CLEVELAND ELECTRIC ILLUMINATING CO
Form 8-K
August 23, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) August 23, 2002

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
333-21011	FIRSTENERGY CORP. (An Ohio Corporation) 76 South Main Street Akron, Ohio 44308 Telephone (800)736-3402	34-1843785
1-2323	THE CLEVELAND ELECTRIC ILLUMINATING COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-0150020
1-3583	THE TOLEDO EDISON COMPANY (An Ohio Corporation) c/o FirstEnergy Corp. 76 South Main Street Akron, OH 44308 Telephone (800)736-3402	34-4375005

Item 9. Regulation FD Disclosure

On August 23, 2002, FirstEnergy Corp. updated the investment community on activities associated with efforts to return the Davis-Besse Nuclear Power Station to service in a safe and reliable manner.

Nuclear Regulatory Commission (NRC) Inspection Manual Chapter (IMC) 0350 Restart Process - August 20, 2002 Public Meeting

The NRC's IMC 0350 panel held one of its monthly status meetings on the Davis-Besse restart efforts in Oak Harbor, Ohio on August 20, 2002. During the public meeting, the NRC reviewed the status of current NRC inspection activities at the plant, including the status of the NRC's follow-up inspection to the Augmented Inspection Team (AIT) investigation.

NRC inspection activities currently underway or planned for the near term include:

- New reactor vessel head and code data package
- Opening and closing of the Davis-Besse containment building
- Program compliance building block
- Management and human performance building block
- Systems health building block

The NRC mentioned that the AIT follow-up inspectors reviewed their findings with Davis-Besse management on August 9, 2002. The NRC indicated that the inspection identified apparent violations in the following five areas:

- Technical specifications related to pressure boundary leakage
- Adequacy of corrective actions
- Adhering to procedures
- Adequacy of procedures
- Completeness and accuracy of documentation

The results of the inspection will be published in the upcoming NRC Report 02-08. The apparent violations will remain as unresolved items until the NRC completes its significance determination of the degradation of the reactor vessel head. Additionally, the NRC stated that another NRC inspection of implementation of Davis-Besse's containment health assurance plan had identified two violations involving inspector qualifications and acceptance criteria for inspection, and that Davis-Besse is in the process of re-performing the containment health assurance inspections using appropriately qualified inspectors and criteria.

FirstEnergy Nuclear Operating Company (FENOC) management reviewed the results of FirstEnergy's Root Cause Analysis Report that was provided to the NRC on August 15, 2002 (see Root Cause Analysis Report section below). The overview included a description of the root causes and planned corrective actions.

FENOC management also provided updates on Davis-Besse's return to service plan including progress on restart action milestones and towards meeting the improved expectations for safe and reliable operations. Progress on some of the key restart action milestones include:

- Completion of system health assurance walkdowns
- Near completion of containment building inspections
- Completion of containment shield building cutting
- Initiated containment building painting
- Began containment polar crane modifications
- Began containment air cooler refurbishment
- Prepared existing reactor head for removal

- Prepared reactor head service structure for installation on replacement reactor head
- Initiated inspections under the containment vessel

- Established independent oversight review panel of industry experts to provide advice and recommendations in FirstEnergy's restart efforts
- Established performance indicators to track progress on building block plans, NRC 0350 Panel restart issues, and new management and human performance improvement initiatives
- Finalized and provided FirstEnergy's Root Cause Analysis Report to the NRC on August 15, 2002.

The NRC representatives assured the public that they will be conducting thorough reviews during their inspection activity to ensure that performance improvements are being made and that the proper nuclear safety focus has been established. The NRC representatives indicated that they believe that the management and human performance improvement plan would likely be the "pacing issue" for restart.

Root Cause Analysis Report -Provided to NRC on August 15, 2002

A significant restart milestone was recently achieved with the finalizing of FirstEnergy's Root Cause Analysis Report, which addresses the management and organizational issues that contributed to the reactor head corrosion problem. This report, which was provided to the NRC on August 15, 2002 and formally filed with the NRC the following week, was the subject of an NRC public meeting held at the NRC's Region III headquarters on August 15, 2002. The report, authored by a team of nuclear experts, provided a self-critical evaluation of the human performance and management factors that contributed to missed opportunities for earlier detection and prevention of the reactor head corrosion problem. The report states, among other things, that plant management and personnel:

- Did an inadequate job of implementing the Corrective Action Program, which is designed to promptly identify and resolve problems like those leading to the corrosion
- Did not integrate key industry information and site knowledge and experience, nor adequately compare new information with baseline knowledge
- Failed to comply with the plant's existing Boric Acid Corrosion Control program.

The report concludes that the underlying root cause was the focus on production, combined with minimum actions to meet regulatory requirements, which resulted in the acceptance of degraded conditions.

Other observations by the team include a need for improving training for those personnel conducting boric acid inspections, increasing management involvement and oversight of field activities, and realigning the incentive pay program to increase emphasis on safety.

The NRC stated that FENOC's root cause analysis appears to address all of the NRC's issues. Additionally, at the August 20, 2002 public meeting, the NRC stated that FENOC's planned corrective actions provide a good road map for going forward, and that the NRC was looking forward to receiving FENOC's detailed management improvement plan.

Davis-Besse Restart Timing and Outage Cost Impact

FirstEnergy continues to project that replacement of the Davis-Besse reactor vessel head and other ancillary maintenance work can be completed on a schedule to support restart of the plant by year-end, recognizing however, that the NRC must approve resumption of operations at the unit under their IMC 0350 restart process.

The estimated incremental cost impacts for the identified work scope, as previously communicated, are:

- $55 million to $75 million of mostly capital expenditures to replace the reactor vessel head
- $50 million to $70 million of mostly O&M expenditures for additional maintenance, including the acceleration of various programs/projects
- $10 million - $15 million per month for replacement power for the non-summer months
- $20 million per month for replacement power in the summer months of July and August.

Davis-Besse Replacement Energy Status

FirstEnergy is fully hedged for its 850 megawatts of on-peak replacement energy supply for Davis-Besse through the end of 2002, and although it expects the plant will be ready to return to service before year-end, FirstEnergy also made some on-peak power purchases for the early months of 2003.

Updates on Other Items

FirstEnergy continues to execute the key elements of its business plans for 2002:

- On August 8, 2002, FirstEnergy canceled the sale of four coal-fired power plants (Lake Plants) to NRG Able Acquisition LLC because of an anticipatory breach of certain obligations in the agreement. While reserving FirstEnergy's right to pursue legal action against NRG, its affiliate, and its parent Xcel Energy for damages, FirstEnergy has begun scheduling management presentations and plant site visits with numerous parties that have expressed interest in acquiring the Lake Plants.

- FirstEnergy is also proceeding with efforts to divest its remaining 20.1% ownership position in Avon Energy Partners Holdings.

- Although the actual timing for completion of the asset sales is slightly behind FirstEnergy's desired schedule, FirstEnergy nonetheless continues to demonstrate substantial progress on its debt reduction objectives. With the sale of a 79.9% interest in Avon Energy Partners Holdings and free cash flow, FirstEnergy will reduce debt and preferred equity by approximately $3.0 billion by year-end. This will reduce its consolidated debt ratio from the 66% level at December 31, 2001 to the low-60% level by the end of 2002. In addition, with the anticipated increase in free cash flow, along with asset sale proceeds, FirstEnergy expects to continue to significantly reduce leverage in 2003.

- FirstEnergy continues to make progress on capturing cost savings associated with its merger with the former GPU, Inc. and from new cost reduction initiatives undertaken this year. For the year, FirstEnergy's earnings guidance remains at $3.30 to $3.45 per share, excluding the effect of the Davis-Besse extended outage and any potential adjustments related to Emdersa, FirstEnergy's Argentine distribution asset, should it be unable to enter into a definitive sale agreement by November 6, 2002. Looking ahead to 2003, FirstEnergy's earnings target will be in the range of $3.70 to $3.90, which reflects 7% - 8% growth from its original 2002 earnings guidance of $3.45 to $3.65.

This Form 8-K includes forward-looking statements based on information currently available to management. Such statements are subject to certain risks and uncertainties. These statements typically contain, but are not limited to, the terms "anticipate", "potential", "expect", "believe", "estimate" and similar words. Actual results may differ materially due to the speed and nature of increased competition and deregulation in the electric utility industry, economic or weather conditions affecting future sales and margins, changes in markets for energy services, changing energy and commodity market prices, legislative and regulatory changes (including revised environmental requirements), the availability and cost of capital, ability to accomplish or realize anticipated benefits from strategic initiatives and other similar factors.

3

SIGNATURE

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

August 23, 2002

FIRSTENERGY CORP.

Registrant

THE CLEVELAND ELECTRIC

ILLUMINATING COMPANY

Registrant

THE TOLEDO EDISON COMPANY

Registrant

/s/ Harvey L. Wagner

Harvey L. Wagner
Vice President, Controller
and Chief Accounting Officer

4

New Roman" SIZE="1">**Stockholders Equity**

(Dollars in thousands, except share amounts)

Shares Amount

40 week period ended October 6, 2009

Balance as of December 30, 2008

54,690,728 $55 $358,258 $(317,892) $40,421

Share-based compensation expense

1,231 1,231

Beneficial conversion feature and warrants issued related to preferred shares

1,115 1,115

Common stock repurchased and canceled

(2,000,000) (2) (2,496) (2,498)

Redeemable preferred stock dividends

(879) (879)

Net loss

(12,561) (12,561)

Balance as of October 6, 2009

52,690,728 $53 $358,108 $(331,332) $26,829

40 week period ended October 5, 2010

Balance as of December 29, 2009

52,712,528 $53 $356,320 $(341,837) $14,536

Share-based compensation expense

1,040 1,040

Issuance of common stock pursuant to stock plans

269,958 138 138

Conversion of preferred stock

7,039,400 7 8,088 8,095

Accretion of Series B preferred shares

(1,269) (1,269)

Redeemable preferred stock dividends

(1,853) (1,853)

Net loss

(4,440) (4,440)

