

JONES SODA CO  
Form 10-Q  
May 13, 2016  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

June 30,  
2014

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

For the Quarterly Period Ended March 31, 2016

OR

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

For the transition period from        to

Commission File Number: 000-28820

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JONES SODA CO.

(Exact name of registrant as specified in its charter)

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Washington  
(State or other jurisdiction of  
incorporation or organization)

52-2336602  
(I.R.S. Employer  
Identification No.)

66 South Hanford Street, Suite 150  
Seattle, Washington  
(Address of principal executive offices)

98134  
(Zip Code)

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(206) 624-3357

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 9, 2016, there were 41,314,894 shares of the registrant's common stock issued and outstanding.



Table of Contents

JONES SODA CO.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

TABLE OF CONTENTS

	Page
<u>Explanatory Note</u>	3
<u>Cautionary Notice Regarding Forward Looking Statements</u>	3
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>a) Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015</u>	5
<u>b) Condensed Consolidated Statements of Operations – three months ended March 31, 2016 and 2015</u>	6
<u>c) Condensed Consolidated Statements of Comprehensive Income (Loss) – three months ended March 31, 2016 and 2015</u>	7
<u>d) Condensed Consolidated Statements of Cash Flows – three months ended March 31, 2016 and 2015</u>	8
<u>e) Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 4. Controls and Procedures</u>	17
<u>PART II. OTHER INFORMATION</u>	
<u>Item 5. Other Information</u>	17
<u>Item 6. Exhibits</u>	18

Table of Contents

EXPLANATORY NOTE

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

In addition, unless otherwise indicated or the context otherwise requires, all references in this Quarterly Report to “Jones Soda” refer to our premium soda, including Jones® Soda, Jones Zilch® and Jones Stripped™ sold under the trademarked brand name “Jones Soda Co.®”

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

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

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

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

- Our ability to successfully execute on our growth strategy and our operating plan;
- Our ability to establish, maintain and expand distribution arrangements with independent distributors, retailers, brokers and national retail accounts, most of whom sell and distribute competing products, and whom we rely upon to employ sufficient efforts in managing and selling our products, including re-stocking the retail shelves with our products, on which our business plan and future growth are dependent in part;
  - Our ability to respond to any changes in, and to maintain, our private label relationship with 7-Eleven;
- Consumer response to and market acceptance of 7-Select®, our cobranded product with 7-Eleven, and our new product, Lemoncocco;
- The timing and amount of reorders for 7-Select®, including the impact on our inventory and revenue;
- Our ability to effectively manage and grow international distribution and sales;
- Competition in the fountain business, particularly from Coke and Pepsi;
- Our ability to successfully develop and launch new products that match consumer beverage trends;
- Our ability to increase revenues and achieve case sales goals;

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- Our ability to manage our operating expenses and generate cash flow from operations;
- Our ability to secure additional financing, including on terms acceptable to us, if and when needed;
- Our ability to respond to changes in the consumer beverage marketplace, including potential reduced consumer demand due to health concerns (including obesity) and legislative initiatives against sweetened beverages;
- Changes in pricing and SKUs of our products;
- Our ability to manage our inventory levels and to predict the timing and amount of our sales;

3

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Table of Contents

- Our reliance on third-party contract manufacturers of our products and the geographic locations of their facilities, which could make management of our distribution efforts inefficient or unprofitable;
- Our ability to secure a continuous supply and availability of raw materials, as well as other factors affecting our supply chain including increases in raw material costs and shortages of glass in the supply chain;
- High or rising fuel and freight costs may have an adverse impact on our results of operations;
- Fluctuations in currency exchange rates, particularly between the U.S. and Canadian dollars, can adversely impact our results of operations;
- Our ability to source our flavors on acceptable terms from our key flavor suppliers;
- Our ability to attract and retain key personnel, including retaining the services of our CEO, which would directly affect our efficiency and operations and could materially impair our ability to execute our growth strategy;
- Our inability to protect our trademarks and trade secrets, which may prevent us from successfully marketing our products and competing effectively;
- Our ability to create and maintain brand name recognition and acceptance of our products, which is critical to our success in our competitive, brand-conscious industry;
- Our ability to maintain brand image and product quality and avoid risks from other product issues such as product recalls;
- Our ability to compete successfully against much larger, well-funded, established companies currently operating in the beverage industry;
- Litigation or legal proceedings, which could expose us to significant liabilities and damage our reputation;
- Our ability to maintain effective disclosure controls and procedures and internal control over financial reporting;
- Our ability to maintain an effective information technology infrastructure;
- Dilutive and other adverse effects on our existing shareholders and our stock price arising from future securities issuances;
- Our ability to access the capital markets for any future equity financing, and any actual or perceived limitations to our common stock by being traded on the OTCQB Marketplace, including the level of trading activity, volatility or market liquidity;
- Regional, national or global economic conditions that may adversely impact our business and results of operations; and
- Our ability to comply with the many regulations to which our business is subject.

