued jambacard liability on the Company’s consolidated balance sheets. The Company recognizes income from jambacards when (i) the jambacard is redeemed by the customer or (ii) the likelihood of the jambacard being redeemed by the customer is remote (also referred to as “breakage”) and the Company determines that it does not have a legal obligation to remit the unredeemed jambacards to the relevant jurisdictions. The Company determines the jambacard breakage amount based upon its historical redemption patterns. The Company has concluded that after three years of inactivity, the likelihood of redemption becomes remote and recognizes breakage income at that time. Jambacard breakage income is included in other operating, net in the consolidated statements of operations.

**Rent Expense**—Under the provisions of certain of our leases, there are rent holidays and/or escalations in payments over the base lease term, as well as renewal periods. The effects of rent holidays and escalations are reflected in rent costs on a straight-line basis over the expected lease term, which includes cancelable option periods when it is deemed to be reasonably assured that the Company will exercise such option periods due to the fact that the Company would incur an economic penalty for not doing so. The lease term commences on the date when the Company becomes legally obligated for the rent payments which generally coincides with the time when the landlord delivers the property for us to develop. All rent costs recognized during construction periods are classified as pre-opening expenses. Pursuant to the refranchising initiative, the Company recorded liabilities for rent concessions over the remaining term of certain store leases of refranchised stores.

**Construction Allowances**—The Company receives construction allowances from certain landlords, which are deferred and amortized on a straight-line basis over the lease term as a reduction of rent expense. Construction allowances are recorded in deferred rent and other long-term liabilities.

**Revenue Recognition**—Revenue from Company Stores is recognized when product is sold. Revenue is presented net of any taxes collected from customers and remitted to government entities. Revenue from jambacards is recognized upon redemption in exchange for product. Until redemption, outstanding customer balances are recorded as a liability. See “jambacards” section above for discussion on recognition of jambacard breakage.

Franchise revenue is generated from royalties, development fees, initial franchise fees and revenue from sales of the Company’s flexible format franchise locations.

Royalties from Franchise Stores are determined as a percentage of revenue and are recognized in the same period as the related franchise store revenue. If collection of the franchise royalty fee is doubtful, revenue is recognized at the time of collection.

Development fees are paid to the Company as part of an agreement to open and operate a specific number of stores in a specified territory. The amount of the fee is based on the number of stores to be opened pursuant to the development agreement and secures the territory for exclusivity during the development. The nonrefundable fees collected for these services are recognized ratably as the franchise stores under these agreements open. The Company's multi-unit development agreements specify the number of stores to be opened. Any changes to the specific number of stores would be stated in a subsequent contractual agreement (see Note 2).

The Company charges an initial franchise fee for providing operational materials, new store opening planning, and functional training courses. Initial franchise fees, if any, are due for payment at the time the franchise agreement for a particular store is executed. Franchise fees are recognized as revenue when all material services or conditions have been substantially performed or satisfied and no other material conditions or obligations related to the determination of substantial performance exist. Duties and services that are completed prior to approval include training, facilities inspection, receipt of operating license(s), and clearance from appropriate agencies. These duties and services are substantially complete prior to the approval of the opening of a store. Duties and services relating to the earning of the franchise fees are necessary for the stores to open. Revenue is recognized when the store opens. Revenue from sales of at the Company's flexible format franchise locations are recognized when the products are delivered to the franchisee.

Other revenue primarily consists of revenue from sales of CPG products sold to retail outlets and online and royalties from licensed CPG products. Revenue from sale of CPG products is recognized when the products are delivered to the customer. License revenue from CPG products is based on a percentage of product sales and is recognized as revenue upon the sale of the product to retail outlets.

**Cost of Sales**—The Company includes in cost of sales, costs incurred to acquire fruit, dairy and other products used to make smoothies and juices, paper products, as well as the costs related to managing our procurement program, and payments received from vendors.

**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.

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 consolidated statements of operations or consolidated statements of cash flows.

Advertising fund assets as of January 1, 2013 include \$1.0 million of receivables from franchisees, which is recorded in receivables on the consolidated balance sheet. Advertising fund liabilities as of January 1, 2013, of \$0.5 million are reported in other current liabilities and accounts payable on the consolidated balance sheet.

Advertising fund assets as of January 3, 2012 include \$0.7 million of receivables from franchisees, which is recorded in receivables on the consolidated balance sheet. Advertising fund liabilities as of January 3, 2012, of \$0.5 million are reported in other current liabilities and accounts payable on the consolidated balance sheet.

**Advertising Costs**—Advertising costs are expensed as incurred and were \$8.5 million, \$7.3 million and \$7.8 million in fiscal 2012, fiscal 2011 and fiscal 2010, respectively, and are classified as store operating expenses. The Company received advertising contributions from its franchisees, which contributions were recorded as an offset to advertising expense, and were \$3.1 million, \$2.8 million and \$1.9 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

**Store Pre-opening Costs**—Costs incurred in connection with start-up and promotion of new store openings as well as rent from possession date to store opening date are expensed as incurred.

**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.

**Income Taxes**—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. In establishing deferred income tax assets and liabilities, judgments and interpretations are made based on enacted tax laws and published tax guidance applicable to our operations. The Company records deferred tax assets and liabilities and evaluate the need for valuation allowances to reduce deferred tax assets to amounts more likely than not of being realized. Changes in the valuation of the deferred tax assets or changes in the income tax provision may affect the Company's annual effective income tax rate.