Balance as of October 5, 2010

60,021,886 $60 $362,464 $(346,277) $16,247

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	40 Week Period Ended October 5, 2010	40 Week Period Ended October 6, 2009
Cash provided by operating activities:		
Net loss	$ (4,440)	$ (12,561)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	11,509	14,397
Impairment of long-lived assets	2,293	11,107
Store lease termination, closure costs and (gain) loss on disposals	(772)	874
Share-based compensation	1,040	1,231
Jambacard breakage income and amortization, net	(2,279)	(1,949)
Bad debt and inventory reserves	402	(199)
Deferred rent	(369)	854
Deferred income taxes	646	
Equity earnings from joint ventures	(64)	(18)
Gain from derivative liabilities		(1,597)
Write-off of prepaid loan fees and loan discount		2,865
Accretion of note payable and other		1,074
Changes in operating assets and liabilities:		
Receivables	5,505	2,827
Inventories	573	(241)
Prepaid rent	(2,535)	(2,980)
Prepaid taxes	(289)	5,034
Prepaid expenses and other current assets	247	533
Restricted cash from operating activities	409	1,998
Other long-term assets	(265)	18
Accounts payable	1,507	(2,526)
Accrued compensation and benefits	(1,313)	35
Workers compensation and health insurance reserves	(671)	(2,133)
Accrued jambacard liability	(8,845)	(4,969)
Other accrued expenses	1,465	(2,080)
Other long-term liabilities	1,652	(1,863)
Cash provided by operating activities	5,406	9,731
Cash provided by (used in) investing activities:		
Capital expenditures	(8,234)	(8,494)
Proceeds from sale of stores	12,463	1,050
Trademarks	(240)	
Decrease in restricted cash		3,000
Cash provided by (used in) investing activities	3,989	(4,444)
Cash (used in) provided by financing activities:		
Preferred stock dividends paid	(1,853)	(700)
Payment on capital leases	(222)	(219)

Proceeds from stock options exercised	138	
Proceeds from issuance of redeemable preferred stock		34,115
Payments of costs for issuance of redeemable preferred stock		(1,884)
Payments on debt facility		(25,000)
Payment on exercise of put agreement		(3,000)
Cash (used in) provided by financing activities	(1,937)	3,312
Net increase in cash and cash equivalents	7,458	8,599

6

Table of Contents

(In thousands)	40 Week Period Ended October 5, 2010	October 6, 2009
Cash and cash equivalents at beginning of period	28,757	20,822
Cash and cash equivalents at end of period	$ 36,215	$ 29,421
Supplemental cash flow information:		
Cash paid for interest	$ 375	$ 2,789
Income taxes paid	18	14
Noncash investing and financing activities:		
Property, fixtures and equipment in accounts payable	$ (1,062)	$ (252)
Conversion of preferred stock	8,095	
Accretion of preferred stock issuance costs	1,269	
Dividend accruals	2	179
Note receivable from sale of stores	665	1,100
Beneficial conversion feature of redeemable preferred stock		885
Warrants issued in conjunction with issuance of redeemable preferred stock		230

See accompanying notes to condensed consolidated financial statements.

Table of Contents

JAMBA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Jamba, Inc., a Delaware corporation (together with its wholly-owned subsidiary, Jamba Juice Company (the Company)) is a leading restaurant retailer of better-for-you food and beverage offerings, including great tasting fruit smoothies, juices and teas, hot oatmeal made with organic steel cut oats, wraps, salads, sandwiches and California Flatbreads and a variety of baked goods and snacks. As of October 5, 2010, there were 742 locations consisting of 378 company-owned and operated stores (Company Stores) and 364 franchise stores (Franchise Stores).

Unaudited Interim Financial Information The condensed consolidated balance sheet as of October 5, 2010, the condensed consolidated statements of operations for each of the 12 week and 40 week periods ended October 5, 2010 and October 6, 2009 and the condensed statements of cash flows and stockholders equity for the 40 week periods ended October 5, 2010 and October 6, 2009 have been prepared by the Company, without audit, and have been prepared on the same basis as the Company s audited consolidated financial statements. In the opinion of management, such statements include all adjustments (which include only normal recurring adjustments) considered necessary to present fairly the financial position as of October 5, 2010 and the results of operations and cash flows for the 12 week and 40 week periods ended October 5, 2010 and October 6, 2009. The condensed consolidated balance sheet as of December 29, 2009 has been derived from the Company s audited consolidated financial statements. Operating results for the 12 week and 40 week periods ended October 5, 2010 are not necessarily indicative of the results that may be expected for the year ending December 28, 2010. The Company reports its results of operations on a 52-week or 53-week fiscal year, which is comprised of thirteen 4-week periods or twelve 4-week periods and one 5-week period. The first fiscal quarter is 16 weeks, the second and third fiscal quarters each are 12 weeks, and the fourth quarter is 12 or 13 weeks.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, these interim financial statements should be read in conjunction with the Company s annual consolidated financial statements and notes thereto in the Company s Annual Report on Form 10-K for the year ended December 29, 2009 (2009 Annual Report).

Advertising Fund The Company participates with its franchisees in an advertising fund, established in fiscal 2010, to collect and administer funds contributed for use in advertising and promotional programs which are designed to increase sales and enhance the reputation of the Company and its franchise owners. Contributions to the advertising fund are required for Company Stores and traditional Franchise Stores and are generally based on a percent of store sales. The Company has control of the advertising fund. The fund is consolidated and the Company reports all assets and liabilities of the fund that it consolidates.

The advertising fund assets, consisting primarily of cash received from the Company and franchisees and accounts receivable from franchisees, can only be used for selected purposes and are considered restricted. The advertising fund liabilities represent the corresponding obligation arising from the receipts of the marketing program. In accordance with ASC Topic 952-605-25, the receipts from the franchisees are recorded as a liability against which specified advertising costs are charged. The Company does not reflect franchisee contributions to the fund in its Condensed Consolidated Statements of Operations or Condensed Consolidated Statements of Cash Flows. Advertising fund assets as of October 5, 2010 include cash of $0.5 million, which is recorded in restricted cash, and $0.7 million of receivables from franchisees, which is recorded in accounts receivable on the consolidated balance sheet. Advertising fund liabilities as of October 5, 2010 of $0.9 million are reported in other accrued expenses and accounts payable on the consolidated balance sheet. There were no advertising fund assets or advertising fund liabilities as of December 29, 2009.

Comprehensive Income Comprehensive income is defined as the change in equity during a period from transactions and other events, excluding changes resulting from investments from owners and distributions to owners. Comprehensive income (loss) equals net income (loss) for all periods presented.

Earnings (Loss) Per Share Earnings (loss) per share is computed in accordance with Accounting Standards Codification (ASC) 260. Basic earnings (loss) per share is computed based on the weighted-average of common shares outstanding during the period. Diluted earnings (loss) per share is computed based on the weighted-average number of common shares and potentially dilutive securities, which includes outstanding warrants and outstanding options and restricted stock awards granted under the Company s stock option plans.

Anti-dilutive shares, including convertible preferred shares, have been excluded from the calculation of diluted weighted-average shares outstanding. Anti-dilutive shares of 30.2 million and 3.3 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 12 week periods ended October 5, 2010 and October 6, 2009, respectively. Anti-dilutive shares of 32.4 million and 16.3 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 40 week periods ended October 5, 2010 and October 6, 2009, respectively.

Table of Contents

For purposes of determining the net income available (loss attributable) to common stockholders used in the computation of earnings (loss) per share, the amount of the income (loss) is increased (decreased) by the preferred stock dividends and deemed dividends. The deemed dividend represents the accretion of the issuance costs and beneficial conversion feature of the Company s preferred stock. As the convertible preferred shares are anti-dilutive, the dividends and deemed dividends related to the preferred stock have not been added back to the net income available to common stockholders and the number of preferred shares have not been included in the diluted earnings per share calculation.

The number of incremental shares from the assumed exercise of restricted stock awards, warrants and options was calculated by applying the treasury stock method. The if converted method was used for the conversion of preferred stock. A reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations is as follows (in thousands, except shares):

	12 Week Period Ended		40 Week Period Ended	
	October 5, 2010	October 6, 2009	October 5, 2010	October 6, 2009
Net (loss attributable) income available to common stockholders (numerator for basic and diluted earnings (loss) per share)	$ (1,427)	$ 2,113	$ (7,562)	$ (13,440)
Basic weighted-average shares outstanding	59,632,944	52,690,728	57,367,985	53,912,157
Incremental shares from assumed exercise of restricted stock awards, warrants and options		31,084,371		
Diluted weighted-average shares outstanding	59,632,944	83,775,099	57,367,985	53,912,157

Restricted Cash The Company held $2.3 million in restricted cash at October 5, 2010, of which $1.5 million was classified as a current asset and $0.8 million was classified as a long-term asset. The Company held $2.7 million in restricted cash at December 29, 2009, of which $1.3 million was classified as a current asset and $1.4 million was classified as a long-term asset. Restricted cash represents cash held in money market accounts or certificates of deposits to collateralize the Company s letters of credit and restricted cash held in the Company s advertising fund.

Recent Accounting Pronouncements

Consolidation of Variable Interest Entities Amended

(Included in ASC 810 Consolidation , SFAS No. 167 Amendments to FASB Interpretation No. 46(R))

SFAS No. 167 amends FASB Interpretation No. 46(R) Consolidation of Variable Interest Entities regarding certain guidance for determining whether an entity is a variable interest entity and modifies the methods allowed for determining the primary beneficiary of a variable interest entity. The amendments include: (1) the elimination of the exemption for qualifying special purpose entities, (2) a new approach for determining who should consolidate a variable-interest entity, and (3) changes to when it is necessary to reassess who should consolidate a variable-interest entity. SFAS No. 167 is effective for the first annual reporting period beginning after November 15, 2009, with earlier adoption prohibited. The adoption of SFAS No. 167 in fiscal 2010 did not have a material impact on the Company s consolidated financial statements.

Improving Disclosures about Fair Value Measurements (ASU No. 2010-06)

(Included in ASC 820 Fair Value Measurements and Disclosures)

Accounting Standards Update (ASU) No. 2010-06 requires new disclosures regarding recurring or nonrecurring fair value measurements. Entities will be required to separately disclose significant transfers into and out of Level 1 and Level 2 measurements in the fair value hierarchy and describe the reasons for the transfers. Entities will also be required to provide information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. In addition, entities must provide fair value measurement disclosures for each class of assets and liabilities, and disclosures about the valuation techniques used in determining fair value for Level 2 or Level 3 measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the gross basis reconciliation for the Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010. The adoption of

ASU 2010-06 did not have a material impact on the Company s consolidated financial statements. There were no transfers between Level 1 and Level 2 measurements in the fair value hierarchy during the 40 week period ended October 5, 2010.

2. ASSETS HELD FOR SALE

Assets held for sale consists of Company Stores that the Company expects to refranchise. Such assets are recorded at the lower of the carrying amount or fair value less cost to sell. Fair value is determined based on the purchase price in the asset purchase agreement. Assets are no longer depreciated once classified as held for sale. Assets held for sale of $4.8 million and $2.6 million as of October 5, 2010 and December 29, 2009, respectively, include property, fixtures and equipment and are included in prepaid expenses and other current assets on the Company s balance sheet.