For a discussion of some of the factors that may affect our business, results and prospects, see “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission on March 24, 2016. Readers are also urged to carefully review and consider the various disclosures made by us in this Report and in our other reports we file with the Securities and Exchange Commission, including our periodic reports on Forms 10-Q and current reports on Form 8-K, and those described from time to time in our press releases and other communications, which attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Table of Contents

## PART 1 – FINANCIAL INFORMATION

## ITEM 1.FINANCIAL STATEMENTS

## JONES SODA CO.

## CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016	December 31, 2015
	(Unaudited)	
	(In thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 699	\$ 772
Accounts receivable, net of allowance of \$37 and \$27	2,406	1,840
Inventory	2,790	2,569
Prepaid expenses and other current assets	108	116
Total current assets	6,003	5,297
Fixed assets, net of accumulated depreciation of \$911 and \$907	32	37
Other assets	21	20
Total assets	\$ 6,056	\$ 5,354
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,080	\$ 1,786
Accrued expenses	1,160	850
Line of credit	902	908
Taxes payable	37	30
Other current liabilities	-	2
Total current liabilities	4,179	3,576
Deferred rent	12	11
Shareholders' equity:		
Common stock, no par value:		
Authorized — 100,000,000; issued and outstanding shares — 41,314,894 shares	53,764	53,764
Additional paid-in capital	8,496	8,467
Accumulated other comprehensive income	233	213
Accumulated deficit	(60,628)	(60,677)
Total shareholders' equity	1,865	1,767
Total liabilities and shareholders' equity	\$ 6,056	\$ 5,354



See accompanying notes to condensed consolidated financial statements.

5

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Table of Contents

JONES SODA CO.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended March 31,	
	2016	2015
	(In thousands, except share data)	
Revenue	\$ 4,274	\$ 2,893
Cost of goods sold	3,102	2,151
Gross profit	1,172	742
Operating expenses:		
Selling and marketing	542	432
General and administrative	564	539
	1,106	971
Income (loss) from operations	66	(229)
Interest expense	(22)	(8)
Other income (expense), net	12	(35)
Income (loss) before income taxes	56	(272)
Income tax expense, net	(7)	(6)
Net income (loss)	\$ 49	\$ (278)
Net income (loss) per share - basic	\$ 0.00	\$ (0.01)
Net income (loss) per share - diluted	\$ 0.00	\$ (0.01)
Weighted average basic common shares outstanding	41,314,894	40,972,394
Weighted average diluted common shares outstanding	41,628,078	40,972,394

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JONES SODA CO.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three months ended March 31, 2016 2015 (In thousands)	
Net income (loss )	\$ 49	\$ (278)
Other comprehensive loss:		
Foreign currency translation adjustment gain (loss)	20	48
Total comprehensive income (loss )	\$ 69	\$ (230)

See accompanying notes to condensed consolidated financial statements.

7

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Table of Contents

JONES SODA CO.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31,	
	2016	2015
	(In thousands)	
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 49	\$ (278)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	4	9
Stock-based compensation	29	40
Change in allowance for doubtful accounts	11	(17)
Changes in operating assets and liabilities:		
Accounts receivable	(561)	(616)
Inventory	(193)	(37)
Prepaid expenses and other current assets	8	(34)
Other assets	-	10
Accounts payable	294	471
Accrued expenses	286	(91)
Taxes payable	5	(23)
Other liabilities	1	(16)
Net cash used in operating activities	(67)	(582)
<b>INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	-	(14)
Net cash (used in) provided by investing activities	-	(14)
<b>FINANCING ACTIVITIES:</b>		
Payment of capital lease obligations	(2)	(3)
Proceeds from line of credit, net of repayments	(6)	248
Net cash provided by (used in) financing activities	(8)	245
Net decrease in cash and cash equivalents	(75)	(351)
Effect of exchange rate changes on cash	2	(30)
Cash and cash equivalents, beginning of period	772	857
Cash and cash equivalents, end of period	\$ 699	\$ 476
<b>Supplemental disclosure:</b>		
Cash paid during period for:		
Interest	\$ 22	\$ 8
Income taxes	-	29

See accompanying notes to condensed consolidated financial statements.