Uncertain tax positions are recognized as the greatest amount more than 50% likely of being sustained upon audit based on the technical merits of the position. On a quarterly basis, the Company reviews and updates its inventory of tax positions as necessary to add any new uncertain tax positions taken, or to remove previously identified uncertain positions that have been effectively settled. Additionally, uncertain positions may be re-measured as warranted by changes in facts or law. Accounting for uncertain tax positions requires significant judgments, including estimating the amount, timing and likelihood of ultimate settlement. Although the Company believes that these estimates are reasonable, actual results could differ from these estimates. The Company classifies interest and penalties related to income taxes as a component of income taxes in the consolidated statements of operations.

**Earnings (Loss) Per Share**—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 preferred stock outstanding from the Company's issuance of preferred stock, outstanding warrants and outstanding options and restricted stock awards granted under the Company's stock option plans.

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 fiscal 2012, the Company had net loss attributable to common stockholders and as a result, incremental shares from assumed exercise of restricted stock awards, warrants and options and from the assumed conversion of Series B preferred shares are anti-dilutive. Therefore, net loss attributable to common stockholders has not been decreased by preferred stock dividends and related deemed dividends. Also the number of preferred shares and common stock equivalents associated with the assumed exercise of restricted stock awards, warrants and options have not been included in the diluted earnings per share calculation, resulting in the Company's basic weighted-average shares outstanding being equal to its diluted weighted-average shares outstanding.

For fiscal 2011 and fiscal 2010, the Company's basic weighted-average shares outstanding were equal to its diluted weighted-average shares outstanding since the Company experienced a net loss in each of fiscal 2011 and fiscal 2010. Anti-dilutive shares of 20.5 million, 24.2 million and 31.3 million have been excluded from diluted weighted-average shares outstanding in fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

**Share-based compensation**—The Company measures and recognizes all share-based compensation under the fair value method.

Stock options for a fixed number of shares are granted to certain employees and directors with an exercise price based on the grant date fair value of the Company's common stock. The Company also grants restricted stock with a fair value determined based on the closing price of the Company's common stock on the date of grant (see Note 12). Stock options generally vest over a four-year period. Share-based compensation expense is recognized ratably over the service period.

The fair value of restricted stock units is determined based on the Company's closing stock price on the date of grant. For employees, these restricted stock units typically vest and become unrestricted three years after the date of grant. For non-employee directors, these restricted stock units typically vest and become unrestricted one year after the date of grant. Share-based compensation expense is recognized ratably over the vesting periods for restricted stock units.

***Fair Value of Financial Instruments***—The following instruments are not measured at fair value on the Company's consolidated balance sheets but require disclosure of their fair values: cash and cash equivalents, accounts receivables and accounts payable. The estimated fair value of such instruments approximates their carrying value as reported on the consolidated balance sheets. The fair value of such financial instruments are determined using the income approach based on the present value of estimated future cash flows. The fair value of these instruments would be categorized as Level 2 in the fair value hierarchy, with the exception of cash and cash equivalents, which would be categorized as Level 1.

***Segment Reporting***—The Company has one reportable retail segment.

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

#### ***Accounting Standards Update No. 2012-02, Intangibles—Testing Indefinite-Lived Intangible Assets for Impairment***

In July 2012, the FASB issued guidance that revises the requirements around how entities test indefinite-lived intangible assets, other than goodwill, for impairment. The guidance allows companies to perform a qualitative assessment before calculating the fair value of the reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. The Company adopted this guidance effective for its fiscal 2012 annual testing during the fourth fiscal quarter. The adoption of this guidance did not have a material impact on the Company's financial statements.

*Accounting Standards Update No. 2011-08 —Intangibles —Testing Goodwill for Impairment*

In September 2011, the FASB issued guidance that revises the requirements around how entities test goodwill for impairment. The guidance allows companies to perform a qualitative assessment before calculating the fair value of the reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. The Company adopted this guidance effective for its fiscal 2012 annual goodwill impairment test performed during the fourth fiscal quarter. Although the adoption of this guidance results in a change in how the Company performs its goodwill impairment assessment; the adoption of this guidance did not have a material impact on our financial statements.

**2. DEVELOPMENT AGREEMENTS**

The Company's wholly owned subsidiary, Jamba Juice Company, has entered into multi-unit license agreements with area developers to develop stores in certain geographic regions. Under typical multi-unit license agreements, the area developer generally pays one-half of the initial nonrefundable fee multiplied by each store to be developed as a nonrefundable development fee upon execution of the multi-unit development agreement. The agreements are generally for a term of 10 years. Each time a store is opened under the multi-unit license agreement, the Company credits the franchisee one-half of the initial fee paid as part of the development fee and the franchisee is required to pay the remaining one-half of the initial fee.

The following table summarizes data about the development agreements for Franchise and International Stores as of January 1, 2013 and January 3, 2012:

	<b>January 1, 2013</b>	<b>January 3, 2012</b>
Number of developers with Franchise Store contractual commitments	21	15
Number of Franchise Stores for which commitments exist	95	78
Number of developers with International Stores contractual commitments	3	3
Number of International Stores for which commitments exist	285	301

The Company generally executes franchise agreements for each store that establishes the terms of its arrangement with the franchisee. The franchise agreements typically require the franchisee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to the Company's approval and the franchisee's payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.



