JONES SODA CO
Form 10-Q
August 11, 2016
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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 June 30, 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

JONES SODA CO.

(Exact name of registrant as specified in its charter)

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)

(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 August 1, 2016, there were 41,317,394 shares of the registrant's common stock issued and outstanding.

Table of Contents

JONES SODA CO.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

Unless otherwise indicated or the context otherwise requires, all references in this Quarterly Report on Form 10-Q to "we," "us," "our," "Jones," "Jones Soda," and the "Company" are to Jones Soda Co., a Washington corporation, and our wholly-owned subsidiaries, Jones Soda Co. (USA) Inc. 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 wo 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, revenue and cash flow;
- Our ability to effectively manage and grow international distribution and sales;
- Competition in the fountain business, particularly from Coke and Pepsi;
- Entrance into and increased focus on the craft beverage segment 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;
- 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;

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

	June 30, 2016	December 31, 2015
	(Unaudited)	
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 584	$ 772
Accounts receivable, net of allowance of $37 and $27	2,736	1,840
Inventory	2,514	2,569
Prepaid expenses and other current assets	80	116
Total current assets	5,914	5,297
Fixed assets, net of accumulated depreciation of $915 and $907	32	37
Other assets	21	20
Total assets	$ 5,967	$ 5,354
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,727	$ 1,786
Line of credit	1,187	908
Accrued expenses	1,059	850
Taxes payable	44	30
Other current liabilities	-	2
Total current liabilities	4,017	3,576
Deferred rent	11	11
Shareholders' equity:		
Common stock, no par value:		
Authorized — 100,000,000; issued and outstanding shares — 41,317,394 shares and 41,314,894 shares, respectively	53,765	53,764
Additional paid-in capital	8,544	8,467
Accumulated other comprehensive income	323	213
Accumulated deficit	(60,693)	(60,677)
Total shareholders' equity	1,939	1,767

Total liabilities and shareholders' equity	$ 5,967	$ 5,354

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JONES SODA CO.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands, except share data)		(In thousands, except share data)	
Revenue	$ 4,304	$ 4,262	$ 8,578	$ 7,155
Cost of goods sold	3,218	3,209	6,320	5,360
Gross profit	1,086	1,053	2,258	1,795
Operating expenses:				
Selling and marketing	505	542	1,047	974
General and administrative	587	603	1,151	1,142
	1,092	1,145	2,198	2,116
Income (loss) from operations	(6)	(92)	60	(321)
Interest expense	(21)	(16)	(43)	(24)
Other (expense) income, net	(29)	2	(17)	(33)
Loss before income taxes	(56)	(106)	-	(378)
Income tax expense, net	(9)	(10)	(16)	(16)
Net loss	$ (65)	$ (116)	$ (16)	$ (394)
Net loss per share - basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)
Weighted average basic and diluted common shares outstanding	41,315,727	41,075,505	41,315,308	41,023,950

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Net loss	$ (65)	$ (116)	$ (16)	$ (394)
Other comprehensive income (loss):				
Foreign currency translation adjustment gain (loss)	90	(21)	110	27
Total comprehensive income (loss)	$ 25	$ (137)	$ 94	$ (367)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JONES SODA CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30,	
	2016	2015
	(In thousands)	
OPERATING ACTIVITIES:		
Net loss	$ (16)	$ (394)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8	14
Stock-based compensation	77	130
Change in allowance for doubtful accounts	10	(5)
Changes in operating assets and liabilities:		
Accounts receivable	(810)	(1,344)
Inventory	79	(902)
Prepaid expenses and other current assets	36	(17)
Other assets	-	10
Accounts payable	(59)	1,671
Accrued expenses	201	(118)
Taxes payable	12	(14)
Other liabilities	-	(15)
Net cash used in operating activities	(462)	(984)
INVESTING ACTIVITIES:		
Purchase of fixed assets	(5)	(14)
Net cash used in investing activities	(5)	(14)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1	114
Payment of capital lease obligations	(2)	(7)
Proceeds from line of credit, net of repayments	279	729
Net cash provided by financing activities	278	836
Net decrease in cash and cash equivalents	(189)	(162)
Effect of exchange rate changes on cash	1	(28)
Cash and cash equivalents, beginning of period	772	857
Cash and cash equivalents, end of period	$ 584	$ 667
Supplemental disclosure:		
Cash paid during period for:		
Interest	$ 43	$ 24
Income taxes	-	30

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JONES SODA CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Jones Soda Co. develops, produces, markets and distributes premium beverages 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 June 30, 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 June 30, 2016, we had cash and cash-equivalents of approximately $584,000 and working capital of $1.9 million. Cash used in operations during the six months ended June 30, 2016 totaled $462,000 compared to $984,000 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 a net loss of $65,000 for the three months ended June 30, 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 June 30, 2017.

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 $3.2 million based on eligible accounts receivable and inventory. As of June 30, 2016, our accounts receivable and inventory eligible borrowing base was approximately $1.9 million, of which we had drawn down $1.2 million. 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 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

Table of Contents

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 launch a new product or 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.

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 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.

Table of Contents

2. Inventory

Inventory consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Finished goods	$ 1,519	$ 1,842
Raw materials	995	727
	$ 2,514	$ 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 $3.2 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) $3.2 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. As of June 30, 2016, our accounts receivable and inventory eligible borrowing base was approximately $1.9 million, of which we had drawn down $1.2 million. Advances under the Loan Facility as amended in January 2016, bear interest at the prime rate plus 1%, 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.

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 June 30, 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.

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 June 30, 2016, 3,057,500 of the warrants remain outstanding. No warrants were exercised during the six months ended June 30, 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.

Table of Contents

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 June 30, 2016, there were 3,723,538 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	
	Number of Shares	Weighted Average Exercise Price
Balance at January 1, 2016	3,117,820	$ 0.58
Options granted	540,000	0.50
Options exercised	(2,500)	0.34
Options cancelled/expired	(117,500)	0.36
Balance at June 30, 2016	3,537,820	$ 0.54
Exercisable, June 30, 2016	2,371,883	$ 0.58
Vested and expected to vest	3,196,282	$ 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 June 30, 2016, we had unrecognized compensation expense related to stock options of $214,000 to be recognized over a weighted-average period of 2.8 years.

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Income statement account:				
Selling and marketing	$ 14	$ 11	$ 25	$ 24
General and administrative	34	79	52	106

$ 48	$ 90	$ 77	$ 130

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:

	Six months ended June 30,	
	2016	2015
Expected dividend yield	—	—
Expected stock price volatility	87.2 %	88.3 %
Risk-free interest rate	1.7 %	1.6 %
Expected term (in years)	6.1 years	5.4 years
Weighted-average grant date fair-value	$ 0.37	$ 0.24

The aggregate intrinsic value of stock options outstanding at June 30, 2016 and 2015 was $691,000 and $21,000 and for options exercisable was $458,000 and $16,000, 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 2,500 and 342,500 options exercised during the six months ended June 30, 2016 and 2015, respectively. The aggregate intrinsic value of the options exercised during the six months ended June 30, 2016 and 2015, was $1,000 and $2,000 respectively.

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):

Table of Contents

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenue:				
United States	$ 3,230	$ 2,730	$ 6,724	$ 4,846
Canada	930	1,461	1,629	2,137
Other countries	144	71	225	172
Total revenue	$ 4,304	$ 4,262	$ 8,578	$ 7,155

During the three months ended June 30, 2016 and 2015, five and three of our customers represented approximately 41% and 35%, respectively, of revenue. During the six months ended June 30, 2016 and 2015, four and three of our customers represented approximately 47% and 35%, respectively, of revenue.

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 o 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 in various formats for our core Jones Soda lines, Lemoncocco Brand and private label initiatives, 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 June 30,				Six months ended June 30,			
	2016	% of Revenue	2015	% of Revenue	2016	% of Revenue	2015	% of Revenue
Consolidated statements of operations data:	(Dollars in thousands, except per share data)				(Dollars in thousands, except per share data)			
Revenue	$ 4,304	100.0 %	$ 4,262	100.0 %	$ 8,578	100.0 %	$ 7,155	100.0 %
Cost of goods sold	(3,218)	(74.8) %	(3,209)	(75.3) %	(6,320)	(73.7) %	(5,360)	(74.9) %
Gross profit	1,086	25.2 %	1,053	24.7 %	2,258	26.3 %	1,795	25.1 %
Selling and marketing expenses	(505)	(11.7) %	(542)	(12.7) %	(1,047)	(12.2) %	(974)	(13.6) %
General and administrative expenses	(587)	(13.6) %	(603)	(14.1) %	(1,151)	(13.4) %	(1,142)	(16.0) %
Income (loss) from operations	(6)	(0.1) %	(92)	(2.2) %	60	0.7 %	(321)	(4.5) %
Interest expense	(21)	(0.5) %	(16)	(0.4) %	(43)	(0.5) %	(24)	(0.3) %
Other (expense) income, net	(29)	(0.7) %	2	0.0 %	(17)	(0.2) %	(33)	(0.5) %
Loss before income taxes	(56)	(1.3) %	(106)	(2.5) %	-	0.0 %	(378)	(5.3) %
Income tax expense, net	(9)	(0.2) %	(10)	(0.2) %	(16)	(0.2) %	(16)	(0.2) %
Net loss	$ (65)	(1.5) %	$ (116)	(2.7) %	$ (16)	(0.2) %	$ (394)	(5.5) %
Basic and diluted net loss per share	$ (0.00)		$ (0.00)		$ (0.00)		$ (0.01)	

	As of June 30, 2016	December 31, 2015
Balance sheet data:	(Dollars in thousands)	
Cash and cash equivalents and accounts receivable, net	$ 3,320	$ 2,612
Fixed assets, net	32	37
Total assets	5,967	5,354
Long-term liabilities	11	11
Working capital	1,897	1,721

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Case sale data (288-ounce equivalent):				
Finished product cases	335,000	313,000	724,000	538,000

Quarter Ended June 30, 2016 Compared to Quarter Ended June 30, 2015

Revenue

For the quarter ended June 30, 2016, revenue was approximately $4.3 million, an increase of $42,000, or 1.0% from $4.3 million in revenue for the quarter ended June 30, 2015. This was driven by case sales volume increase of 7.0% compared to the same period in 2015. The increase in case sales reflects our new product offerings available in the current year.

For the quarter ended June 30, 2016, trade spend and promotion allowances, which offset revenue, totaled $458,000, an increase of $142,000 or 44.9%, from $316,000 in 2015, due primarily to timing differences of programs in the prior year period.

Gross Profit

For the quarter ended June 30, 2016, gross profit increase by approximately $33,000 or 3.1%, to $1.1 million compared to $1.1 million for the quarter ended June 30, 2015 due to the continued favorable Canadian-U.S. dollar exchange rate impact on production costs for Canadian operations in the comparable periods. For the quarter ended June 30, 2016 gross margin as a percentage of revenue increased to 25.2% from 24.7% for the quarter ended June 30, 2015.

Table of Contents

Selling and Marketing Expenses

Selling and marketing expenses for the quarter ended June 30, 2016 were approximately $505,000, a decrease of $37,000, or 6.8%, from $542,000 for the quarter ended June 30, 2015, due primarily to continued focus on expense management and our variable compensation model. Selling and marketing expenses as a percentage of revenue decreased to 11.7% for the quarter ended June 30, 2016, from 12.7% 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 June 30, 2016 were $587,000, a decrease of $16,000 or 2.7%, compared to $603,000 for the quarter ended June 30, 2015, due primarily to reduced stock compensation expense. General and administrative expenses as a percentage of revenue decreased to 13.6% for the quarter ended June 30, 2016 from 14.1% in 2015. We will continue to carefully manage general and administrative expenses with our working capital resources.

Income Tax Expense

We had $9,000 of income tax expense for the quarter ended June 30, 2016, compared to $10,000 for the quarter ended June 30, 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 Loss

Net loss for the quarter ended June 30, 2016 was $65,000 compared to a net loss of $116,000 for the quarter ended June 30, 2015 due to the increase in case volume and new product offerings.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Revenue

For the six months ended June 30, 2016, revenue was approximately $8.6 million, an increase of $1.4 million, or 19.9% from $7.2 million in revenue for the six months ended June 30, 2015. This was driven by case sales volume increase of 34.6% compared to the same period in 2015, primarily due to the initial product launch (“pipeline fill”) of 7-Select into participating 7-Eleven locations across the United States in the first quarter of 2016.

For the six months ended June 30, 2016, trade spend and promotion allowances, which offset revenue, totaled $992,000 an increase of $380,000 or 62.1%, from $612,000 in 2015, due primarily to the launch of 7-Select.

Gross Profit

For the six months ended June 30, 2016 gross profit increased by approximately $463,000 or 25.8%, to $2.3 million compared to $1.8 million for the six months ended June 30, 2015, due to efficiencies related to the pipeline fill of 7-Select, as well as, the favorable impact of the Canadian-U.S. dollar exchange rate on productions costs during the period. For the six months ended June 30, 2016 gross margin as a percentage of revenue increased to 26.3% from

25.1% for the six months ended June 30, 2015.

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended June 30, 2016 were approximately $1.0 million, an increase of $73,000, or 7.5%, from $1.0 million for the six months ended June 30, 2015, due primarily to expenses associated with the launch of 7-Select. Selling and marketing expenses as a percentage of revenue decreased to 12.2% for the six months ended June 30, 2016, from 13.6% 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 six months ended June 30, 2016 were $1.2 million, a increase of $9,000 or 0.8%, compared to $1.1 million for the six months ended June 30, 2015, due primarily to costs associated with our 7-Select product launch. General and administrative expenses as a percentage of revenue decreased to 13.4% for the six months ended

Table of Contents

June 30, 2016 from 16.0% in 2015. We will continue to carefully manage general and administrative expenses with our working capital resources.

Income Tax Expense

We had $16,000 of income tax expense for both the six months ended June 30, 2016, and 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 Loss

Net loss for the six months ended June 30, 2016 was $16,000 compared to a net loss of $394,000 for the six months ended June 30, 2015 due to the increase in case volume as discussed above.

Liquidity and Capital Resources

As of June 30, 2016, we had cash and cash-equivalents of approximately $584,000 and working capital of $1.9 million. Cash used in operations during the six months ended June 30, 2016 totaled $462,000 compared to $984,000 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 loss of $65,000 for the three months ended June 30, 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 June 30, 2017.

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 $3.2 million based on eligible accounts receivable and inventory. As of June 30, 2016, our accounts receivable and inventory eligible borrowing base was approximately $1.9 million, of which we had drawn down $1.2 million. 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 of our Condensed Consolidated Financial Statements.

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 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 launch a new initiative or 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

Table of Contents

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 June 30, 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 Vice President of Finance, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of June 30, 2016. Based on that evaluation, our Chief Executive Officer and our Vice President of Finance concluded that these disclosure controls and procedures were effective as of June 30, 2016.

(b) Changes in internal controls

There were no changes in our internal controls over financial reporting during the three months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

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

August 11, 2016

JONES SODA CO.	
By:	/s/ Jennifer L. Cue
	Jennifer L. Cue
	Chief Executive Officer

JONES SODA CO.	
By:	/s/ Max Schroedl
	Max Schroedl
	Vice President of Finance