8

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Table of Contents

JONES SODA CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Jones Soda Co. develops, produces, markets and distributes premium beverages which it sells and distributes primarily in United States and Canada through its network of independent distributors and directly to its national and regional retail accounts.

We are a Washington corporation and have two operating subsidiaries, Jones Soda Co. (USA) Inc. and Jones Soda (Canada) Inc. (“Subsidiaries”).

Basis of presentation and consolidation

The accompanying condensed consolidated balance sheet as of December 31, 2015, which has been derived from our audited consolidated financial statements, and unaudited interim condensed consolidated financial statements as of March 31, 2016, has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the Securities and Exchange Commission (SEC) rules and regulations applicable to interim financial reporting. The condensed consolidated financial statements include our accounts and accounts of our wholly owned subsidiaries. All intercompany transactions between us and our subsidiaries have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all material adjustments, consisting only of those of a normal recurring nature, considered necessary for a fair presentation of our financial position, results of operations and cash flows at the dates and for the periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Liquidity

As of March 31, 2016, we had cash and cash-equivalents of approximately \$699,000 and working capital of \$1.8 million. Cash used in operations during the three months ended March 31, 2016 totaled \$67,000 compared to \$582,000 for the same period a year ago. The decrease in cash used in operations compared to the same period a year ago is primarily due to an increase in sales volume. We reported net income of \$49,000 for the three months ended March 31, 2016.

As of the date of this Report, we believe that our current cash and cash equivalents, combined with our Loan Facility and anticipated cash from operations, will be sufficient to meet our anticipated cash needs through March 31, 2017. Our Loan Facility (described below), is available for our working capital needs.

We have a revolving secured credit facility (the “Loan Facility”) with CapitalSource Business Finance Group. The Loan Facility allows us to borrow a maximum aggregate amount of up to \$3.0 million based on eligible accounts receivable and inventory, plus an additional amount of up to \$500,000 in principal advances against purchase orders until March 31, 2016. As of March 31, 2016, our accounts receivable and inventory eligible borrowing base was approximately \$1.7 million, of which we had drawn down \$902,000. During the three months ended March 31, 2016, we made no principal advances against purchase orders resulting in the \$500,000 additional purchase order line expiring unused. See Note 3 for further information.

We may require additional financing to support our working capital needs in the future. The amount of additional capital we may require, the timing of our capital needs and the availability of financing to fund those needs will depend on a number of factors, including our strategic initiatives and operating plans, the performance of our business and the market conditions for debt or equity financing. Additionally, the amount of capital required will depend on our ability to meet our case sales goals and otherwise successfully execute our operating plan. We believe it is imperative to meet these sales objectives in order to lessen our reliance on external financing in the future. We intend to continually monitor and adjust our business plan as necessary to respond to developments in our business, our markets and the broader economy. Although we believe various debt and equity financing alternatives will be available to us to support our working capital needs, financing arrangements on acceptable terms may not be available to us when needed. Additionally, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. Any such financing alternatives may not provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions that we consider to be in the best interest of the Company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, a rights offering, and other strategic alternatives; however, these options may not ultimately be available or feasible.

The uncertainties relating to our ability to successfully execute on our business plan and finance our operations continue to raise substantial doubt about our ability to continue as a going concern. Our financial statements for the periods presented

Table of Contents

were prepared assuming we would continue as a going concern, which contemplates that we will continue in operation for the foreseeable future and will be able to realize assets and settle liabilities and commitments in the normal course of business. These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should we be unable to continue as a going concern.

## Seasonality and other fluctuations

Our sales are seasonal and we experience fluctuations in quarterly results as a result of many factors. We historically have generated a greater percentage of our revenues during the warm weather months of April through September. Sales may fluctuate materially on a quarter to quarter basis or an annual basis when we fill the “pipeline” of a new distribution partner or a large retail partner such as 7-Eleven. Sales results may also fluctuate based on the number of SKUs selected or removed by our distributors and retail partners through the normal course of serving consumers in the dynamic, trend-oriented beverage industry. As a result, management believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance or results expected for the fiscal year.

## Net income (loss) per share

The computation for basic and diluted earnings per share is as follows (in thousands, except share data):

	Three months ended March	
	31,	
	2016	2015
Net income (loss)	\$ 49	\$ (278)
Weighted average common shares outstanding:		
Basic	41,314,894	40,972,394
Dilutive stock options	313,184	-
Diluted	41,628,078	40,972,394
Net income (loss) per share:		
Basic	\$ 0.00	\$ (0.01)
Diluted	\$ 0.00	\$ (0.01)

## Use of estimates

The preparation of the condensed consolidated financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions



include, but are not limited to, inventory valuation, depreciable lives and valuation of capital assets, valuation allowances for receivables, trade promotion liabilities, stock-based compensation expense, valuation allowance for deferred income tax assets, contingencies, and forecasts supporting the going concern assumption and related disclosures. Actual results could differ from those estimates.

#### Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The ASU is effective for public entities for annual periods beginning after December 15, 2017. In June 2015, the FASB deferred for one year the effective date of the new revenue standard, with an option that would permit companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date is not permitted. We are evaluating the impact this standard may have on our revenue recognition, but do not expect that the adoption will have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330), to amend Topic 330, Inventory. Topic 330 currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 requires that inventory measured using either the first-in, first-out (FIFO) or average cost method be measured at the lower of

Table of Contents

cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Adoption of ASU 2015-11 is required for fiscal reporting periods beginning after December 15, 2016, including interim reporting periods within those fiscal years. We do not expect adoption of ASU 2015-11 to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU is intended to provide more transparent and economically neutral information about the assets and liabilities that arise from leases than previous guidance. The ASU is effective for public entities for annual periods beginning on or after December 15, 2018. Early adoption is permitted, and adoption must be applied on a modified retrospective basis. We are evaluating the impact of this standard but do not expect that the adoption will have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting which amends ASC 718, Compensation — Stock Compensation. The ASU includes provisions intended to simplify various provisions related to how share-based payments are accounted for and presented in the financial statements. The ASU is effective for public entities for annual periods beginning on or after December 15, 2016 and interim periods within that reporting period. Early adoption is permitted in any interim or annual period. We are evaluating the impact of this standard but do not expect that the adoption will have a material impact on our financial statements.

## 2. Inventory

Inventory consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Finished goods	\$ 1,980	\$ 1,842
Raw materials	810	727
	\$ 2,790	\$ 2,569

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

## 3. Line of Credit

We have a revolving secured Loan Facility with CapitalSource Business Finance Group (“CapitalSource”), pursuant to which we, through our Subsidiaries, may borrow a maximum aggregate amount of up to \$3.0 million, subject to satisfaction of certain conditions. We originally entered into this Loan Facility on December 27, 2013, and amended and renewed it for an additional year as of December 18, 2015 and January 7, 2016.

Under this Loan Facility, we may periodically request advances equal to the lesser of: (a) \$3.0 million, or (b) the Borrowing Base which is, in the following priority, the sum of: (i) 85% of eligible U.S. accounts receivable, plus (ii) 35% of finished goods inventory not to exceed \$300,000, plus (iii) 50% of eligible Canadian accounts receivable not to exceed \$300,000, subject to any reserve amount established by CapitalSource. As of March 31, 2016, our accounts receivable and inventory eligible borrowing base was approximately \$1.7 million, of which we had drawn down \$902,000. In addition, through March 31, 2016, we had in place an additional purchase order line under which we were able request up to \$500,000 in principal advances against purchase orders. During the three months ended March 31, 2016, we made no principal advances against purchase orders resulting in the additional purchase order line expiring unused. Advances under the Loan Facility as amended in January 2016, bear interest at the prime rate plus 2%, and a loan fee of 0.15% on the daily loan balance is payable to CapitalSource on a monthly basis with a minimum annual interest requirement of \$30,000. The Loan Facility has a term of one year which automatically extends for successive one year terms unless either party gives at least 30 days' prior written notice of its intent to terminate the Loan Facility at the end of the then current term. The Company pays an annual fee of 0.75% of the total commitment.

Beginning April 1, 2016, our borrowing base under the Loan Facility will increase to the lesser of: (a) \$3.2 million, or (b) the Borrowing Base which is, in the following priority, the sum of: (i) 85% of eligible U.S. accounts receivable, plus (ii) 35% of finished goods inventory not to exceed \$475,000, plus (iii) 50% of eligible Canadian accounts receivable not to exceed \$300,000, subject to any reserve amount established by CapitalSource. Additionally, the advances under the loan will bear interest at prime plus 1% beginning on April 1, 2016. CapitalSource has the right to terminate the Loan Facility at any time upon 120 days' prior written notice. All present and future obligations of the Subsidiaries arising under the Loan Facility are guaranteed by us and are secured by a first priority security interest in all of our assets. The Loan Facility contains customary representations and warranties as well as affirmative and negative covenants. As of March 31, 2016, we were in compliance with all covenants under the Loan Facility. The draws on the Loan Facility were used to fulfill working capital needs. We will continue to utilize the Loan Facility, as needed, for working capital needs in the future.