Franchise revenue consists of royalties, and fees from franchisees and revenue from sales of products sold at its flexible format franchise locations.

The Company recognizes initial fees received from a franchisee as revenue when it has performed substantially all initial services required by the franchise agreement, which is generally upon the opening of a store. The Company recognizes continuing royalties based upon a percentage of franchisee revenue as earned and revenue from sales of certain Jamba-branded products when they are delivered to the express format franchisees. The Company is not required to contribute capital as part of multi-unit development agreements or franchise agreements.

Deferred franchise revenue is included in other long-term liabilities on the consolidated balance sheets. As of January 1, 2013 and January 3, 2012 deferred franchise revenue included \$0.8 million and \$0.7 million, respectively, relating to non-refundable development fees and initial fees paid by domestic franchisees whose stores have not yet opened. In addition, deferred franchise revenue as of January 1, 2013 and January 3, 2012 included \$0.7 million and \$0.7 million, respectively, relating to non-refundable international development fees.

### 3. PROPERTY, FIXTURES AND EQUIPMENT

Property, fixtures, and equipment as of January 1, 2013 and January 3, 2012 consisted of the following (in thousands):

	<b>January 1, 2013</b>	<b>January 3, 2012</b>
Leasehold improvements	\$ 50,358	\$ 49,703
Furniture, fixtures and equipment	57,457	55,199
Construction in progress (primarily stores under construction)	79	77
Total	107,895	104,979
Less accumulated depreciation and amortization	(69,452 )	(60,219 )
Total	\$38,442	\$ 44,760

Depreciation expense related to property, fixtures and equipment for fiscal 2012, fiscal 2011 and fiscal 2010 was \$11.0 million, \$12.3 million, and \$14.6 million, respectively.

### 4. ACQUISITION

On January 27, 2012, the Company completed its acquisition of certain assets of Talbott Teas, LLC (“Talbott”), a Chicago based boutique, premium tea company. The acquisition of Talbott is consistent with the Company’s strategy for growth through lifestyle specialty brands that fit well with the Jamba brands and its positioning as a leading health and wellness company. The pro forma effect of the acquisition on the Company’s results of operations is not significant. The revenue and earnings of Talbott, included in the Company’s results since the January 27, 2012 acquisition, and acquisition related expenses included in the statements of operations are not significant.

This purchase was accounted for using the acquisition method of accounting and the purchase price comprises an upfront cash payment plus contingency payments based on the future performance (the “earn-out arrangement”) of the assets acquired. The purchase price was determined to be the aggregate of the upfront payment and the fair value of the payments subject to the earn-out arrangement, and was allocated to the assets purchased based upon their estimated fair values at the date of acquisition. Identifiable intangible assets acquired include a trade name and customer relationships totaling \$0.4 million and are included in trademarks and other intangible assets, net on the balance sheet. The excess purchase price over the net tangible and intangible assets acquired of \$1.3 million was recorded as goodwill, which is expected to be nondeductible for tax purposes until certain conditions are met. The purchase price cash consideration paid by the Company at closing was \$0.4 million and the fair value of the earn-out

arrangement was recorded as a liability, at \$1.4 million, as of January 27, 2012. As of January 1, 2013, the fair value of the earn-out liability was \$1.3 million of which \$0.9 million is included in deferred rent and other long-term liabilities and \$0.4 million is in current liabilities on the consolidated balance sheet.

## 5. TRADEMARKS AND OTHER INTANGIBLE ASSETS

The carrying amount and accumulated amortization of trademarks and other intangible assets as of January 1, 2013 and January 3, 2012, were as follows (in thousands):

	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>
Intangible Assets			
As of January 1, 2013			
Favorable leases	\$ 2,051	\$ (2,015)	) \$ 36
Trademarks	608	—	608
Franchise agreements and customer lists	1,100	(364)	) 736
Reacquired franchise rights	325	(293)	) 32
Total	\$ 4,084	\$ (2,672)	) \$ 1,412

	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>
As of January 3, 2012			
Trademarks	\$ 410	\$ —	\$ 410
Favorable leases	2,051	(1,901 )	150
Franchise agreements	828	(315 )	513
Reacquired franchise rights	325	(268 )	57
Total	\$ 3,614	\$ (2,484 )	\$ 1,130

Intangible assets are amortized over their expected useful lives. Amortization expense for intangible assets for fiscal 2012, fiscal 2011 and fiscal 2010 was \$0.2 million, \$0.3 million and \$1.1 million, respectively. Expected annual amortization expense for intangible assets recorded as of January 1, 2013 is as follows (in thousands):

<u>Fiscal Year</u>	Amortization Expense
2013	103
2014	72
2015	67
2016	63
2017	60
Thereafter	137

Trademarks are not subject to amortization and the Company determines if a test of impairment is needed annually during the fourth quarter or more frequently if events or changes in circumstances indicate that the asset might be impaired. There was no impairment charge for trademarks in fiscal 2012. As of January 1, 2013 and January 3, 2012, the Company had trademarks of approximately \$0.6 million and \$0.4 million, respectively.

