

JONES SODA CO
Form 10QSB
November 15, 2004
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2004

.. **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 0-28820

Jones Soda Co.

(Exact name of registrant as specified in its charter)

Washington

91-1696175

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

234 9th Avenue North

Seattle, Washington 98109
(Address of principal executive office)

(206) 624-3357
(Registrant's telephone number,
including area code)

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

As of September 30, 2004, the issuer had 20,753,846 shares of common stock outstanding.

Transitional Small Business Disclosure Format: Yes No

Table of Contents

JONES SODA CO.

FORM 10-QSB

<u>Index</u>	<u>Page</u>
<u>EXPLANATORY NOTE</u>	3
<u>CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS</u>	3
<u>CURRENCY TRANSLATION</u>	3
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1 <u>Financial Statements</u>	
a) <u>Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003</u>	4
b) <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2004 and 2003</u>	5
c) <u>Consolidated Statements of Shareholders' Equity and Comprehensive Income for the nine months ended September 30, 2004 and year ended December 31, 2003</u>	6
d) <u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2004 and 2003</u>	7
e) <u>Notes to Interim Consolidated Financial Statements</u>	8
Item 2 <u>Management's Discussion and Analysis or Plan of Operation</u>	14
Item 3 <u>Controls and Procedures</u>	20
<u>PART II. OTHER INFORMATION</u>	
Item 6 <u>Exhibits and Reports on Form 8-K</u>	20

Table of Contents

EXPLANATORY NOTE

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

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 Report on Form 10-QSB 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, events or developments that management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward looking statements. In particular, the words believe, expect, intend, anticipate, estimate, may, will, 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. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

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 (including those described below) and apply only as of the date of this Report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in Other Factors that May Affect Operating Results as well as those discussed elsewhere in this Report, and the risks discussed in our most recently filed Annual Report on Form 10-KSB and in the press releases and other communications to shareholders issued by us from time to time which attempt to advise interested parties of the risks and factors that may affect our business. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CURRENCY TRANSLATION

Unless otherwise stated, all dollar figures stated in this Report are in United States dollars. Our financial statements are reported in United States dollars.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****JONES SODA CO. AND SUBSIDIARIES**

Consolidated Balance Sheets

(Expressed in U.S. dollars)

September 30, 2004 with comparative figures for December 31, 2003

	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 644,311	\$ 315,988
Accounts receivable	2,282,778	1,507,374
Inventory (note 3)	3,160,447	2,000,924
Prepaid expenses	279,508	275,623
	<u>6,367,044</u>	<u>4,099,909</u>
Capital assets	676,490	490,273
Intangible assets	55,486	75,856
	<u>\$ 7,099,020</u>	<u>\$ 4,666,038</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,713,108	\$ 2,059,587
Current portion of capital lease obligations	57,648	41,630
Current portion of deferred revenue	50,000	50,000
	<u>2,820,756</u>	<u>2,151,217</u>
Capital lease obligations, less current portion	119,830	19,712
Deferred revenue	62,500	100,000
Shareholders' equity		
Common stock:		
Authorized: 100,000,000 common stock, no par value Issued and outstanding: 20,753,846 common shares (2003 20,089,096)	11,618,706	11,178,475
Additional paid-in capital	753,920	739,140
Accumulated other comprehensive income	107,752	107,752
Deficit	(8,384,444)	(9,630,258)

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	<u>4,095,934</u>	<u>2,395,109</u>
	<u>\$ 7,099,020</u>	<u>\$ 4,666,038</u>

See accompanying notes to interim consolidated financial statements

Table of Contents**JONES SODA CO. AND SUBSIDIARIES**

Consolidated Statements of Operations

(Expressed in U.S. dollars)

(Unaudited)

Three months and nine months ended September 30, 2004 and 2003

	Three months ended	Three months ended	Nine months ended	Nine months ended
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Revenue	\$ 7,785,054	\$ 5,917,195	\$ 21,045,323	\$ 16,000,631
Cost of goods sold	5,068,073	3,726,593	13,765,735	10,203,376
Gross profit	2,716,981	2,190,602	7,279,588	5,797,255
Operating expenses:				
Promotion and selling	1,712,784	1,357,930	4,356,749	3,675,448
General and administrative	594,631	486,787	1,691,756	1,480,148
Non-cash stock compensation	4,939	45,539	14,780	108,623
	2,312,354	1,890,256	6,063,285	5,264,219
Earnings from operations	404,627	300,346	1,216,303	533,036
Other income (expense):				
Interest income (expense), net	(1,907)	(5,281)	(8,905)	28,811
Other income (expense), net	1,723	(19,618)	38,416	(40,190)
	(184)	(24,899)	29,511	(11,379)
Earnings for the period	\$ 404,443	\$ 275,447	\$ 1,245,814	\$ 521,657
Earnings per share, basic	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.03
Earnings per share, diluted	0.02	0.01	0.06	0.03
Weighted average common stock, basic	20,747,761	19,829,080	20,483,068	19,810,091
Weighted average common stock, diluted	22,376,415	20,883,595	22,060,797	20,226,493

See accompanying notes to interim consolidated financial statements.

Table of Contents

JONES SODA CO. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(Expressed in U.S. dollars)

Nine months ended September 30, 2004 (Unaudited)

Years ended December 31, 2003

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Accumulated Income (deficit)</u>	<u>Comprehensive Income</u>	<u>Total shareholders equity</u>
	<u>Number</u>	<u>Amount</u>					
Balance, December 31, 2002	19,800,596	\$ 11,021,231	\$ 625,560	\$ 107,752	\$ (9,953,773)		\$ 1,800,770
Options exercised	288,500	157,244					157,244
Stock-based compensation			113,580				113,580
Comprehensive Income:							
Earnings for the year					323,515	\$ 323,515	323,515
Balance, December 31, 2003	20,089,096	11,178,475	739,140	107,752	(9,630,258)		2,395,109
Options exercised	664,750	440,231					440,231
Stock-based compensation			14,780				14,780
Comprehensive Income:							
Earnings for the period					1,245,814	\$ 1,245,814	1,245,814
Balance, September 30, 2004	20,753,846	11,618,706	753,920	107,752	(8,384,444)		4,095,934

See accompanying notes to interim consolidated financial statements.

Table of Contents**JONES SODA CO. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(Expressed in U.S. dollars)

(Unaudited)

Nine months ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from (used in) operating activities:		
Earnings for the period	\$ 1,245,814	\$ 521,657
Items not involving cash:		
Depreciation and amortization	143,902	121,021
Non-cash stock based compensation	14,780	108,623
Bad debt recovery		(71,493)
Changes in assets and liabilities:		
Accounts receivable	(775,404)	(1,236,264)
Inventory	(1,159,523)	(39,957)
Prepaid expenses	(3,885)	209,396
Accounts payable and accrued liabilities	653,521	730,160
Net cash from operating activities	<u>119,205</u>	<u>343,143</u>
Cash flows used in investing activities:		
Purchase of capital assets	(144,545)	(70,260)
Purchase of intangible assets	(8,305)	(8,843)
Deferred revenue	(37,500)	(29,026)