Table of Contents

4. Warrants

In February 2012 as part of our registered offering, we sold and issued warrants for the purchase of up to 3,207,500 shares of common stock. Each warrant has an exercise price of \$0.70 per share, for total potential proceeds to us of up to \$2,245,250 if all of the warrants are exercised in full for cash. The warrants are exercisable for cash or, solely in the absence of an effective registration statement, by cashless exercise. The exercise price of the warrants is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions, and also upon any distributions to Company shareholders, business combinations, sale of substantially all assets and other fundamental transactions. The exercise of the warrants is subject to certain beneficial ownership limitations and other restrictions set forth in the warrant documents. The term of the warrants expires on August 6, 2017. Any remaining warrants that are outstanding on August 6, 2017, the expiration date, will automatically be exercised at that time by cashless exercise (to the extent that the volume weighted average trading price of our common stock as of such date exceeds the warrant exercise price).

As of March 31, 2016, 3,057,500 of the warrants remain outstanding. No warrants were exercised during the three months ended March 31, 2016.

5. Shareholders' Equity

Under the terms of our 2011 Incentive Plan (the "Plan"), the number of shares authorized under the Plan may be increased each January 1st by an amount equal to the least of (a) 1,300,000 shares, (b) 4.0% of our outstanding common stock as of the end of our immediately preceding fiscal year, and (c) a lesser amount determined by the Board of Directors (the "Board"), provided that the number of shares that may be granted pursuant to awards in a single year may not exceed 10% of our outstanding shares of common stock on a fully diluted basis as of the end of the immediately preceding fiscal year. Effective January 1, 2016, the total number of shares of common stock authorized under the Plan increased to 9,484,032 shares.

Under the terms of the Plan, the Board may grant awards to employees, officers, directors, consultants, agents, advisors and independent contractors. Awards may consist of stock options, stock appreciation rights, stock awards, restricted stock, stock units, performance awards or other stock or cash-based awards. Stock options are granted at the closing price of our stock on the date of grant, and generally have a ten-year term and vest over a period of 48 months with the first 25.0% cliff vesting one year from the grant date and monthly thereafter. As of March 31, 2016, there were 3,808,538 shares of unissued common stock authorized and available for future awards under the Plan.

(a) Stock options:

A summary of our stock option activity is as follows:

Outstanding Options	Weighted Average Exercise Price
Number of Shares	

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Balance at January 1, 2016	3,117,820	\$ 0.58
Options granted	455,000	0.47
Options cancelled/expired	(117,500)	0.36
Balance at March 31, 2016	3,455,320	\$ 0.53
Exercisable, March 31, 2016	2,044,486	\$ 0.62
Vested and expected to vest	3,044,384	\$ 0.55

(b) Stock-based compensation expense:

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

At March 31, 2016, we had unrecognized compensation expense related to stock options of \$224,000 to be recognized over a weighted-average period of 3.2 years.

Table of Contents

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

	Three months ended March 31, 2016 2015	
Income statement account:		
Selling and marketing	\$ 11	\$ 13
General and administrative	18	27
	\$ 29	\$ 40

We employ the following key weighted-average assumptions in determining the fair value of stock options, using the Black-Scholes option pricing model and the simplified method to estimate the expected term of “plain vanilla” options:

	Three months ended March 31, 2016 2015	
Expected dividend yield	—	—
Expected stock price volatility	87.9 %	96.2 %
Risk-free interest rate	1.7 %	1.7 %
Expected term (in years)	6.1 years	6.1 years
Weighted-average grant date fair-value	\$ 0.34	\$ 0.29

The aggregate intrinsic value of stock options outstanding at March 31, 2016 and 2015 was \$953,000 and \$57,000 and for options exercisable was \$482,000 and \$46,000, respectively. The intrinsic value of outstanding and exercisable stock options is calculated as the quoted market price of the stock at the balance sheet date less the exercise price of the option. There were no options exercised during the three months ended March 31, 2016 and 2015.

## 6. Segment Information

We have one operating segment with operations primarily in the United States and Canada. Sales are assigned to geographic locations based on the location of customers. Sales by geographic location are as follows (in thousands):

	Three months ended March 31, 2016 2015	
Revenue:		
United States	\$ 3,565	\$ 2,116
Canada	684	676
Other countries	25	101
Total revenue	\$ 4,274	\$ 2,893

During the three months ended March 31, 2016 and 2015, four and three of our customers represented approximately 59% and 36% of revenue, respectively.

13

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Table of Contents

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

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Report and the 2015 audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on March 24, 2016.