## 6. OTHER LONG-TERM ASSETS

As of January 1, 2013 and January 3, 2012, other long-term assets consisted of the following (in thousands):

<b>January</b>	<b>January 3,</b>
<b>1,</b>	<b>2012</b>

	<b>2013</b>	
Investment in JJC Hawaii, LLC	\$ —	\$ 472
Deposits and other	846	860
<b>Total</b>	<b>\$ 846</b>	<b>\$ 1,332</b>

The Company sold its investment in JJC Hawaii, LLC during the fourth quarter of the fiscal year. The Company owned a 5.0% interest in JJC Hawaii, LLC and accounted for its investment under the equity method. The gain on sale of the investment was \$0.5 million and is recorded in Other operating, net, in the statements of operations. The equity in earnings recognized by the Company for JJC Hawaii, LLC was \$109,000, \$54,000 and \$61,000 for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

As of January 1, 2013, the Company had a 15% investment in JJC Washington I, LLC, a joint venture with its franchisee in the Washington, D.C. area, and accounts for its investment under the equity method.

## **7. IMPAIRMENT, STORE LEASE TERMINATION AND CLOSURE COSTS**

### **Long-lived asset impairment**

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 \$0.7 million, \$1.3 million and \$2.8 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

**Store lease termination and closure costs**

During fiscal 2012, fiscal 2011 and fiscal 2010, the Company incurred \$0.4 million, \$0.7 million and \$4.3 million, respectively, in charges related to asset write-offs for lease termination 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. These amounts are subject to adjustments as liabilities are settled. In assessing the discounted liabilities for future costs of obligations related to closed stores, the Company made 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. Severance payments were made during fiscal 2010. Lease obligations are payable through 2023, less sublease amounts. The following is a reconciliation of the lease termination and store closure accrual and is included on the balance sheet in Other current liabilities and Other long-term liabilities (in thousands):

Balance as of December 28, 2010	\$3,018
Provision for noncancelable lease payments of closed stores	154
Payments on lease liability	(2,834)
Adjustments	235
Balance as of January 3, 2012	\$573
Provision for noncancelable lease payments of closed stores	130
Payments on lease liability	(527 )
Adjustments	76
Balance as of January 1, 2013	\$252

**Gain/loss on Disposal of Other Assets**—The Company recognized a loss on disposal of fixed assets of \$0.6 million, \$2.1 million and \$0.3 million in fiscal 2012, fiscal 2011 and fiscal 2010, respectively. The loss on disposal in fiscal 2011 includes a net loss of \$0.3 million on sale of fixed assets of refranchised stores pursuant to our refranchising initiative which ended in April 2011. The loss on disposal in fiscal 2010 is net of a \$1.5 million gain on refranchising of Company Stores.

**8. DEFERRED RENT AND OTHER LONG-TERM LIABILITIES**

As of January 1, 2013 and January 3, 2012, other long-term liabilities consisted of the following (in thousands):

	<b>January 1, 2013</b>	<b>January 3, 2012</b>
Deferred rent	\$ 5,610	\$ 6,155
Deferred revenue	2,292	3,078
Construction allowance	2,382	2,974
Contingent consideration	894	—
Other liabilities	702	872
Total other long-term liabilities	\$ 11,880	\$ 13,079

## 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. Rental expense, net of sublease income was \$23.5 million in fiscal 2012, \$24.8 million in fiscal 2011 and \$28.5 million in fiscal 2010, respectively, and is recorded in occupancy costs and general and administrative expenses in the statements of operations. Contingent rent included in occupancy costs in the statements of operations was \$0.4 million, \$0.4 million and \$0.4 million in fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

The aggregate future minimum noncancelable lease payments as of January 1, 2013, were as follows (in thousands):

<b><u>Fiscal Year Ending:</u></b>	
2013	\$23,660
2014	21,213
2015	16,229
2016	11,779
2017	7,406
Thereafter	10,576
Total minimum lease commitments	\$90,863

The Company has subleases related to certain of its operating leases. The Company recognized sublease income of \$8.4 million in fiscal 2012, \$8.0 million in fiscal 2011 and \$2.4 million in fiscal 2010, respectively. Future minimum lease payments under operating leases of \$90.9 million have been reduced by future minimum sublease rental income of \$24.2 million.

## 10. 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 (as amended, the "Credit Agreement"), provides us with a revolving line of credit of up to \$10.0 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 3.00% per annum. Under the terms of the Credit Agreement, the Company is required to maintain minimum levels of trailing annual consolidated EBITDA and liquidity and is subject to limits on annual capital expenditures. The Credit Agreement terminates January 31, 2014 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 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 our outstanding letters of credit of \$1.1 million.

During fiscal 2012, 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 January 1, 2013, the unamortized commitment fee amount was less than \$0.1 million and is recorded in prepaid expenses and other current assets on the balance sheet. As of January 1, 2013, the Company was in compliance with all related covenants and the unused borrowing capacity under the agreement was \$8.9 million.