Table of Contents

3. REDEEMABLE PREFERRED STOCK

During the second quarter of fiscal 2009, the Company issued (i) 170,000 shares of its Series B-1 Convertible Preferred Stock, par value $0.001, (the Series B-1 Preferred) to affiliates of Mistral Equity Partners at a price of $115 per share, for an aggregate purchase price of approximately $19.6 million, and (ii) 134,348 shares of its Series B-2 Convertible Preferred Stock, par value $0.001, (the Series B-2 Preferred) to CanBa Investments, LLC at a price of $115 per share, for an aggregate purchase price of approximately $15.4 million. The issuance of shares of the Series B-1 and B-2 Preferred Stock (together the Series B Preferred Stock or Preferred Stock) for $35 million, less approximately $3.1 million in total transaction costs, which includes $2.2 million in transaction fees and $885,000 paid to investors, was completed through a private placement to the purchasers as accredited investors and pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). The shares of Preferred Stock and the shares of the Company s Common Stock issuable upon conversion of the Preferred Stock include legends restricting transfer other than pursuant to an effective registration statement under the Securities Act or in accordance with an exemption from registration. The holders of the Series B Preferred Stock have the right to require the Company to redeem all or a portion of the shares of the Preferred Stock on or after seven years from the date of issuance of the Preferred Stock.

The shares of Preferred Stock are convertible at the election of the holders, at any time, into shares of Common Stock at an initial conversion price of $1.15 per share. The conversion price for the Preferred Stock is subject to customary anti-dilution adjustments for stock splits, dividends or certain other equity restructurings. After a two year period from the original date of issuance, the Company will have the right to require that the shares of Preferred Stock be converted into shares of Common Stock if (i) the Common Stock trading volume averages 150,000 shares per trading day over a 30 trading day period and (ii) the daily volume weighted average price per share of the Common Stock exceeds the product of 2.5 times the then-applicable conversion price for any 20 of the preceding 30 trading days at any time these conditions continue to be satisfied and for a period of 10 trading days thereafter. Upon exercise of this right, the Preferred Stock will be converted at the then-applicable conversion rate and the Company will be obligated to pay any then-existing dividend arrearages in cash. The Shares of Preferred Stock are entitled to an 8% dividend, payable quarterly in cash.

During the 12 week period ended October 5, 2010, holders converted 3,509 shares of outstanding Series B-1 Preferred Stock to an aggregate 350,900 shares of common stock at the initial conversion price of $1.15 per share. No shares of outstanding Series B-2 Preferred Stock were converted during the 12 week period ended October 5, 2010. During the 40 week period ended October 5, 2010, holders converted 24,460 shares of outstanding Series B-1 Preferred Stock and 45,934 shares of outstanding Series B-2 Preferred Stock to an aggregate 7,039,400 shares of common stock at the initial conversion price of $1.15 per share. During the 12 and 40 week periods ended October 5, 2010, the Company paid cash dividends on the Series B Preferred Stock totaling $0.5 million and $1.9 million, respectively. Accretion related to the Series B Preferred Stock for the 12 week and 40 week periods ended October 5, 2010 was $0.2 million and $1.3 million, respectively.

4. NOTE PAYABLE

On September 11, 2008, the Company entered into a financing agreement with Victory Park Management, LLC, as agent, and its affiliated funds as lenders whereby the lenders purchased $25 million two-year senior secured term notes from the Company (Senior Notes). The Senior Notes were repaid in full on June 16, 2009. During the 12 week period and 40 week period ended October 6, 2009, the Company recorded $0.3 million and $6.9 million in interest expense, respectively.

Table of Contents

5. SHARE-BASED COMPENSATION

The Company maintains three share-based compensation plans (collectively, the Plans). The Company s 2006 Employee, Director and Consultant Stock Plan, as amended, (the 2006 Plan) was approved by the Company s stockholders on November 28, 2006. An amendment to the 2006 Plan was approved by the stockholders on May 20, 2010. The 2006 Plan provides for the granting of up to eight million shares of common stock in the form of nonqualified and incentive stock options, stock grants or other share-based awards to employees, nonemployee directors and consultants. In connection with the merger of the Company with Jamba Juice Company on November 28, 2006, the Company assumed the outstanding options under the Jamba Juice Company 1994 Stock Incentive Plan (the 1994 Plan) and the Jamba Juice Company 2001 Equity Incentive Plan (the 2001 Plan), both of which provided for the granting of nonqualified and incentive stock options to employees, nonemployee directors and consultants. No additional grants are available under the 2001 Plan and the 1994 Plan. As of October 5, 2010, there remained 3,890,199 shares available for grant under the Company s 2006 Plan. In December 2008, the Company also granted an option covering an aggregate of 1,500,000 shares of common stock options under an inducement grant made outside of the Company s existing equity plans. A summary of stock option activity under the Plans as of October 5, 2010, and changes during the 40 week period then ended is presented below:

	Number of Options (in thousands)	Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 29, 2009	5,346	$ 2.75	
Options granted	355	2.38	
Options exercised	(270)	0.51	
Options cancelled	(271)	5.87	
Options outstanding at October 5, 2010	5,160	$ 2.68	$ 4,902
Options vested or expected to vest at October 5, 2010	3,874	$ 3.11	$ 3,475
Options exercisable at October 5, 2010	2,374	$ 3.92	$ 1,938

The fair value of options granted was estimated at the date of grant using a Black-Scholes option-pricing model. Option valuation models, including Black-Scholes, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility, and the expected life of the award. The risk-free interest rate is based on the yield of the treasury security at grant date with a maturity closest to the expected term of the award. Expected dividends are zero based on a history of not paying cash dividends on the Company s common stock and as the Company does not intend to pay dividends in the future. Expected volatility is based on a 75/25 blend of historic, daily stock price observations of the Company s common stock since its inception and historic, daily stock price observations of the Company s peers during the period immediately preceding the share-based award grant that is equal in length to the award s expected term. Estimated forfeitures are also included as a part of the grant date estimate. The Company used historical data to estimate expected employee behaviors related to option exercises and forfeitures. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models or assumptions, nor is there a means to compare and adjust the estimates to actual values, except for annual adjustments to reflect actual forfeitures.

Share-based compensation expense, which is included in general and administrative expense, was $0.4 million and $0.3 million for the 12 week periods ended October 5, 2010 and October 6, 2009, respectively. Share-based compensation expense was $1.0 million and $1.2 million for the 40 week periods ended October 5, 2010 and October 6, 2009, respectively. As of October 5, 2010, non-vested share-based compensation for stock options and restricted stock awards, net of forfeitures totaled $0.8 million. This expense will be recognized over the remaining weighted average vesting period. There was no income tax benefit related to share-based compensation expense during the 12 and 40 week periods ended October 5, 2010 and October 6, 2009.

The following are the weighted-average assumptions used to value option grants for the 12 and 40 week periods ended October 5, 2010, and October 6, 2009:

	12 Week Period Ended		40 Week Period Ended	
	October 5, 2010	**October 6, 2009**	**October 5, 2010**	**October 6, 2009**
Weighted-average risk-free interest rate		2.48%	2.08%	1.88%
Expected life of options (years)		5.00	6.22	5.00
Expected stock volatility		59.0%	65.4%	56.7%
Expected dividend yield		0%	0%	0%

11

Table of Contents

No stock options were granted during the 12 week period ended October 5, 2010. The estimated fair value per share of stock options granted during the 12 week period ended October 6, 2009, was $0.56. The estimated fair value per share of stock options granted during the 40 week periods ended October 5, 2010 and October 6, 2009, was $1.45 and $0.32, respectively.

6. FAIR VALUE MEASUREMENT

The Company measures its cash equivalents at fair value. There is no difference between the fair value and cost of the Company s cash equivalents. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1: Quoted prices are available in active markets for identical assets or liabilities.

Level 2: Inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable.

Level 3: Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions that market participants would use in pricing.

The following table presents financial assets that were accounted for at fair value on a recurring basis as of October 5, 2010 and December 29, 2009 by level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3
October 5, 2010			
Assets:			
Cash invested in money market fund(1)	$ 1,848	$	$
December 29, 2009			
Assets:			
Cash invested in money market fund(2)	$ 2,842	$	$

(1) $0.4 million included in cash and cash equivalents and $1.4 million included in restricted cash on the consolidated balance sheet at October 5, 2010.

(2) $0.5 million included in cash and cash equivalents and $2.3 million included in restricted cash on the consolidated balance sheet at December 29, 2009.

The following table presents assets that were accounted for at fair value on a non-recurring basis and remaining on our Condensed Consolidated Balance Sheets as of October 5, 2010 and December 29, 2009. Total losses include losses recognized from all non-recurring fair value measurements for the 12 and 40 week periods ended October 5, 2010 and October 6, 2009 (in thousands):

	Level 1	Level 2	Level 3
October 5, 2010			
Assets:			
Assets held for sale(1)			$ 4,823
Long-lived assets(2)			3,480
Total losses recognized for all non-recurring fair value measures for the 12 week period ended October 5, 2010			
Total losses recognized for all non-recurring fair value measures for the 40 week period ended October 5, 2010			2,293

December 29, 2009	
Assets:	
Assets held for sale[1]	$ 1,319
Long-lived assets[2]	12,311
Total losses recognized for all non-recurring fair value measures for the 12 week period ended October 6, 2009	532
Total losses recognized for all non-recurring fair value measures for the 40 week period ended October 6, 2009	11,107

(1) Included in prepaid expenses and other current assets on the consolidated balance sheet.
(2) Included in property, fixtures and equipment, net on the consolidated balance sheet.

12

Table of Contents

For assets that are measured using quoted prices in active markets, fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. We had cash invested in money market funds and active exchange funds of $1.8 million and $2.8 million as of October 5, 2010 and December 29, 2009, respectively.

Assets held for sale consists of Company Stores that the Company expects to refranchise. Such assets are recorded at the lower of the carrying amount or fair value less cost to sell. Fair value is determined based on the purchase price in the asset purchase agreement.

7. IMPAIRMENT OF LONG LIVED ASSETS AND STORE LEASE TERMINATION AND CLOSURE COSTS

Impairment of long-lived assets

The Company reviews its portfolio of Company Stores for impairment at least quarterly or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The review includes an analysis of each store s past and present operating performance combined with projected future results. If the sum of the undiscounted cash flows is less than the carrying value of the asset, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the fair value of the asset and are included in impairment of long-lived assets on the Company s consolidated statements of operations. The fair value of impaired assets was estimated based upon the present value of the anticipated cash flows associated with each related asset. The estimate of anticipated cash flows is based upon, among other things, certain assumptions about expected future operating performance.

In addition, the Company records long-lived assets at the lower of the carrying amount or fair value less selling costs once assets are classified as held for sale. Fair value is determined based on the purchase price in the agreement. The Company did not record impairment charges during the 12 week period ended October 5, 2010 and recorded impairment charges of $0.5 million for the 12 week period ended October 6, 2009. Impairment charges of $2.3 million and $11.1 million were recorded for the 40 week periods ended October 5, 2010 and October 6, 2009, respectively.