This Report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "believe," "expect," "intend," "anticipate," "estimate," "may," "will," "can," "plan," "predict," "could," "future," "continue," variations of similar expressions. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined at the beginning of this report under "Cautionary Notice Regarding Forward-Looking Statements" and in Item 1A of our most recent Annual Report on Form 10-K filed with the SEC. These factors may cause our actual results to differ materially from any forward-looking statements. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

We develop, produce, market and distribute premium beverages which we sell and distribute primarily in the United States and Canada through our network of independent distributors and directly to our national and regional retail accounts. We also sell products in select international markets. Our products are sold primarily in grocery stores, convenience and gas stores, "up and down the street" in independent accounts such as delicatessens and sandwich shops, as well as through our national accounts with several large retailers. We refer to our network of independent distributors as our direct store delivery (DSD) channel, and we refer to our national and regional accounts who receive shipments directly from us as our direct to retail (DTR) channel. We do not directly manufacture our products but instead outsource the manufacturing process to third-party contract manufacturers. We also sell various products online, including soda with customized labels, wearables, candy and other items, and we license our trademarks for use on products sold by other manufacturers.

Our Focus for Fiscal 2016: Sales Growth

Our focus for fiscal 2016 is driving to profitability through case sale and revenue growth. Over the past three and a half years, we implemented substantial internal changes to our organization, and have achieved significant reductions in our operating expenses and efficiencies in our operations.

The following are key components of this focus for 2016:

- Utilize the strategic distribution improvements implemented across the United States and Canada to grow national and independent account sales of our core Jones Soda lines;
- Build upon partnerships with major retail chains, such as 7-Eleven, Inc., while continuing to build our base of independent accounts;
- Expand our fountain program of our core product lines in the United States and Canadian marketplaces;
- Build the Lemoncocco brand in select markets in the United States and Canada; and
- Increase the focus on international expansion.





Table of Contents

## Results of Operations

The following selected financial and operating data are derived from our condensed consolidated financial statements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our condensed consolidated financial statements.

	Three months ended March 31,			
	2016	% of Revenue	2015	% of Revenue
Consolidated statements of operations data:	(Dollars in thousands, except per share data)			
Revenue	\$ 4,274	100.0 %	\$ 2,893	100.0 %
Cost of goods sold	(3,102)	(72.6) %	(2,151)	(74.4) %
Gross profit	1,172	27.4 %	742	25.6 %
Selling and marketing expenses	(542)	(12.7) %	(432)	(14.9) %
General and administrative expenses	(564)	(13.2) %	(539)	(18.6) %
Operating income (loss)	66	1.5 %	(229)	(7.9) %
Interest expense	(22)	(0.5) %	(8)	(0.3) %
Other income (expense), net	12	0.3 %	(35)	(1.2) %
Income (loss) before income taxes	56	1.3 %	(272)	(9.4) %
Income tax expense, net	(7)	(0.2) %	(6)	(0.2) %
Net income (loss)	\$ 49	1.1 %	\$ (278)	(9.6) %
Basic and diluted net income (loss) per share	\$ 0.00		\$ (0.01)	

	As of	
	March 31, 2016	December 31, 2015
Balance sheet data:	(Dollars in thousands)	
Cash and cash equivalents and accounts receivable, net	\$ 3,105	\$ 2,612
Fixed assets, net	32	37
Total assets	6,056	5,354
Long-term liabilities	12	11
Working capital	1,824	1,721

	Three months ended March 31,	
	2016	2015
Case sale data (288-ounce equivalent):		
Finished product cases	389,000	225,000
Quarter Ended March 31, 2016 Compared to Quarter Ended March 31, 2015		

## Revenue

For the quarter ended March 31, 2016, revenue was approximately \$4.3 million, an increase of \$1.4 million, or 47.7% from \$2.9 million in revenue for the quarter ended March 31, 2015. This was driven by case sales volume increase of 73% compared to the same period in 2015. The increase in case sales resulted primarily from the initial product launch (“pipeline fill”) of 7-Select into participating 7-Eleven locations across the United States.

For the quarter ended March 31, 2016, trade spend and promotion allowances, which offset revenue, totaled \$534,000, an increase of \$238,000 or 80.4%, from \$296,000 in 2015, due primarily to the 7-Select pipeline fill.

#### Gross Profit

For the quarter ended March 31, 2016, gross profit increase by approximately \$430,000 or 58.0%, to \$1,172,000 compared to \$742,000 for the quarter ended March 31, 2015, due to efficiencies related to the pipeline fill of 7-Select, as well as, the continued year over year net of the favorable impact on cost of goods by shifting more production to Canadian operations given the Canadian-U.S. dollar exchange rate during the quarter. For the quarter ended March 31, 2016, gross margin as a percentage of revenue increased to 27.4% from 25.6% for the quarter ended March 31, 2015.