## 11. REDEEMABLE PREFERRED STOCK

A summary of redeemable preferred stock activity for fiscal years 2012 and 2011 is presented below (dollars in thousands, except share amounts):

	<b>Redeemable preferred stock</b>	
	<b>Shares</b>	<b>Amount</b>
Balance as of December 28, 2010	197,485	20,554
Conversion of redeemable preferred stock	(29,096 )	(3,346 )
Accretion of redeemable preferred stock	—	672
Balance as of January 3, 2012	168,389	\$ 17,880
Conversion of redeemable preferred stock	(95,500 )	(10,982 )
Accretion of redeemable preferred stock	—	1,018
Balance as of January 1, 2013	72,889	\$ 7,916

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 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 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. The shares of Preferred Stock and the shares of the Company's Common Stock issuable upon conversion of the Preferred Stock to be issued to the purchasers includes 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 Series B 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 Preferred Stock has an 8% dividend, payable quarterly in cash, which accrues irrespective of whether dividends are actually declared or paid. The dividend rate shall increase to 10% in the event the Common Stock is not listed for trading on any of the New York Stock Exchange or the NASDAQ Global Market or if the Company fails to declare and pay, in full and in cash, dividends on shares of the Preferred Stock for three consecutive quarters until such time as the dividends are paid in full and in cash. After seven years from the date the shares of Preferred Stock are originally issued, the holders of such shares will have the right to require the Company to redeem their shares of Preferred Stock, in whole or in part, at a price per share equal to the original sale price per share plus any unpaid but accrued dividends. The Company has also granted the purchasers of the shares of Preferred Stock certain pre-emptive rights with respect to the sale and issuance by the Company of equity securities, as delineated in the Purchase Agreement. If the Company fails to declare and pay, in full and in cash, dividends on shares of the Preferred Stock for three consecutive quarters, the size of the board of directors of the Company ("Board") shall be increased by one member and the holders of the Preferred Stock, voting together as a single class, shall be entitled to elect one additional member to the Board until such time as the dividends are paid in full and in cash.

The holders of the shares of Preferred Stock have the right to vote on any matters submitted to a vote of the stockholders of the Company and are entitled to cast that number of votes equal to the aggregate number of shares of

Common Stock issuable upon the conversion of such holders' shares of Preferred Stock at the then-applicable conversion price. The holders of the shares of Preferred Stock will also receive customary protective provisions under the Certificate of Designation and additional protections under the Purchase Agreement (including the requirement that the consent of a majority of the holders of the shares of Common Stock issuable upon conversion of the Preferred Stock must be obtained prior to the Company incurring in excess of \$10 million in indebtedness).

The holders of the shares of the Series B-1 Preferred, voting as a separate class, elected two members to the Board at the 2012 Annual Meeting of Stockholders. As of January 18, 2013, there are no shares of Series B-1 Preferred outstanding and per the terms of the Securities Purchase Agreement, the holders of the Series B-1 Preferred are no longer allowed to elect any members to the Board.

The holders of the shares of the Series B-2 Preferred, voting as a separate class, elected one member to the Board at the 2012 Annual Meeting of Stockholders. The Series B-2 Preferred holders are allowed to hold one seat on the Board so long as more than 25% of the number of shares of Series B-2 Preferred originally issued is outstanding. The ability to elect any members to the Board by the holders of the shares of Series B-2 Preferred will cease once the number of outstanding shares of Series B-2 Preferred is less than 25% of the number of shares of Series B-2 Preferred originally issued. As of January 1, 2013, the holders of Series B-2 Preferred held approximately 40% of the number of shares of Series B-2 Preferred originally issued.

In the event of the liquidation, dissolution or winding-up of the affairs of the Company, whether voluntary or involuntary, the holders of shares of the Series B Preferred Stock then outstanding will be entitled to receive, out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of shares of Common Stock or any other junior stock by reason of their ownership thereof, an amount per share equal to the greater of (i) the Series B original issue price of \$115 per share plus any applicable accrued dividends or (ii) such amount per share as would have been payable had all shares of Series B Preferred Stock been converted into Common Stock immediately prior to the liquidation.

The Series B Preferred Stock is classified as temporary stockholders' equity, since the shares are (i) redeemable at the option of the holder in the future after satisfaction of the requisite holding period and (ii) have conditions for redemption which are not solely within the control of the Company. Total transaction costs of \$3.1 million, which is comprised of \$2.2 million in transaction fees and \$885,000 paid to investors is recorded as a reduction in proceeds received by the Company. The \$885,000 paid to investors, is also recorded as a beneficial conversion feature. These items will be accreted to the redemption amount over seven years. The proceeds from the issuance of Series B Preferred Stock were used to repay in full the outstanding debt resulting from the Company's Senior Notes and for working capital.

During fiscal 2012, holders of 93,500 shares of outstanding Series B-1 Preferred Stock and 2,000 shares of outstanding Series B-2 Preferred Stock converted such stock into an aggregate of 9,550,000 shares of common stock at the conversion price of \$1.15 per share.

During fiscal 2012, fiscal 2011 and fiscal 2010, the Company paid cash dividends on the Series B Preferred Stock totaling \$1.3 million, \$1.6 million and \$2.3 million, respectively. Accretion related to the Series B Preferred Stock for the fiscal years ended January 1, 2013, January 3, 2012 and December 28, 2010 was \$1.0 million, \$0.7 million and \$1.8 million, respectively, including the acceleration of accretion on converted shares. Unamortized accretion as of January 1, 2013 was \$0.5 million.

During fiscal 2011, holders converted 18,400 shares of outstanding Series B-1 Preferred Stock and 10,696 shares of outstanding Series B-2 Preferred Stock to an aggregate 2,909,600 shares of common stock at the initial conversion price of \$1.15 per share.