Store lease termination and closure costs

Lease termination costs consist primarily of the costs of future obligations related to closed store locations. Discounted liabilities for future lease costs and the fair value of related subleases of closed locations are recorded when the stores are closed. All other costs related to closed units are expensed as incurred. In assessing the discounted liabilities for future costs of obligations related to closed stores, the Company makes assumptions regarding amounts of future subleases. If these assumptions or their related estimates change in the future, the Company may be required to record additional exit costs or reduce exit costs previously recorded. Exit costs recorded for each of the periods presented include the effect of such changes in estimates. Lease obligations are payable through 2019, less sublease amounts. The charges are noted below.

(In thousands)	**12 Week Period Ended**		**40 Week Period Ended**	
	October 5, 2010	**October 6, 2009**	**October 5, 2010**	**October 6, 2009**
Store lease termination and closure costs	$ 1,072	$ 266	$ 1,793	$ 592

A reconciliation of the beginning and ending store lease termination and closure accrual is as follows:

(In thousands)	**12 Week Period Ended**		**40 Week Period Ended**	
	October 5, 2010	**October 6, 2009**	**October 5, 2010**	**October 6, 2009**
Balance, beginning of period	$ 1,730	$ 2,763	$ 2,333	$ 4,553
Adjustments	1,072	266	1,793	592
Payments	(348)	(574)	(1,672)	(2,690)
Balance, end of period	$ 2,454	$ 2,455	$ 2,454	$ 2,455

13

Table of Contents

8. INCOME TAXES

At the end of each interim period, the Company calculates an estimated annual effective tax rate based on the Company s best estimate of the tax provision benefit that will be provided for the full year. The income tax (expense) benefit for the period is a result of applying the estimated annual effective tax rate to the period s actual pre-tax income (loss) and adjusting for discrete tax items.

A valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has concluded that it is more likely than not that the deferred tax assets related to depreciation, tax goodwill, jambacards, accrued expenses and net operating losses will not be realized and a full valuation allowance has been maintained against the Company s net deferred tax assets.

During the 12 week and 40 week periods ended October 5, 2010, stock options related to certain former employees were cancelled. Once the requisite service has been provided, the prior book expense is not reversed. However, because a tax deduction will no longer be realized, there is no longer a temporary difference. The deferred income tax asset and related valuation allowance for these stock options at December 29, 2009 were adjusted during the 12 week and 40 week periods ended October 5, 2010.

The Company has recorded a tax expense for the 12 week and 40 week periods ended October 5, 2010. The Company s effective tax rate is (29.1)% and (4.7)%, respectively. The effective tax rate is affected by pretax loss, a change in the valuation allowance related to deductible temporary differences originating during the current year and $165,000 of foreign taxes related to a development agreement in South Korea.

As of October 5, 2010, there have been no material changes to the Company s uncertain tax positions disclosure as provided in Note 14 in the Notes to the Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 29, 2009. The Company does not anticipate that total unrecognized tax benefits will significantly change prior to the end of December 2010. As of October 5, 2010 approximately $0.9 million of unrecognized tax benefits are expected to reverse in the next twelve months due to the expiration of the statute of limitations.

9. OTHER OPERATING, NET

Other operating, net includes gains or losses recognized in connection with the refranchise of certain Company Stores. During the 12 week and 40 week periods ended October 5, 2010, the Company recognized a loss on sale of refranchised stores of $1.4 million and a gain on sale of $1.8 million, respectively. No gain or loss was recognized from the sale of refranchised stores during the 12 and 40 week periods ended October 6, 2009.

10. COMMITMENTS AND CONTINGENCIES

The Company records a liability for litigation claims and contingencies when payment is probable and the amount of loss can be reasonably estimated.

Three putative class action lawsuits, brought on behalf of former employees, are pending against the Company. These lawsuits, brought in 2008, 2009, and 2010, respectively, allege the Company failed to comply with various California labor laws. In August 2010, after engaging in settlement negotiations, the Company reached settlements for two of the lawsuits, each on a California statewide basis. The settlements are currently being memorialized and will then be presented to the respective courts for approval. The settlements do not include any admission of wrongdoing by the Company. There is no assurance that the terms of the settlements negotiated between the respective parties will be memorialized into definitive settlement agreements, or that the courts will approve of the settlement terms agreed to among the respective parties. However, the Company has established an accrual based on the expected amount the Company will pay under the settlements. Should the settlements be approved, parts of the third lawsuit which overlap with the other two lawsuits are expected to be dismissed. The Company denies the allegations in the remaining claims of this lawsuit, believes they are without merit, and intends to vigorously defend itself against them.

The Company is a defendant in other litigation arising in the normal course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company s management, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations, liquidity or financial condition of the Company.

11. SUBSEQUENT EVENTS

Subsequent to October 5, 2010, holders converted 16,491 shares of outstanding Series B-1 Preferred Stock to 1,649,100 shares of common stock at a conversion price of $1.15 per share.

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 financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as may, should, could, predict, potential, continue, expect, anticipate, future, intend, plan, believe, estimate, forecast and similar expressions (or the negative of such expressions). Forward-looking statements include, but are not limited to, statements concerning projected new store openings, 2010 revenue growth rates, global sourcing, distribution strategies and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion titled Risk Factors in our Annual Report on Form 10-K for the year ended December 29, 2009 and in this Quarterly Report on Form 10-Q.

JAMBA, INC. OVERVIEW

Jamba, Inc. is a holding company which owns and franchises Jamba Juice stores through its wholly-owned subsidiary, Jamba Juice Company. Jamba Juice Company is a leading restaurant retailer of better-for-you food and beverage offerings, including great tasting fruit smoothies, juices and teas, hot oatmeal made with organic steel cut oats, wraps, salads, sandwiches and California Flatbreads and a variety of baked goods and snacks. Jamba, Inc. was incorporated in January 2005 and went public through an initial public offering later that year. In November 2006, we completed our acquisition of Jamba Juice Company, which first began operations in 1990. As of October 5, 2010, there were 742 locations consisting of 378 Company Stores and 364 Franchise Stores.

EXECUTIVE OVERVIEW

Key Overall Strategies

In early 2009, we undertook five key strategic initiatives to revitalize ourselves for future growth and long-term stockholder value, which we call the BLEND Plan. We continue to execute against the BLEND Plan, the key components of which are:

- building a customer first operationally focused service culture;
- building a retail food capability across all four day parts (breakfast, lunch, afternoon, and dinner);
- accelerating the development of franchise and non-traditional stores;
- building a consumer products growth platform; and
- continuing to implement a disciplined expense reduction plan.

2010 Third Quarter Financial Highlights

- Net loss was $(0.8) million, compared to net income of $2.8 million in the prior year period, driven primarily by non cash charges of $1.4 million related to store closures and $1.4 million related to loss on refranchise transactions, a decrease in Company Store comparable sales of 2.7%, partially offset by an increase in franchise revenue.

Loss per share was $(0.02) per share for the 12 weeks ended October 5, 2010 compared to a diluted earnings per share of $0.04 for the prior year period.

Total revenue decreased 16.3% to $66.1 million from $79.0 million from prior year period reflecting a decrease of $12.9 million primarily due to the reduction in the number of Company Stores.

Company-owned comparable store sales decreased by 2.7% compared to a decrease of 5.3% for the prior year period.

Store-level EBITDA decreased $2.5 million to $13.4 million compared to $15.9 million for the prior year period.

Consolidated EBITDA decreased $1.7 million to $5.3 million compared to $7.0 million for the prior year period.

Table of Contents

2010 Third Quarter Business Highlights

Company Store Sales

During the third quarter, Company Store comparable store sales were negative 2.7%, driven primarily by cool weather and a slowly recovering recessionary economic environment in California, where approximately 75% of our Company Stores are located. In addition, during the quarter, competition from McDonald s nationwide introduction and promotion of its new smoothie line negatively impacted Company Store sales. In Company Stores located outside of California, where we continue to see sequential quarterly improvement, comparable store sales were positive 1.8%. Overall traffic, one of the primary drivers of comparable store sales, continues to improve sequentially across all Company Stores.

We remain diligently focused on improving comparable store sales through the expansion of our food and beverage offerings, with a goal of driving sales by increasing average check, traffic and attachment rates. During the third quarter, we launched our fall campaign focused on promotion of our better-for-you breakfast platform that included the expansion to over 360 stores of our made-to-order organic hot coffee and organic hot tea offerings. We see benefits of competing restaurants entering the smoothie category because it expands the base of new smoothie customers. We are leveraging our promotional activities and special offers in key markets to grow trial and awareness of our products among this growing base of new smoothie users. We also believe that our growing portfolio of healthy-focused food and beverage offerings provides us with a competitive advantage over these restaurants.

Franchising and Refranchising

We continue to grow our restaurant concept primarily through the development of new Franchise Stores, predominantly in non-traditional venues such as airports and universities. During the third quarter of 2010, we opened seven new non-traditional franchise locations and expect to open 30-to-40 new Franchise Stores in 2010.

In 2009, we embarked on a refranchising initiative to refranchise up to 150 Company Stores, as we move to a more franchise-oriented business model. During the third quarter, we completed the sale of 46 Company Stores in four refranchising transactions. We expect to close the transactions which would complete the refranchising initiative by year-end. The buyers in these transactions have also committed to develop new Franchise Stores over the next five years.

During the third quarter, we also entered into store development agreements with three new franchisees for an aggregate of 13 stores in the new markets of Boston, Massachusetts, New Orleans, Louisiana and South Bend, Indiana. These development agreements support our brand growth into new markets.

During the third quarter, we also opened the first pilot Jamba Express blending station. Jamba Express allows for a reduced-size blending station with a limited Smoothie menu, meant to emphasize volume, and operated primarily inside non-traditional venues such as small schools, grocery stores, stadiums, theaters, and airport locations where a Jamba Juice store or kiosk would not be feasible. We believe Jamba Express could extend our product offerings outside of our Jamba Juice stores to not only generate revenue, but to expand product accessibility, promote brand awareness and product usage occasions to customers.

As we move forward, our franchise-focused business model is expected to require less capital investment and reduce the volatility of cash flow performance over time. A natural and expected outcome of our franchising effort is a decline in total revenue as we trade retail sales at Company Stores for royalties and franchise fees. We also expect, however, that this overall shift in revenues will benefit us by ultimately resulting in improved free cash flows.

Store-level Margins

During the third quarter, we maintained our store-level margins as compared to the prior year period due to cost savings initiatives and increased franchise and licensing revenue, partially offset by the deleverage impact from decreased Company Store comparable sales. In addition to our efforts to increase comparable store sales as described above, we are focused on improving the efficiency of our store operations and driving additional cost savings initiatives in order to improve our store-level margins.

Consumer Products

During the third quarter, we continued to make progress on our consumer products licensing platform. Most significantly, we agreed to terms with Nestlé USA to renew our licensing relationship for the development of a new line of Jamba-branded ready-to-drink energy beverages. We also entered into three additional license agreements to develop Jamba-branded products in relevant categories:

One Natural Experience (O.N.E.) for ready-to-drink, fruit-infused coconut waters;

Zola Superfruits for functionally beneficial liquid superfruit supplements; and

Sundia for functionally boosted fruit cups

Table of Contents

In addition, we received royalties from retail distribution of Jamba-branded products such as frozen smoothie kits and frozen novelty bars as the licensees under our existing license agreements gain momentum in their commercialization efforts. Our consumer products platform represents an important growth opportunity and helps to support our transformation from a made-to-order smoothie company to an active, healthy lifestyle brand.

Table of Contents

RESULTS OF OPERATIONS 12 WEEK PERIOD ENDED OCTOBER 5, 2010 AS COMPARED TO 12 WEEK PERIOD ENDED OCTOBER 6, 2009 (UNAUDITED)

	12 Week Period Ended			
(In thousands)	**October 5, 2010**	**% (1)**	**October 6, 2009**	**% (1)**
Revenue:				
Company stores	$ 63,922	96.7%	$ 77,493	98.1%
Franchise and other revenue	2,167	3.3%	1,498	1.9%
Total revenue	66,089	100.0%	78,991	100.0%
Costs and operating expenses:				
Cost of sales	15,042	23.5%	19,282	24.9%
Labor	19,665	30.8%	23,612	30.5%
Occupancy	8,564	13.4%	10,178	13.1%
Store operating	9,461	14.8%	10,032	12.9%
Depreciation and amortization	3,085	4.7%	3,943	5.0%
General and administrative	8,087	12.2%	8,839	11.2%
Impairment of long-lived assets		0.0%	532	0.7%
Other operating, net	2,655	4.0%	3	0.0%
Total costs and operating expenses	66,559	100.7%	76,421	96.7%
(Loss) income from operations	(470)	(0.7)%	2,570	3.3%
Other expense, net:				
Interest income	21	0.0%	21	0.0%
Interest expense	(145)	(0.2)%	(320)	(0.4)%
Total other expense, net	(124)	(0.2)%	(299)	(0.4)%
(Loss) income before income taxes	(594)	(0.9)%	2,271	2.9%
Income tax (expense) benefit	(174)	(0.3)%	495	0.6%
Net (loss) income	(768)	(1.2)%	2,766	3.5%
Preferred stock dividends and deemed dividends	(659)	(1.0)%	(653)	(0.8)%
Net (loss attributable) income available to common stockholders	$ (1,427)	(2.2)%	$ 2,113	2.7%

(1) Cost of sales, labor, occupancy and store operating percentages are calculated using Company Stores revenue. All other line items are calculated using total revenue.

Revenue

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Revenue:				
Company stores	$ 63,922	96.7%	$ 77,493	98.1%
Franchise and other revenue	2,167	3.3%	1,498	1.9%
Total revenue	$ 66,089	100.0%	$ 78,991	100.0%

Total revenue is comprised of revenue from Company Stores, royalties and fees from Franchise Stores and licensing revenue. Total revenue decreased $12.9 million or 16.3% to $66.1 million for the 12 week period ended October 5, 2010 compared to $79.0 million for the prior year period. Company Store revenue decreased $13.6 million or 17.5% to $63.9 million compared to $77.5 million for the prior year period. This decrease in Company Store revenue is primarily attributable to a net decrease of 110 Company Stores operating since the prior year period due primarily to our refranchising initiative. The decrease in Company Store revenue was also affected by a decrease in Company Store comparable sales of 2.7% compared to the prior year period. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least 13 full fiscal periods. As of October 5, 2010 approximately 99% of our Company Stores had been open for at least 13 full fiscal periods.

Table of Contents

Franchise and other revenue increased 44.7% to $2.2 million compared to $1.5 million for the prior year period. The number of Franchise Stores as of October 5, 2010 was 364 stores as compared to 254 stores as of October 6, 2009. The increase in franchise and other revenue is due primarily to an increase in royalty revenue resulting from a net increase of 110 Franchise Stores operating since the prior year period, revenue resulting from a master development agreement entered into for South Korea, and licensing revenue.

Cost of sales

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Company Store Revenue	12 Week Period Ended October 6, 2009	% of Company Store Revenue
Cost of sales	$ 15,042	23.5%	$ 19,282	24.9%

Cost of sales is mostly comprised of fruit, dairy and other products used to make smoothies, cost of prepared foods such as our grab-and-go menu offerings introduced in the middle of fiscal 2009, paper products, and costs related to managing our procurement program. Cost of sales decreased $4.2 million or 22.0% to $15.0 million for the 12 week period ended October 5, 2010, compared to $19.3 million for the prior year period. This $4.2 million decrease was primarily attributable to the net decrease in Company Stores operating compared to the prior year period which resulted in reduced aggregate Company Store purchasing levels. Cost of sales as a percentage of Company Store revenue decreased to 23.5% in the third quarter of fiscal 2010 compared to 24.9% in the prior year period due primarily to cost savings initiatives and improved commodity management.

Labor

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Company Store Revenue	12 Week Period Ended October 6, 2009	% of Company Store Revenue
Labor	$ 19,665	30.8%	$ 23,612	30.5%

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. Labor costs decreased $3.9 million or 16.7% to $19.7 million for the 12 week period ended October 5, 2010 compared to $23.6 million for the prior year period. The $3.9 million decrease was primarily attributable to the net decrease in Company Stores operating compared to the prior year period, optimization of labor scheduling and more efficient labor management. Labor costs as a percentage of Company Store revenue increased to 30.8% in the 12 week period ended October 5, 2010 compared to 30.5% in the prior year period due primarily to deleverage resulting from a decrease in Company Store comparable sales and increased value promotion activity, partially offset by more efficient labor management.

Occupancy

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Company Store Revenue	12 Week Period Ended October 6, 2009	% of Company Store Revenue
Rent	$ 6,766		$ 7,848	
Common area maintenance, property taxes, licenses and insurance	1,798		2,330	

Total occupancy	$	8,564	13.4%	$	10,178	13.1%

Occupancy costs include both fixed and variable portions of rent, real estate taxes, property insurance and common area maintenance charges for all Company Store locations. Occupancy costs decreased $1.6 million or 15.9% to $8.6 million for the 12 week period ended October 5, 2010 compared to $10.2 million for the prior year period. This decrease was primarily attributable to a net decrease in Company Stores operating since the prior year period. Total occupancy costs as a percentage of Company Store revenue increased to 13.4% in the 12 week period ended October 5, 2010, compared to 13.1% in the prior year period, which was primarily attributable to deleverage resulting from a decrease in Company Store comparable sales.

Table of Contents

Store operating

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Company Store Revenue	12 Week Period Ended October 6, 2009	% of Company Store Revenue
Utilities	$ 2,639		$ 2,996	
Marketing	2,035		1,746	
Repairs and maintenance	1,142		1,379	
Credit card fees	832		923	
Other	2,813		2,988	
Total store operating	$ 9,461	14.8%	$ 10,032	12.9%

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. Total store operating expenses decreased 5.7% to $9.5 million for the 12 week period ended October 5, 2010 compared to $10.0 million for the prior year period. The $0.5 million decrease in total store operating expenses was primarily attributable to a net decrease in Company Stores operating since the prior year period, partially offset by increased promotional activity.

Utilities expense decreased by 11.9% to $2.6 million for the 12 week period ended October 5, 2010 compared to $3.0 million for the prior year period. The $0.4 million decrease in utilities expense was primarily attributable to a decrease in the net number of Company Stores operating in the third quarter compared to the prior year period.

Marketing expenses increased by 16.6% to $2.0 million for the 12 week period ended October 5, 2010 compared to $1.7 million for the prior year period. The $0.3 million increase in marketing expenses was primarily attributable to increased promotional spending during the third quarter compared to the prior year period.

Repairs and maintenance expense decreased by 17.2% to $1.1 million for the 12 week period ended October 5, 2010 compared to $1.4 million for the prior year period. The $0.3 million decrease in repairs and maintenance was primarily attributable to a decrease in the net number of Company Stores operating compared to the prior year period.

Credit card fees decreased by 9.9% to $0.8 million for the 12 week period ended October 5, 2010 compared to $0.9 million for the prior year period. The $0.1 million decrease in credit card fees was primarily due to a decrease in the net number of Company Stores operating compared to the prior year period and a decrease in Company Store comparable sales.

Other store operating expenses decreased by 5.9% to $2.8 million for the 12 week period ended October 5, 2010 compared to $3.0 million for the prior year period. The $0.2 million decrease in other store operating expenses was primarily attributable to a net decrease in the number of Company Stores operating compared to the prior year period, partially offset by increases due to upgrades to our point of sale system and software and for new equipment to, among other things, expand the beverage offerings.

As a percentage of Company Store revenue, total store operating expenses increased to 14.8% for the 12 week period ended October 5, 2010 compared to 12.9% in the prior year period, which was primarily attributable to factors described above and deleverage resulting from a decrease in Company Store comparable sales.

Depreciation and amortization

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Depreciation and amortization	$ 3,085	4.7%	$ 3,943	5.0%

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. Depreciation and amortization decreased $0.8 million or 21.8% to $3.1 million for the 12 week period ended October 5, 2010 compared to $3.9 million for the prior year period. As a percentage of total revenue, depreciation and amortization decreased to 4.7% for the 12 week period ended October 5, 2010 compared to 5.0% in the prior year period. The $0.8 million decrease and the decrease as a percentage of total revenue is primarily attributable to a net decrease in Company Stores operating since the prior year period and impairment charges for certain stores taken during fiscal 2009.

Table of Contents

General and administrative

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Wages and payroll related	$ 4,804		$ 5,253	
Outside and contract services	746		1,058	
Accounting and legal fees	722		499	
Travel and travel-related	631		690	
Other	1,184		1,339	
Total general and administrative	$ 8,087	12.2%	$ 8,839	11.2%

General and administrative (G&A) expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, accounting and legal fees, outside and contract services, travel and travel-related expenses, share-based compensation, and other. Total G&A expenses decreased $0.7 million or 8.5% to $8.1 million compared to $8.8 million in the prior year period which was primarily attributable to decreases in wages and payroll related expenses and reclassification of costs associated with managing the system s procurement program into cost of sales.

Wages and payroll related expenses decreased by $0.5 million or 8.5% to $4.8 million for the 12 week period ended October 5, 2010 compared to $5.3 million for the prior year period. The $0.5 million decrease in wages and payroll related expenses was primarily attributable to decreased field support personnel expenses as a result of a net decrease in Company Stores operating since the prior year period.

Outside and contract services decreased to $0.7 million for the 12 week period ended October 5, 2010 compared to $1.1 million for the prior year period. The $0.4 million decrease in outside and contract services was primarily attributable to our cost reduction efforts.

Accounting and legal fees increased by $0.2 million to $0.7 million for the 12 week period ended October 5, 2010 compared to $0.5 million for the prior year period. The $0.2 million increase was primarily attributable to legal costs associated with outstanding litigation and Company initiatives.

Travel and travel-related expenses decreased to $0.6 million for the 12 week period ended October 5, 2010 compared to $0.7 million for the prior year period. The $0.1 million decrease in travel and travel-related expenses was primarily attributable to lower field headcount.

Other G&A expenses decreased by $0.1 million or 11.6% to $1.2 million for the 12 week period ended October 5, 2010 compared to $1.3 million for the prior year period. The decrease in other G&A expenses was primarily attributable to the reclassification of costs associated with managing our procurement program into cost of sales.

As a percentage of total revenue, total G&A expenses increased to 12.2% for the 12 week period ended October 5, 2010, compared to 11.2% for the prior year period. This increase in G&A expenses as a percentage of total revenue was primarily attributable to a net decrease in Company Stores operating since the prior year period, deleverage resulting from a decrease in Company Store comparable sales, partially offset by lower total G&A expenses due to the factors noted above.

Impairment of long-lived assets

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Impairment of long-lived assets	$	0.0%	$ 532	0.7%

Long-lived assets are reviewed for impairment when indicators of impairment are present. Expected future cash flows associated with an asset, in addition to other quantitative and qualitative analyses, including certain assumptions about expected future operating performance and changes in economic conditions are the key factors in determining undiscounted future cash flows. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset.

We did not record long-lived asset impairment expense for the 12 week period ended October 5, 2010. No impairment was recorded for long-lived assets that the Company intends to refranchise where the carrying amount exceeds the selling price. We recorded $0.5 million for long-lived asset impairment during the prior year period.

Other operating, net

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Loss (gain) on disposals	$ 1,707		$ (140)	
Other	948		143	
Total other operating, net	$ 2,655	4.0%	$ 3	0.0%

Other operating, net consist primarily of refranchise-related expense, pre-opening expense, gains and losses on disposals, amortization of jambacard liability and income from jambacard breakage. Other operating, net increased to $2.7 million for the 12 week period ended October 5, 2010 compared to the prior year period.

Loss on disposals increased to $1.7 million for the 12 week period ended October 5, 2010 compared to a gain of $0.1 million in the prior year period. The $1.8 million variance was primarily attributable to a $1.4 million loss on the sale of assets related to our refranchising program for the 12 week period ended October 5, 2010.

As a percentage of total revenue, other operating, net were 4.0% for the 12 week period ended October 5, 2010 as compared to 0.0% in the prior year period, driven by the factors noted above.

Interest income

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Interest income	$ 21	0.0%	$ 21	0.0%

Interest income represents interest earned on cash held in our interest bearing accounts. Interest income was flat at $21,000 for the 12 week periods ended October 5, 2010 and October 6, 2009.

Interest expense

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Interest expense	$ (145)	(0.2)%	$ (320)	(0.4)%

Interest expense for the 12 week period ended October 5, 2010 decreased to $0.1 million compared to $0.3 million for the prior year period due primarily to repayment of the previously outstanding Senior Notes (see Note 4 to our financial statements).

Income tax expense

(in 000 s)

	12 Week Period Ended October 5, 2010	% of Total Revenue	12 Week Period Ended October 6, 2009	% of Total Revenue
Income tax (expense) benefit	$ (174)	(0.3)%	$ 495	0.6%

We recorded a tax expense of $0.2 million for the 12 week period ended October 5, 2010. Our effective tax rate was (29.1)% for the 12 week period ended October 5, 2010. The effective tax rate is affected by pretax loss, a change in the valuation allowance related to deductible temporary differences originating during the current year and $165,000 of foreign taxes related to a development agreement in South Korea.

Table of Contents

Our effective tax benefit rate was 21.8% for the 12 week period ended October 6, 2009. Our prior year tax rate was affected by pretax income or loss, a change in the valuation allowance related to deductible temporary differences originating during the current year and the reversal of previously unrecognized tax benefits. During the 12 week period ended October 6, 2009, approximately $0.5 million of previously unrecognized tax benefits were reversed due to the expiration of the statute of limitations.

Table of Contents

RESULTS OF OPERATIONS 40 WEEK PERIOD ENDED OCTOBER 5, 2010 AS COMPARED TO 40 WEEK PERIOD ENDED OCTOBER 6, 2009 (UNAUDITED)

	40 Week Period Ended			
(In thousands)	**October 5, 2010**	**% (1)**	**October 6, 2009**	**% (1)**
Revenue:				
Company stores	$ 214,642	97.3%	$ 246,174	98.1%
Franchise and other revenue	5,948	2.7%	4,781	1.9%
Total revenue	220,590	100.0%	250,955	100.0%
Costs and operating expenses:				
Cost of sales	51,279	23.9%	59,798	24.3%
Labor	68,759	32.0%	80,925	32.9%
Occupancy	30,890	14.4%	34,072	13.8%
Store operating	30,319	14.1%	29,681	12.1%
Depreciation and amortization	11,509	5.2%	14,397	5.7%
General and administrative	28,325	12.8%	28,747	11.5%
Impairment of long-lived assets	2,293	1.0%	11,107	4.4%
Other operating, net	1,081	0.5%	312	0.1%
Total costs and operating expenses	224,455	101.8%	259,039	103.2%
Loss from operations	(3,865)	(1.8)%	(8,084)	(3.2)%
Other expense, net:				
Gain from derivative liabilities		0.0%	1,597	0.6%
Interest income	59	0.0%	384	0.2%
Interest expense	(434)	(0.1)%	(6,920)	(2.8)%
Total other expense, net	(375)	(0.1)%	(4,939)	(2.0)%
Loss before income taxes	(4,240)	(1.9)%	(13,023)	(5.2)%
Income tax (expense) benefit	(200)	(0.1)%	462	0.2%
Net loss	(4,440)	(2.0)%	(12,561)	(5.0)%
Preferred stock dividends and deemed dividends	(3,122)	(1.4)%	(879)	(0.4)%
Net loss attributable to common stockholders	$ (7,562)	(3.4)%	$ (13,440)	(5.4)%

(1) Cost of sales, labor, occupancy and store operating percentages are calculated using Company Stores revenue. All other line items are calculated using total revenue.

Revenue

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Revenue:				
Company stores	$ 214,642	97.3%	$ 246,174	98.1%
Franchise and other revenue	5,948	2.7%	4,781	1.9%
Total revenue	$ 220,590	100.0%	$ 250,955	100.0%

Total revenue decreased $30.4 million or 12.1% to $220.6 million for the 40 week period ended October 5, 2010 compared to $251.0 million for the 40 week period ended October 6, 2009. The $30.4 million decrease in total revenue was attributable to a $31.5 million decrease in Company Store revenue, partially offset by a $1.1 million increase in franchise and other revenue.

Company Store revenue decreased $31.6 million or 12.8% to $214.6 million compared to $246.2 million for the prior year period. This decrease in Company Store revenue is primarily attributable to a net decrease of 110 Company Stores operating since the prior year period, due primarily to our refranchising initiative. The decrease in Company Store revenue was also affected by a decrease in Company Store comparable sales of 2.8% compared to the prior year period. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least 13 full fiscal periods.

Table of Contents

Franchise and other revenue increased $1.1 million to $5.9 million compared to $4.8 million for the prior year period. The number of franchise stores as of October 5, 2010 was 364 stores as compared to 254 stores as of October 6, 2009. The increase in franchise and other revenue is primarily attributable to an increase in royalty revenue resulting from the net increase in the number of Franchise Stores operating compared to the prior year period.

Cost of sales

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Company Store Revenue	40 Week Period Ended October 6, 2009	% of Company Store Revenue
Cost of sales	$ 51,279	23.9%	$ 59,798	24.3%

Cost of sales is mostly comprised of fruit, dairy and other products used to make smoothies, cost of prepared foods such as our grab-and-go menu offerings introduced in the middle of fiscal 2009, paper products, and costs related to managing our procurement program. Cost of sales decreased $8.5 million or 14.2% to $51.3 million for the 40 week period ended October 5, 2010 compared to $59.8 million for the prior year period. This decrease was primarily attributable to the net decrease in Company Stores operating compared to the prior year period which resulted in reduced aggregate Company Store purchasing levels. Cost of sales as a percentage of Company Store revenue was 23.9% for the 40 week period ended October 5, 2010 compared to 24.3% in the prior year period, due primarily to cost savings initiatives and improved commodity management.

Labor

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Company Store Revenue	40 Week Period Ended October 6, 2009	% of Company Store Revenue
Labor	$ 68,759	32.0%	$ 80,925	32.9%

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. Labor costs decreased $12.1 million or 15.0% to $68.8 million for the 40 week period ended October 5, 2010 compared to $80.9 million for the prior year period. The $12.1 million decrease was primarily attributable to the net decrease in Company Stores operating compared to the prior year period, optimization of labor scheduling, and more efficient labor management. Labor costs as a percentage of Company Store revenue decreased to 32.0% for the 40 week period ended October 5, 2010 compared to 32.9% in the prior year period due primarily to more efficient labor management, partially offset by deleverage resulting from a decrease in Company Store comparable sales.

Occupancy

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Company Store Revenue	40 Week Period Ended October 6, 2009	% of Company Store Revenue
Rent	$ 23,747		$ 26,412	
	7,143		7,660	

Common area maintenance, property taxes, licenses and insurance						
Total occupancy	$	30,890	14.4%	$	34,072	13.8%

Occupancy costs include both fixed and variable portions of rent, real estate taxes, property insurance and common area maintenance charges for all Company Store locations. Occupancy costs decreased $3.2 million or 9.3% to $30.9 million for the 40 week period ended October 5, 2010 compared to $34.1 million for the prior year period. This decrease in total occupancy cost was primarily attributable to a net decrease in Company Stores operating since the prior year period. Total occupancy as a percentage of Company Store revenue increased to 14.4% in the third quarter of fiscal 2010, compared to 13.8% in the prior year period, which was primarily attributable to deleverage resulting from a decrease in Company Store comparable sales.

Table of Contents

Store operating

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Company Store Revenue	40 Week Period Ended October 6, 2009	% of Company Store Revenue
Utilities	$ 8,088		$ 8,891	
Marketing	6,020		4,339	
Repairs and maintenance	3,742		4,060	
Credit card fees	2,625		2,745	
Other	9,844		9,646	
Total store operating	$ 30,319	14.1%	$ 29,681	12.1%

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. Total store operating expenses increased 2.1% or $0.6 million to $30.3 million for the 40 week period ended October 5, 2010 compared to $29.7 million for the prior year period. The $0.6 million increase in total store operating expenses was primarily attributable to increased marketing spending and other store operating expenses partially offset by reductions in utilities.

Utilities expense decreased by 9.0% to $8.1 million for the 40 week period ended October 5, 2010 compared to $8.9 million for the prior year period. The $0.8 million decrease in utilities expense was primarily attributable to a decrease in the net number of Company Stores operating compared to the prior year period.

Marketing expenses increased by 38.7% to $6.0 million for the 40 week period ended October 5, 2010 compared to $4.3 million for the prior year period. The $1.7 million increase in marketing expenses was primarily attributable to increased promotional spending compared to the prior year period.

Repairs and maintenance expense decreased by 7.8% to $3.7 million for the 40 week period ended October 5, 2010 compared to $4.1 million compared to the prior year period. This $0.4 million decrease was primarily attributable to a decrease in the net number of Company Stores operating compared to the prior year period, partially offset by equipment refreshes.

Credit card fees decreased by 4.4% to $2.6 million for the 40 week period ended October 5, 2010 compared to $2.7 million for the prior year period. The $0.1 million decrease in credit card fees was primarily attributable to a decrease in the net number of Company Stores operating compared to the prior year period and a decrease in Company Store comparable sales.

Other store operating expenses increased by 2.1% to $9.8 million for the 40 week period ended October 5, 2010 compared to $9.6 million for the prior year period. The $0.2 million increase in other store operating expenses was primarily attributable to increases in point of sale system maintenance costs, software hosting fees, and contract services, partially offset by a net decrease in the number of Company Stores operating compared to the prior year period.

As a percentage of Company Store revenue, store operating expenses increased to 14.1% for the 40 week period ended October 5, 2010 compared to 12.1% in the prior year period, which was primarily attributable to factors described above and deleverage resulting from a decrease in Company Store comparable sales.

Depreciation and amortization

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Depreciation and amortization	$ 11,509	5.2%	$ 14,397	5.7%

Table of Contents

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. Depreciation and amortization decreased $2.9 million or 20.1% to $11.5 million for the 40 week period ended October 5, 2010 compared to $14.4 million for the prior year period. As a percentage of total revenue, depreciation and amortization decreased to 5.2% for the 40 week period ended October 5, 2010 compared to 5.7% in the prior year period. The $2.9 million decrease and the decrease as a percentage of total revenue is primarily attributable to a net decrease in Company Stores operating since the prior year period and impairment charges for certain stores taken during fiscal 2009.

General and administrative

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Wages and payroll related	$ 16,234		$ 17,463	
Outside and contract services	3,239		3,018	
Accounting and legal fees	2,383		2,065	
Travel and travel-related	1,796		1,825	
Share-based compensation	1,039		1,231	
Other	3,634		3,145	
Total general and administrative	$ 28,325	12.8%	$ 28,747	11.5%

General and administrative (G&A) expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, accounting and legal fees, outside and contract services, travel and travel-related expenses, share-based compensation and other. Total G&A expenses decreased $0.4 million or 1.5% to $28.3 million compared to $28.7 million in the prior year period which was primarily attributable to charges to settle outstanding litigation, partially offset by decreases in wages and payroll related expenses and reclassification of costs associated with managing the system s procurement program into cost of sales.

Wages and payroll related expenses decreased by $1.3 million or 7.0% to $16.2 million for the 40 week period ended October 5, 2010 compared to $17.5 million for the prior year period. The $1.3 million decrease in wages and payroll related expenses was primarily attributable to decreased field support personnel expenses as a result of a net decrease in Company Stores operating since the prior year period.

Outside and contract services increased by $0.2 million or 7.3% to $3.2 million for the 40 week period ended October 5, 2010 compared to $3.0 million for the prior year period. The $0.2 million increase in outside and contract services was primarily attributable to costs associated with increased spending on Company initiatives.

Accounting and legal fees increased by $0.3 million to $2.4 million for the 40 week period ended October 5, 2010 compared to $2.1 million for the prior year period. The $0.3 million increase was primarily attributable to legal costs associated with new initiatives and litigation.

Travel and travel-related expenses was relatively flat for the 40 week period ended October 5, 2010 at $1.8 million compared to the prior year period. Travel and travel-related expenses resulted from travel to support company initiatives including franchising, refranchising, licensing, offsite sales and international expansion, partially offset by lower field headcount.

Shared-based compensation decreased $0.2 million to $1.0 million for the 40 week period ended October 5, 2010 compared to $1.2 million for the prior year period. This $0.2 million decrease was due primarily to a decrease in the number of options granted as compared to the prior year period, partially offset by an increase in the fair value of options granted.

Other G&A expenses increased by $0.5 million or 15.5% to $3.6 million for the 40 week period ended October 5, 2010 compared to $3.1 million for the prior year period. The increase in other G&A expenses was primarily attributable to charges to settle outstanding litigation, partially offset by the reclassification of costs associated with managing our procurement program into cost of sales.

As a percentage of total revenue, total G&A expenses increased to 12.8% for the 40 week period ended October 5, 2010, compared to 11.5% for the prior year period. This increase in G&A expenses as a percentage of total revenue was primarily attributable to higher total G&A expenses driven by the factors noted above.

Table of Contents

Impairment of long-lived assets

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Impairment of long-lived assets	$ 2,293	1.0%	$ 11,107	4.4%

Long-lived assets are reviewed for impairment when indicators of impairment are present. Expected future cash flows associated with an asset, in addition to other quantitative and qualitative analyses, including certain assumptions about expected future operating performance and changes in economic conditions are the key factors in determining undiscounted future cash flows. If the sum of the undiscounted cash flows is less than the carrying value of the asset, we recognize an impairment loss equal to the amount by which the carrying value exceeds the fair value of the asset.

We recorded long-lived asset impairment expense of $2.3 million for the 40 week period ended October 5, 2010 compared to $11.1 million for the prior year period. The decrease in impairment charges relate primarily to the decrease in the number of impaired stores, partially offset by impairment recorded for long-lived assets that the Company intends to refranchise where the carrying amount exceeds the selling price.

Other operating, net

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
(Gain) loss on disposals	$ (343)		$ 352	
Other	1,424		(40)	
Total other operating, net	$ 1,081	0.5%	$ 312	0.1%

Other operating, net consist primarily of refranchise-related expense, pre-opening expense, gains and losses on disposals, amortization of jambacard liability and income from jambacard breakage. Other operating, net increased $0.8 million to $1.1 million income for the 40 week period ended October 5, 2010 compared to $0.3 million expense for the prior year period.

Gain on disposals increased to $0.3 million for the 12 week period ended October 5, 2010 compared to a loss of $0.4 million in the prior year period. The $0.7 million variance was primarily attributable to a $1.8 million gain on the sale of assets related to our refranchising program, partially offset by loss from disposals of property and equipment.

As a percentage of total revenue, other operating, net were 0.5% for the 12 week period ended October 5, 2010 as compared to 0.1 % in the prior year period, driven by the factors noted above.

Gain from derivative liabilities

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Gain from derivative liabilities	$	0.0%	$ 1,597	0.6%

No gain from derivative liabilities was recorded for the 40 week period ended October 5, 2010 compared to a gain of $1.6 million for the prior year period. No gain or loss from derivative liabilities was recorded as the warrants that were classified as derivative liabilities have expired and no gain or loss was recorded for the change in the fair value of our Put and Call Right issued in connection with the issuance of our Senior Notes because it was exercised during the second fiscal quarter of 2009.

Interest income

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Interest income	$ 59	0.0%	$ 384	0.2%

Interest income for the 40 week period ended October 5, 2010 decreased to approximately $0.1 million compared to approximately $0.4 million from the prior year period due primarily to decreases in interest rates.

Interest expense

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Interest expense	$ (434)	(0.1)%	$ (6,920)	(2.8)%

Interest expense for the 40 week period ended October 5, 2010 decreased to $0.4 million compared to $6.9 million for the prior year period due primarily to repayment of the previously outstanding Senior Notes (see Note 4 to our financial statements).

Income tax expense

(in 000 s)

	40 Week Period Ended October 5, 2010	% of Total Revenue	40 Week Period Ended October 6, 2009	% of Total Revenue
Income tax (expense) benefit	$ (200)	(0.1)%	$ 462	0.2%

We recorded a tax expense of $0.2 million for the 40 week period ended October 5, 2010. The Company s effective tax rate was (4.7)% for the 40 week period ended October 5, 2010. The effective tax rate is affected by pretax loss, a change in the valuation allowance related to deductible temporary differences originating during the current year and $165,000 of foreign taxes withheld related to a development agreement in South Korea.

Our effective tax benefit rate was 3.5% for the 40 week period ended October 6, 2009. Our prior year tax rate was affected by pretax income or loss, a change in the valuation allowance related to deductible temporary differences originating during the current year and the reversal of previously unrecognized tax benefits. During the 40 week period ended October 6, 2009, approximately $0.5 million of previously unrecognized tax benefits were reversed due to the expiration of the statute of limitations.

KEY FINANCIAL METRICS AND NON-GAAP MEASURES

Management reviews and discusses its operations based on both financial and non-financial metrics. Among the key financial metrics upon which management focuses is reviewing its performance based on the Company s consolidated GAAP results, including Company Store comparable sales. Management also uses certain supplemental, non-GAAP financial metrics in evaluating financial results, including Store-level EBITDA and Consolidated EBITDA .

Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least 13 full fiscal periods.

Consolidated EBITDA is equal to net income or loss less: (a) gain from derivative liabilities (b) interest income; (c) interest expense; (d) income taxes; (e) depreciation and amortization; (f) impairment of long-lived assets; and (g) other operating, net.

Our definition of Store-level EBITDA is different from Consolidated EBITDA because we further adjust net income or loss to exclude general and administrative expenses.

Management uses Consolidated EBITDA and Store-level EBITDA: (i) as measurements of operating performance because they assist us in comparing our operating performance on a consistent basis as they remove the impact of items not directly resulting from our Company Store operations; (ii) for planning purposes, including the preparation of our internal annual operating budget; and (iii) as measurements in assessing the performance of existing store operating income and comparative operating performance.

Consolidated EBITDA and Store-level EBITDA are not measurements determined in accordance with GAAP and should not be considered in isolation or as an alternative to income (loss) from operations or net income (loss) as indicators of financial performance. Each non-GAAP financial measure used as presented may not be comparable to other similarly titled measures used by other companies. For a reconciliation of net income (loss) to these non-GAAP financial measures, see the discussion and related tables below.

29

Table of Contents

Consolidated EBITDA and Store-level EBITDA: (a) do not represent net income or cash flows from operating activities as defined by GAAP; (b) are not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as alternatives to net income, operating income, cash flows from operating activities or our other financial information as determined under GAAP.

Consolidated EBITDA was $5.3 million for the 12 week period ended October 5, 2010 as compared to $7.0 million in the prior year period. Store-level EBITDA was $13.4 million for the 12 week period ended October 5, 2010 as compared to $15.9 million for the prior year period. Consolidated EBITDA was $11.0 million for the 40 week period ended October 5, 2010 as compared to $17.7 million in the prior year period. Store-level EBITDA was $39.3 million for the 40 week period ended October 5, 2010 as compared to $46.5 million for the prior year period. A reconciliation of Consolidated EBITDA and Store-level EBITDA for the 12 week and 40 week periods ended October 5, 2010 and October 6, 2009 to net income (loss) follows:

(Dollars in thousands)

	12 Week Period Ended		40 week Period Ended	
	October 5, 2010	October 6, 2009	October 5, 2010	October 6, 2009
Net (loss) income	$ (768)	$ 2,766	$ (4,440)	$ (12,561)
Gain from derivative liabilities				(1,597)
Interest income	(21)	(21)	(59)	(384)
Interest expense	145	320	434	6,920
Income tax expense (benefit)	174	(495)	200	(462)
Depreciation and amortization	3,085	3,943	11,509	14,397
Impairment of long-lived assets		532	2,293	11,107
Other operating, net	2,655	3	1,081	312
Consolidated EBITDA	$ 5,270	$ 7,048	$ 11,018	$ 17,732
General and administrative	8,087	8,839	28,325	28,747
Store-level EBITDA	$ 13,357	$ 15,887	$ 39,343	$ 46,479

The following table sets forth operating data that do not otherwise appear in our consolidated financial statements as of and for the 40 week periods ended October 5, 2010 and October 6, 2009:

	40 week Period Ended	
	October 5, 2010	October 6, 2009
Percentage change in Company Store comparable sales [1]	(2.8)%	(11.2)%
Total Company Stores	378	488
Total Franchise Stores	364	254
Total Stores	742	742

(1) Percentage change in Company Store comparable sales compares the sales of Company Stores during a 40 week period in 2010 to the sales from the same Company Stores for the equivalent period in the prior year. A Company Store is included in this calculation after its full fiscal year of operations. Sales from franchised stores are not included in the Company Store comparable sales.

The following table sets forth certain data relating to Company Stores and Franchise Stores as of the dates indicated:

	October 5, 2010	October 6, 2009
Company Stores:		
Beginning of fiscal year	478	511
Company Stores opened	1	1
Company Stores closed	(13)	(5)
Company Stores sold to franchisees	(88)	(19)
Total Company Stores	378	488
Franchise Stores:		
Beginning of fiscal year	261	218
Franchise Stores opened	18	22
Franchise Stores closed	(3)	(5)
Franchise Stores purchased from Company	88	19
Total Franchise Stores	364	254

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows Summary

The following table summarizes our cash flows for the 40 week periods ended October 5, 2010 and October 6, 2009 (in thousands):

	40 Week Period Ended October 5, 2010	40 Week Period Ended October 6, 2009
Net cash provided by operating activities	$ 5,406	$ 9,731
Net cash provided by (used in) investing activities	3,989	(4,444)
Net cash (used in) provided by financing activities	(1,937)	3,312
Net increase in cash and cash equivalents	$ 7,458	$ 8,599

Operating Activities

In the 40 week period ended October 5, 2010, net cash provided by operating activities was approximately $5.4 million, compared with net cash provided by operating activities of approximately $9.7 million in the 40 week period ended October 6, 2009. The decrease in net cash provided by operating activities for the 40 week period ended October 5, 2010 as compared to the 40 week period ended October 6, 2009 primarily resulted from net increases in working capital, combined with the Company s net loss excluding share-based compensation, depreciation and amortization, impairment of long-lived assets and other non-cash items.

Investing Activities

In the 40 week period ended October 5, 2010, net cash provided by investing activities was approximately $4.0 million compared with net cash used in investing activities of approximately $4.4 million in the prior year period. Cash provided by investing activities for the 40 week period ended October 5, 2010 resulted from $12.5 million in proceeds from the sale of our Company Stores pursuant to the refranchising initiative. These cash increases were offset by capital expenditures of $8.2 million and other expenditures of $0.2 million in the current period.

Cash used in investing activities in the prior year period resulted from capital expenditures of $8.5 million, partially offset by a $3.0 million reduction in restricted cash and $1.1 million in proceeds from the sale of our Company Stores.

Capital expenditures are used for funding Company Store refurbishments, the opening of new Company Stores, investing in new equipment to support expanding our food and beverage capabilities and upgrading our information technology systems. Capital expenditures for the 40 week period ended October 5, 2010 total approximately $8.2 million as compared to approximately $8.5 million for the prior year period. In fiscal 2010, we expect capital expenditures to be between $9 million to $11 million depending on our liquidity. During the 40 week period ended October 5, 2010, we opened one new Company Store. We expect to open less than five new Company Stores as we focus our growth on franchise development.

Financing Activities

In the 40 week period ended October 5, 2010, net cash used in financing activities was $1.9 million, compared with net cash provided by financing activities of $3.3 million in the prior year period. Cash used in financing activities for the 40 week period ended October 5, 2010 resulted primarily from preferred stock dividend payments of $1.8 million, cash paid for our capital leases of $0.2 million, partially offset by cash received from stock option exercises of $0.1 million.

In the 40 week period ended October 6, 2009, net cash provided by financing activities was $3.3 million. Cash provided by financing activities for the 40 week period ended October 6, 2009 resulted primarily from net proceeds of our issuance of redeemable preferred stock of $34.1 million, partially offset by the payoff of our Senior Notes of $25.0 million principal plus accrued interest, the exercise of an outstanding put option which required us to repurchase two million shares of our outstanding common stock for $3.0 million, transaction costs paid in connection with the issuance of our preferred stock of $1.9 million, preferred stock dividend payments of $0.7 million and $0.2 million in capital lease payments.

Capital Resources

As of October 5, 2010, we had cash and cash equivalents of $36.2 million compared to $28.8 million as of December 29, 2009. Our primary sources of liquidity are the remaining cash on hand resulting from the issuance of the Series B Preferred Stock, cash flows provided by operating activities and proceeds from refranchising transactions. As of October 5, 2010, we held $2.3 million in restricted cash which represented cash held in money market accounts or certificates of deposit to collateralize our letters of credit and restricted cash held in the Company s advertising fund.

On May 28, 2009, we announced the launch of a refranchising program that is expected to involve as many as 150 Company Stores primarily located outside of California to existing or prospective franchisees. As of October 5, 2010, the Company has sold a total of 115 stores for an aggregate gross selling price of $18.5 million since the inception of its refranchising initiative. We expect the sale of Company Stores to generate additional cash which we intend to use to fund future growth initiatives and for working capital.

Our primary liquidity and capital requirements are for working capital, general corporate needs and the fiscal 2010 capital expenditures described above. We expect that our primary sources of liquidity will be sufficient to fund working capital, general corporate needs and the non-discretionary capital expenditures for the foreseeable future. The use of cash to fund discretionary capital expenditures will be based on the need to conserve our capital.

The adequacy of our available funds will depend on many factors, including the macroeconomic environment, the operating performance of our Company Stores, the successful expansion of our franchise and licensing programs and the successful rollout and consumer acceptance of our food initiatives.

Contractual Obligations

There have been no significant changes to our contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 29, 2009, except as noted in our Quarterly Report on Form 10-Q for the period ended April 20, 2010.

COMMODITY PRICES, AVAILABILITY AND GENERAL RISK CONDITIONS

We contract for significant amounts of instant quick freeze fruit, fruit concentrate and dairy products to support the needs of both our Company Stores and franchise stores. The price and availability of these commodities directly impacts our results of operations and can be expected to impact our future results of operations.

SEASONALITY AND QUARTERLY RESULTS

Our business is subject to seasonal fluctuations. We expect to realize significant portions of our revenue during the second and third quarters of the fiscal year, which align with the warmer summer season. In addition, quarterly results are affected by the timing of the opening of new stores and weather conditions. However, geographic diversification of our store locations may conceal or diminish the financial statement impact of such seasonal influences. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year or any subsequent quarter.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that we are required to make in order to prepare the financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. There have been no significant changes to the policies and estimates as discussed in our Annual Report on Form 10-K for the year ended December 29, 2009.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the financial and commodity markets.

We purchase fruit based on short-term seasonal pricing agreements. These short-term agreements generally set the price of procured frozen fruit and 100% fruit juice concentrates for less than one year based on estimated annual requirements. In order to mitigate the effects of price changes in any one commodity on our cost structure, we contract with multiple suppliers both domestically and internationally. These agreements typically set the price for some or all of our estimated annual fruit requirements, protecting us from short-term volatility. Nevertheless, these agreements typically contain a *force majeure* clause, which, if utilized (such as when hurricanes in 2004 destroyed the Florida orange crop and more recently with the freeze that affected California citrus), may subject us to significant price increases.

Our pricing philosophy is not to attempt to change consumer prices with every move up or down of the commodity market, but to take a longer term view of managing margins and the value perception of our products in the eyes of our customers. Management s objective is to maximize our revenue through increased customer frequency. However, management has the ability to increase certain menu prices in response to food commodity prices.

We do not purchase derivative instruments on the open market. We are also subject to changes in the risk free interest rate in connection with the cash we hold in interest bearing accounts.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We carried out an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of October 5, 2010.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended October 5, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is party to various legal proceedings arising in the ordinary course of its business. Based on the information currently available, the Company is not currently a party to any legal proceeding that management believes would have a material adverse effect on the consolidated financial position or results of operations of the Company.

Item 1A. Risk Factors

The Company s risk factors are included in the Company s Annual Report on Form 10-K for the fiscal year ended December 29, 2009 and have not materially changed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Bylaws	Form 8-K	001-32552	3.1	August 17, 2010	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X

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, on the 10th day of November, 2010.

JAMBA, INC.

By: /s/ JAMES D. WHITE
James D. White
Chairman of the Board, Chief Executive Officer and President (Duly Authorized Officer)

By: /s/ KAREN L. LUEY
Karen L. Luey
Chief Financial Officer and Senior Vice President
(Principal Financial Officer and Chief Accounting Officer)