## Table of Contents

### Selling and Marketing Expenses

Selling and marketing expenses for the quarter ended March 31, 2016 were approximately \$542,000, an increase of \$110,000, or 25.5%, from \$432,000 for the quarter ended March 31, 2015, due primarily to expenses associated with the launch of 7-Select. Selling and marketing expenses as a percentage of revenue decreased to 12.7% for the quarter ended March 31, 2016, from 14.9% in 2015. We will continue to balance selling and marketing expenses with our working capital resources.

### General and Administrative Expenses

General and administrative expenses for the quarter ended March 31, 2016 were \$564,000, a increase of \$25,000 or 4.6%, compared to \$539,000 for the quarter ended March 31, 2015, due primarily to front loaded costs associated with our 7-Select product launch. General and administrative expenses as a percentage of revenue decreased to 13.2% for the quarter ended March 31, 2016 from 18.6% in 2015. We will continue to carefully manage general and administrative expenses with our working capital resources.

### Income Tax Expense

We had \$7,000 income tax expense for the quarter ended March 31, 2016, compared to \$6,000 for the quarter ended March 31, 2015, primarily related to the tax provision on income from our Canadian operations. We have not recorded any tax benefit for the loss in our U.S. operations as we have recorded a full valuation allowance on our U.S. net deferred tax assets. We expect to continue to record a full valuation allowance on our U.S. net deferred tax assets until we sustain an appropriate level of taxable income through improved U.S. operations. Our effective tax rate is based on recurring factors, including the forecasted mix of income before taxes in various jurisdictions, estimated permanent differences and the recording of a full valuation allowance on our U.S. net deferred tax assets.

### Net Income (Loss)

Net income for the quarter ended March 31, 2016 was \$49,000 compared to a net loss of \$278,000 for the quarter ended March 31, 2015 due to the increase in case volume as discussed above.

### Liquidity and Capital Resources

As of March 31, 2016, we had cash and cash-equivalents of approximately \$699,000 and working capital of \$1.8 million. Cash used in operations during the three months ended March 31, 2016 totaled \$67,000 compared to \$582,000, for the same period a year ago. The decrease in cash used in operations compared to the same period a year ago is primarily due to an increase in sales volume. We had net income of \$49,000 for the three months ended March 31, 2016.

As of the date of this Report, we believe that our current cash and cash equivalents, combined with our Loan Facility and anticipated cash from operations, will be sufficient to meet our anticipated working capital requirements through March 31, 2017. Our Loan Facility (described below), is available for our working capital needs.

We have a revolving secured credit facility with CapitalSource Business Finance Group. The Loan Facility currently allows us to borrow a maximum aggregate amount of up to \$3.0 million based on eligible accounts receivable and inventory. Beginning April 1, 2016, our borrowing base under the Loan Facility will increase to \$3.2 million based on the maximum aggregate amount of eligible accounts receivable and inventory. During the quarter ended March 31,

2016, the Loan Facility included an additional amount of up to \$500,000 in principal advances against purchase orders; however, we did not use this additional purchase order line and it expired unused on March 31, 2016. As of March 31, 2016, our accounts receivable and inventory eligible borrowing base was approximately \$1.7 million, of which we had drawn down \$902,000. We intend use the Loan Facility for our working capital needs. The Loan Facility is available for future borrowing, as discussed further in Note 3.

We may require additional financing to support our working capital needs in the future. The amount of additional capital we may require, the timing of our capital needs and the availability of financing to fund those needs will depend on a number of factors, including our strategic initiatives and operating plans, the performance of our business and the market conditions for debt or equity financing. Additionally, the amount of capital required will depend on our ability to meet our case sales goals and otherwise successfully execute our operating plan. We believe it is imperative to meet these sales objectives in order to lessen our reliance on external financing in the future. We intend to continually monitor and adjust our business plan as necessary to respond to developments in our business, our markets and the broader economy. Although we believe various debt and equity financing alternatives will be available to us to support our working capital needs, financing arrangements on acceptable terms may not be available to us when needed. Additionally, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. Any such financing alternatives may not provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions that we consider to be in the best interest of the Company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, a rights offering, and other strategic alternatives; however, these options may not ultimately be available or feasible.