In June 2009, the Company granted a warrant to purchase common stock to Northpoint Advisors, LLC by the Company for professional services provided. The number of shares purchasable upon exercise of the warrant was 760,870 at an exercise price of \$1.15 per share. The fair value of the warrant on June 16, 2009 was estimated at \$0.2 million, was recorded as a reduction in proceeds received by the Company and was accreted to the redemption amount. The warrant was net exercised during fiscal 2012 for 292,002 shares of common stock.

During the first two months of fiscal 2013, holders converted 19,649 shares of outstanding Series B-1 Preferred Stock and 12,131 shares of outstanding Series B-2 Preferred Stock to an aggregate 3,178,000 shares of common stock at the initial conversion price of \$1.15 per share.

## 12. SHARE-BASED COMPENSATION

**Stock Options**—The Company maintains four 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 of 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. The 2010 Employee Stock Purchase Plan was approved by the Company’s stockholders on May 20, 2010 and provides an investment benefit to employees. This Plan did not have a significant impact on the financial statements.

As of January 1, 2013, there remained 926,666 shares available for grant under the Company’s 2006 Plan. Options granted under the 2006 Plan have an exercise price equal to the closing price of the Company’s common stock on the grant date. Options under the 2001 Plan and 1994 Plan were granted at an exercise price equal to or greater than the fair market value of the common stock at the date of the grant, are exercisable for up to 10 years, and vest annually over a four year period. Options outstanding under the 1994 Plan and the 2001 Plan became fully vested in 2010.

In December 2008, the Company granted an aggregate of 1,500,000 shares of stock options to its new President and Chief Executive Officer, resulting in an increase in the number of shares issued under stock option awards outstanding. This award was granted as an inducement grant outside of the Company's existing equity plans and has a three-year vesting period.

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. The Black-Scholes option-pricing model was developed for use in estimating fair value of traded options, which do not have vesting restrictions and are transferable. The Company's employee stock options have different characteristics from those of traded options, and changes in the subjective assumptions used can materially affect the grant date fair value of a stock option award.

These assumptions include the risk-free interest rate, the expected life of the award, expected volatility and expected dividend yield. The risk-free interest rate is based on the zero coupon U.S. Treasury rates appropriate for the expected term of the award. For expected life of the award, the Company applies the guidance provided by the SEC Staff Accounting Bulletin No. 110. Expected volatility is based on historic daily stock price observations of the Company's common stock since its inception. Expected dividends are zero based on history of not paying cash dividends on the Company's common stock and its intention not to make dividend payments in the future. The Company makes assumptions for the number of awards that will ultimately not vest ("forfeitures") in determining the share-based compensation expense for these awards. The Company uses historical data to estimate expected employee behaviors related to option exercises and forfeitures.

The fair value of stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	<b>Fiscal Year Ended January 1, 2013</b>		<b>Fiscal Year Ended January 3, 2012</b>		<b>Fiscal Year Ended December 28, 2010</b>	
Weighted-average risk-free interest rate	0.83	%	1.15	%	1.59	%
Expected life of options (years)	6.25		6.25		6.24	
Expected stock volatility	68.7	%	63.4	%	65.9	%
Expected dividend yield	0	%	0	%	0	%

A summary of the stock option activities for fiscal years 2011 and 2012 is presented below (shares and dollars in thousands):

<b>Number of Options</b>	<b>Weighted- Average Exercise</b>	<b>Weighted- Average</b>	<b>Aggregate Intrinsic</b>
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		<b>Price</b>	<b>Contractual</b>	<b>Value</b>
			<b>Term</b>	
Options outstanding at December 28, 2010	5,818	\$ 2.60		
Options granted	1,356	1.80		
Options exercised	(229 )	1.14		
Options canceled	(767 )	4.41		
Options outstanding at January 3, 2012	6,178	\$ 2.25		
Options granted	232	2.11		
Options exercised	(37 )	1.46		
Options canceled	(125 )	3.10		
Options outstanding at January 1, 2013	6,248	\$ 2.23	6.53	\$ 4,507
Options vested or expected to vest at January 1, 2013	6,092	\$ 2.24	6.48	\$ 4,449
Options exercisable at January 1, 2013	4,759	\$ 2.33	5.92	\$ 4,006

The intrinsic value of stock options is defined as the difference between the current market value and the exercise price, which is equal to the market value at the time of the grant. Information regarding options outstanding and exercisable at January 1, 2013 is as follows:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$0.36 - \$0.58	..125,000.....	4.21 years	\$ 0.42	118,750	\$ 0.43
\$0.60 - \$0.60	..1,500,000.....	5.92 years	0.60	1,500,000	0.60
\$1.03 - \$1.08	..115,000.....	6.45 years	1.07	101,250	1.07
\$1.31 - \$1.31	..916,615.....	5.17 years	1.31	916,615	1.31
\$1.61 - \$1.61	..723,750.....	8.77 years	1.61	185,069	1.61
\$1.79 - \$1.80	..739,234.....	7.31 years	1.79	523,609	1.79
\$1.94 - \$2.21	..332,000.....	8.99 years	2.13	53,625	2.21
\$2.22 - \$2.22	..630,575.....	7.67 years	2.22	327,215	2.22
\$2.27 - \$4.48	..637,865.....	6.89 years	2.83	504,115	2.98
\$5.09 - \$11.77	..528,378.....	3.73 years	9.93	528,378	9.93
	<b>6,248,417</b>		<b>\$ 2.23</b>	<b>4,758,626</b>	<b>\$ 2.33</b>

The weighted-average fair value of options granted in fiscal 2012 and fiscal 2011 was \$1.31 and \$1.06, respectively. At January 1, 2013, stock options vested or expected to vest over the next three years totaled 6,092. The remaining expense to amortize is approximately \$2.0 million at January 1, 2013.

Share-based compensation expense was \$2.1 million, \$1.3 million, and \$1.1 million for fiscal 2012, fiscal 2011 and fiscal 2010, respectively, and is included in general and administrative expenses in the consolidated statements of operations. No income tax benefit was recorded in fiscal 2012, 2011 and 2010.

**Restricted Stock**—During the fiscal year ended December 29, 2009, the Company issued restricted stock units (“RSUs”) as permitted under the 2006 Plan. RSUs are charged against the 2006 Plan share reserve on the basis of one share for each unit granted. The fair value of RSUs is determined based on the Company’s closing stock price on the date of grant. These RSUs were fully vested in fiscal 2012. Share-based compensation expense was recognized ratably over the three-year vesting period for RSUs. As of January 1, 2013, there is no remaining expense to amortize.

On August 6, 2012, the Company granted 532,500 RSUs to participants in its 2012 Management Incentive Plan at grant date fair value of \$2.54. These RSUs will vest over three years. Share-based compensation expense will be recognized ratably over the vesting periods. The aggregate grant date fair value of the RSUs granted during the year was \$1.4 million. The aggregate intrinsic value of RSUs outstanding as of January 1, 2013, was \$1.3 million.



In addition, on August 6, 2012, 352,500 performance stock units (“PSUs”), which are RSUs with performance requirements, were granted to plan participants at the levels of Vice President and above. Half of the PSUs granted will vest on August 22, 2013, if the Company achieves predetermined EBITDA targets for the second half of 2012 fiscal year. The remaining half will vest on August 22, 2013, if the Company achieves predetermined EBITDA targets for the first half of fiscal 2013. The aggregate grant date fair value of the PSUs granted during the year was \$0.9 million, and the aggregate intrinsic value of those PSUs outstanding as of January 1, 2013, was \$0.8 million. During fiscal 2012, the Company recorded compensation expense of \$0.1 million relating to half of the PSUs. The Company has not met the criteria for recording compensation expense related to the other half of the PSUs as of January 1, 2013.

Information regarding activity for outstanding RSUs granted under the 2006 Plan is as follows (shares in thousands):

	Number of shares of RSUs	Weighted- Average Grant Date Fair Value (per share)
RSUs outstanding as of December 28, 2010	110	\$ 1.79
RSUs granted	—	—
RSUs forfeited (canceled)	(14 )	1.79
RSUs vested	(48 )	1.79
RSUs outstanding as of January 3, 2012	48	\$ 1.79
RSUs granted	910	2.42
RSUs forfeited (canceled)	(16 )	2.54
RSUs vested	(48 )	1.79
RSUs outstanding as of January 1, 2013	894	\$ 2.42

### 13. INCOME TAXES

The components of the income tax (expense) benefit are as follows (in thousands):

	January 1, 2013	January 3, 2012	December 28, 2010
Current:			
Federal	\$ (81 )	\$ —	\$ 919
State	(10 )	(36 )	46
Foreign	(64 )	(8 )	(165 )
	\$ (155 )	\$ (44 )	\$ 800
Deferred:			
Federal	\$ —	\$ 300	\$ (890 )
State	—	84	(68 )
Foreign	—	—	—
	\$ —	\$ 384	\$ (959 )
Income tax (expense) benefit	\$ (155 )	\$ 340	\$ (159 )

The difference between the effective income tax rate and the United States federal income tax rate is summarized as follows:

	<b>January 1, 2013</b>		<b>January 3, 2012</b>		<b>December 28, 2010</b>	
Statutory federal rate	34.0	%	(34.0	)%	(34.0	)%
State income taxes less federal benefit	6.1		(5.7	)	(5.5	)
Foreign income taxes	9.2		0.1		1.0	
Change in valuation allowance	(36.1	)	46.3		36.5	
Meals	9.0		0.0		(0.0	)
Stock options	(1.0	)	0.5		1.8	
Write-off of goodwill	(0.7	)	(5.4	)	0.0	
Changes of liability related to uncertain tax positions	(0.0	)	(4.5	)	0.4	
Alternative minimum taxes	22.3		0.0		0.0	
Expired tax attribute carryforwards	8.7		0.0		0.0	
Tax credits generated	(14.3	)	(1.7	)	0.0	
Other	(3.3	)	0.5		0.8	
	33.9	%	(3.9	)%	1.0	%

Deferred income taxes are provided for the temporary differences between the carrying values of the Company's assets and liabilities for financial reporting purposes and their corresponding income tax bases. The temporary differences give rise to either a deferred tax asset or liability in the financial statements that is computed by applying current statutory tax rates to taxable and deductible temporary differences based upon the classification (i.e., current or noncurrent) of the asset or liability in the financial statements that relates to the particular temporary difference. Deferred taxes related to differences that are not attributable to a specific asset or liability are classified in accordance with the future period in which they are expected to reverse and be recognized for income tax purposes. The deferred tax assets (liabilities) consisted of the following temporary differences as of January 1, 2013 and January 3, 2012 (in thousands):

	<b>January 1, 2013</b>	<b>January 3, 2012</b>
Reserves and accruals	\$ 8,107	\$ 8,248
Total current deferred tax asset	8,107	8,248
Net operating losses	47,848	48,425
Deferred rent	2,261	2,444
Tax credit attributes	1,589	1,523
Basis difference in intangibles	4,670	5,213
Share-based compensation	1,626	1,059
Basis difference in fixed assets	13,414	12,588
Basis difference in investments	14	(153 )
Reserves and accruals	15	70
Total non-current deferred tax asset	71,437	71,169
Valuation allowance	(79,544 )	(79,417 )
Total net deferred tax asset	\$ —	\$ —

Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. A valuation allowance is provided for deferred tax assets when it is "more likely than not" that some portion of the deferred tax asset will not be realized. Because of the Company's recent history of operating losses, management believes the recognition of the deferred tax assets arising from the above-mentioned future tax benefits is currently not likely to be realized and, accordingly, has provided a valuation allowance. A valuation allowance has been recorded for the net deferred tax assets at January 1, 2013, which increases the valuation allowance by \$0.1 million for the fiscal year ended January 1, 2013.

At January 1, 2013, the Company has federal and state net operating loss carryovers of \$112.5 million and \$128.9 million, respectively, which, if not used earlier, will expire between 2017 and 2031. In addition, the Company also has tax credit carryforwards for federal and state purposes of \$1.1 million and \$0.7 million, respectively. Of the federal tax credit carryforwards, approximately \$233,000 will expire in 2031 if unused before that year. The remaining federal

tax credits and the state tax credits do not expire.

The Company underwent an “ownership change” as defined in section 382 of the Internal Revenue Code during the second quarter of our 2009 fiscal year, as a result of our issuance of Series B-1 Convertible Preferred Stock and Series B-2 Convertible Preferred Stock and other prior trading in our stock.

The amount of our taxable income for tax years ending after our ownership change which may be offset by net operating loss carryovers (“NOL”) and tax credits from pre-change years will be subject to an annual limitation, known as a section 382 limitation. As of January 1, 2013, the amount of pre-change federal NOL is \$52.0 million and the pre-change state NOL is \$69.1 million, the post-change federal NOL is \$60.5 million and the post-change state NOL is \$59.8million (before considering the annual 382 limitation and any built-in losses).

The Company has determined the annual section 382 limitation to be approximately \$3.4 million. To the extent that the section 382 limitation exceeds the amount of taxable income offset by the net operating loss carryforwards from the pre-change years, the excess may increase the future section 382 limitation. The NOL from the post-change years are generally not subject to the section 382 limitation. However, due to the existence of a net unrealized built-in loss at the ownership change date, section 382 further limits the Company’s ability to fully utilize the tax deductions associated with certain of its assets, including depreciation and amortization deductions recognized during the 5 post-change years ending in 2014. Although these deductions will occur in the post-change period, section 382 treats the deductions as pre-change losses subject to the annual 382 limitation. The net unrealized built-in loss associated with these assets at the ownership change date was approximately \$11.4 million. The entire unrealized built-in losses are expected to be fully realized in the 5 post-change years ending in 2014 and, therefore, to be treated as pre-change losses. As a result, the amount of state NOL that is expected to expire unused due to the section 382 limitation is approximately \$2.0 million. No federal NOL is expected to expire unused due to the section 382 limitation.

As a result of certain realization requirements of Accounting Standards Codification Topic 718, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets as of January 1, 2013 and January 3, 2012 that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. The deferred tax assets include primarily net operating loss carryforwards. Equity will be increased by \$0.3 million if and when such deferred tax assets are ultimately recognized. The Company uses tax law ordering when determining when excess tax benefits have been realized.

Changes in the Company's unrecognized tax benefits are as follows (in thousands):

	<b>Fiscal Year Ended January 1, 2013</b>	<b>Fiscal Year Ended January 3, 2012</b>
Beginning balance	\$ 176	\$ 693
Increases attributable to tax positions taken during prior periods	9	—
Decreases resulting from lapse of applicable statutes of limitations	—	517
Ending balance	\$ 185	\$ 176

As of January 1, 2013, the entire unrecognized tax benefits reduce the deferred tax asset of the net operating loss carryforwards. If recognized, none of the unrecognized tax benefits would impact the Company's effective tax rate. As of January 1, 2013, it is reasonably possible that the unrecognized tax benefits will not significantly increase or decrease in the next twelve months.

The Company is subject to taxation in the United States and various state and local jurisdictions. As of January 1, 2013, the Company is subject to U.S. federal income tax examinations for the tax years ended December 29, 2009 through January 3, 2012. With few exceptions, as of January 1, 2013, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the tax years ended before December 29, 2009.

#### **14. FAIR VALUE MEASUREMENT**

##### ***Financial Assets and Liabilities***

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 financial assets that were accounted for at fair value on a recurring basis as of January 1, 2013 and January 3, 2012 by level within the fair value hierarchy (in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<u>January 1, 2013</u>			
Liabilities:			
Contingent consideration <sup>(1)</sup>			