## Table of Contents

The uncertainties relating to our ability to successfully execute on our business plan and finance our operations continue to raise substantial doubt about our ability to continue as a going concern. Our financial statements for the periods presented were prepared assuming we would continue as a going concern, which contemplates that we will continue in operation for the foreseeable future and will be able to realize assets and settle liabilities and commitments in the normal course of business. These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should we be unable to continue as a going concern.

### Seasonality and other Fluctuations

Our sales are seasonal and we experience fluctuations in quarterly results as a result of many factors. We historically have generated a greater percentage of our revenues during the warm weather months of April through September. Sales may fluctuate materially on a quarter to quarter basis or an annual basis when the Company fills the “pipeline” of a new distribution partner or a large retail partner such as 7-Eleven. Sales results may also fluctuate based on the number of SKUs selected or removed by the Company’s distributors and retail partners through the normal course of serving consumers in the dynamic, trend-oriented beverage industry. As a result, management believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance or results expected for the fiscal year.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

### Critical Accounting Policies

See the information concerning our critical accounting policies included under “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the Securities Exchange Commission on March 24, 2016. There have been no material changes in our critical accounting policies during the three months ended March 31, 2016.

## ITEM 4. CONTROLS AND PROCEDURES.

### Procedures

#### (a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Management, under the supervision and with the participation of our Chief Executive Officer and our Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of March 31, 2016. Based on that evaluation, our Chief

Executive Officer and our Principal Financial Officer concluded that these disclosure controls and procedures were effective as of March 31, 2016.

(b) Changes in internal controls

There were no changes in our internal controls over financial reporting during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Appointment of Executive Officer

Effective May 11, 2016, the Board of Directors appointed Max Schroedl as our new Vice President of Finance, to serve as our Principal Financial and Accounting Officer. Mr. Schroedl, age 33, has served as Controller of the Company since January, 2016. Previously, Mr. Schroedl served as Controller of Sabey Data Centers from May 2013 to November 2015. In addition, he held various accounting and financial reporting roles at Expedia, Inc. from May 2012 to May 2013, BRE Properties Inc. from April 2008 to May 2012, and Deloitte from September 2006 to March 2008. Mr. Schroedl has a Bachelors of Arts in Business Administration (accounting emphasis) and Masters in Public Accounting (audit & assurance), both from the University of Washington, and is a Certified Public Accountant. The Company does not have an employment agreement with Mr. Schroedl. There are no family relationships between Mr. Schroedl and any of our directors or other executive officers.

Table of Contents

2016 Annual Meeting - Submission of Matters to a Vote of Shareholders

At our 2016 Annual Meeting of Shareholders held on May 11, 2016, the following matters were submitted to a vote of our shareholders:

The shareholders elected the following six directors, who received the number of votes set forth opposite their respective names:

	For	Withheld	Broker Non-Votes
Mills A. Brown	8,375,273	468,817	25,800,677
Richard V. Cautero	8,381,537	462,553	25,800,677
Jennifer L. Cue	8,484,355	359,735	25,800,677
Michael M. Fleming	8,303,982	540,108	25,800,677
Matthew K. Kellogg	8,318,057	526,033	25,800,677
Susan A. Schreter	8,281,935	562,155	25,800,677

The shareholders ratified the appointment of Peterson Sullivan LLP as our independent registered public accounting firm for the fiscal year 2016 by a vote of 33,364,437 shares For, 1,156,014 shares Against, and 124,316 shares abstaining. There were no broker non-votes in connection with this matter.

The shareholders approved a non-binding advisory resolution (commonly referred to as a “say-on-pay” resolution) on our executive compensation for fiscal year 2015 by a vote of 7,752,858 shares For, 836,730 shares Against, and 254,502 shares abstaining. There were 25,800,677 broker non-votes in connection with this matter.

The shareholders approved “1 year” as the frequency of the “say-on-pay” resolution as by a vote of 7,138,175 shares For 1 year (annual), 1,147,512 For 2 years, 387,727 For 3 years, and 170,676 shares abstaining. There were 25,800,677 broker non-votes in connection with this matter.

ITEM 6.EXHIBITS

- 31.1 Certification by Jennifer L. Cue, Chief Executive Officer, pursuant to Rule 13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.)
- 31.2 Certification by Max Schroedl, Principal Financial Officer, pursuant to Rule 13a-14(a), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith.)
- 32.1



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Certification by Jennifer L. Cue, Chief Executive Officer and Max Schroedl, Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith.)

- 101.INS\*\* XBRL Instance Document.
- 101.SCH\*\* XBRL Taxonomy Extension Schema Document.
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document.

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 13, 2016

JONES  
SODA  
CO.  
By: