

**EXHIBIT J**  
**FINANCIAL STATEMENTS**

**THESE FINANCIAL STATEMENTS ARE PREPARED WITHOUT  
AN AUDIT. PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES  
SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAD  
AUDITED THESE FIGURES OR EXPRESSED HIS/HER OPINION WITH  
REGARD TO THE CONTENT OR FORM.**

**JAMBA JUICE COMPANY AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 29, 2004 AND JUNE 24, 2003**

(In thousands, except for share data)

	2004	2003
<b>Assets</b>		
Current Assets:	\$ 3,110	\$ 8,531
Cash and cash equivalents		
Notes and accounts receivable, net of allowances of \$65 and \$133, respectively	1,142	1,345
Inventories	1,880	1,735
Deferred income taxes	1,125	1,125
Prepaid expenses and other current assets	656	484
Total current assets	<u>7,913</u>	<u>13,220</u>
Property, fixtures and equipment, net	45,254	33,372
Goodwill	3,801	2,663
Other intangible assets, net	1,056	1,105
Other long-term assets	4,421	1,087
Total assets	<u>\$ 62,445</u>	<u>\$ 51,447</u>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:	\$ 7,416	\$ 4,656
Accounts payable	8,016	6,318
Accrued compensation and benefits	7,455	4,482
Accrued store value cards	1,616	3,460
Current portion of litigation settlement and other notes payable	2,043	2,664
Other accrued expenses	26,546	21,580
Total current liabilities		
Deferred franchise revenues	1,045	1,143
Line of credit note payable	3,250	5,000
Litigation settlement payable	1,564	2,090
Deferred rent and other long-term liabilities	3,509	3,327
Commitments and contingencies	-	-
Convertible Redeemable Preferred Stock:		
No par value, 30,000,000 shares authorized. Redemption value at June 29, 2004 is \$51,269; Shares issued and outstanding at June 24, 2003: Series A, 3,000,000; Series B, 2,250,053; Series C, 7,415,206; Series D, 10,028,905; Series E, 2,482,726	49,573	49,573
Common Stockholders' Deficit:		
Common stock, no par value, 50,000,000 shares authorized, 10,315,311 and 10,239,210 shares issued and outstanding, respectively	101	100
Additional paid-in-capital	11,054	10,923
Notes receivable from sale of stock	-	(110)
Accumulated deficit	(34,197)	(42,179)
Total common stockholders' deficit	<u>(23,042)</u>	<u>(31,266)</u>
Total liabilities and stockholders' equity	<u>\$ 62,445</u>	<u>\$ 51,447</u>

See notes to consolidated financial statements.

**JAMBA JUICE COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED JUNE 30, 2004, 2003 AND 2002**  
(in thousands)

	2004	2003
<b>REVENUES:</b>		
Company stores	165,856	129,960
Franchise revenue	8,933	6,025
Total revenue	<u>174,789</u>	<u>135,985</u>
<b>OPERATING EXPENSES:</b>		
Cost of sales and related occupancy costs	55,037	44,037
Store operating expense	71,733	54,416
Other operating expense	6,167	4,152
Depreciation and amortization	7,592	7,442
General and administrative expense	22,583	17,616
Store pre-opening expense	1,767	684
Asset impairment and loss on disposals	1,552	1,615
Legal costs	(36)	5,084
Total expenses	<u>166,395</u>	<u>135,045</u>
<b>INCOME FROM OPERATIONS</b>	8,394	940
Interest expense, net	484	317
<b>NET INCOME BEFORE INCOME TAX</b>	7,910	623
Income tax expense / (benefit)	(71)	622
Deferred income tax benefit	-	(1,125)
Income tax expense	<u>(71)</u>	<u>(503)</u>
<b>NET INCOME</b>	<u><u>7,982</u></u>	<u><u>1,126</u></u>

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**JAMBA JUICE COMPANY AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2004, 2003 AND 2002**

	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	\$ 7,982	\$ 1,127	\$ 2,120
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	7,592	7,442	6,706
Loss on asset impairment, store closures and disposals	1,536	1,615	701
Deferred rent	190	194	614
Deferred income taxes	-	(1,125)	-
Changes in operating assets and liabilities:			
Notes and accounts receivable, net of allowance	203	(575)	(20)
Inventories	(92)	(602)	130
Prepaid expenses and other current assets	(172)	(8)	(352)
Other long-term assets	(5,286)	(125)	226
Accounts payable	2,760	(60)	555
Accrued compensation and benefits	1,698	82	1,910
Accrued store value cards	2,973	1,656	1,036
Litigation settlement payable	(3,326)	4,550	-
Accrued expenses and other liabilities	(777)	278	(351)
Deferred franchise revenues	56	(3)	(57)
Net cash provided by operating activities	<u>15,338</u>	<u>14,446</u>	<u>13,218</u>
Cash flows from investing activities:			
Capital expenditures	(19,226)	(10,098)	(4,485)
Cash paid in acquisitions	13	(922)	(640)
Proceeds from sale of stores	-	-	278
Net cash used in investing activities	<u>(19,213)</u>	<u>(11,020)</u>	<u>(4,847)</u>
Cash flows from financing activities:			
Net proceeds from preferred stock offering	-	-	4,623
Proceeds from exercise of stock options and other	242	276	153
Borrowings on debt facilities	4,500	-	-
Payments on notes and capital lease obligations	(6,288)	(634)	(11,669)
Net cash provided by (used in) financing activities	<u>(1,546)</u>	<u>(358)</u>	<u>(6,893)</u>
Increase in cash and cash equivalents	(5,421)	3,068	1,478
Cash and cash equivalents, beginning of year	8,531	5,463	3,985
Cash and cash equivalents, end of year	<u>\$ 3,110</u>	<u>\$ 8,531</u>	<u>\$ 5,463</u>

**JAMBA JUICE COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' DEFICIT  
FISCAL YEARS ENDED JUNE 29, 2004, JUNE 24, 2003, AND JUNE 25, 2002**

(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Notes Receivable From Stock Sales	Accumulated Deficit	Total Common Stockholders' Deficit
Balance at June 27, 2001	9,947,315	97	9,713	(121)	(45,426)	(35,737)
Issuance of common stock	78,059	1	73	-	-	74
Warrants issued	-	-	968	-	-	968
Other	-	-	79	9	-	88
Net income	-	-	-	-	2,120	2,120
Balance at June 25, 2002	10,025,374	98	10,833	(112)	(43,306)	(32,487)
Issuance of common stock	287,084	3	272	-	-	275
Cancellation of previously issued shares and other	(73,248)	(1)	(182)	2	-	(181)
Net income	-	-	-	-	1,127	1,127
Balance at June 24, 2003	10,239,210	100	10,923	(110)	(42,179)	(31,266)
Issuance of common stock	76,101	1	122	-	-	123
Other	-	-	9	-	-	9
Repayment of note receivable	-	-	-	110	-	110
Net income	-	-	-	-	7,982	7,982
Balance at June 29, 2004	10,315,311	101	\$ 11,054	\$ -	\$ (34,197)	\$ (23,042)

See notes to consolidated financial statements.

**JAMBA JUICE COMPANY  
AND SUBSIDIARY**

**Consolidated Financial Statements as of June 25,  
2002 and June 26, 2001 and for Each of the Three  
Fiscal Years in the Period Ended June 25, 2002  
and Independent Auditors' Report**

# JAMBA JUICE COMPANY AND SUBSIDIARY

## TABLE OF CONTENTS

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	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 25, 2002 AND JUNE 26, 2001 AND FOR EACH OF THE THREE FISCAL YEARS IN THE PERIOD ENDED JUNE 25, 2002:	
Consolidated Balance Sheets	2
Consolidated Statements of Operations	3
Consolidated Statements of Common Stockholders' Deficit	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-21



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
Jamba Juice Company and Subsidiary

We have audited the accompanying consolidated balance sheets of Jamba Juice Company and subsidiary as of June 25, 2002 and June 26, 2001 and the related consolidated statements of operations, common stockholders' deficit, and cash flows for each of the three fiscal years in the period ended June 25, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Jamba Juice Company and subsidiary as of June 25, 2002 and June 26, 2001 and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 25, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, the Company is a defendant in litigation with its landlord regarding a lease dispute on its corporate headquarters, certain employees regarding overtime wages and certain franchisees on other issues.

*Deloitte & Touche LLP*

September 13, 2002

# JAMBA JUICE COMPANY AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS JUNE 25, 2002 AND JUNE 26, 2001 (In thousands, except share data)

	2002	2001
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>	<b>\$ 5,463</b>	<b>\$ 3,985</b>
Cash		
Notes and accounts receivable, net of allowances of \$1,187 and \$965, respectively	1,273	1,237
Inventories	1,127	1,254
Prepaid expenses and other current assets	477	128
Total current assets	8,340	6,604
PROPERTY, FIXTURES AND EQUIPMENT, Net	31,817	34,387
GOODWILL, Net	2,265	1,991
OTHER LONG-TERM ASSETS, Net	2,069	2,376
<b>TOTAL ASSETS</b>	<b>\$ 44,491</b>	<b>\$ 45,358</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>	<b>\$ 4,716</b>	<b>\$ 3,868</b>
Accounts payable	12,073	9,508
Accrued expenses	99	863
Current portion of convertible and other notes payable	134	1,328
Current portion of capital lease obligations	247	202
Current portion of deferred franchise revenues	17,269	15,769
Total current liabilities	-	107
CAPITAL LEASE OBLIGATIONS	1,405	1,462
DEFERRED FRANCHISE REVENUES	5,556	15,154
NOTES PAYABLE	3,175	2,685
DEFERRED RENT AND OTHER LONG-TERM LIABILITIES	-	-
COMMITMENTS AND CONTINGENCIES		
CONVERTIBLE REDEEMABLE PREFERRED STOCK - No par value, 30,000,000 shares authorized, redeemable beginning September 1, 2003 (See Note 12). Redemption value at June 25, 2002 is \$52,238: Shares issued and outstanding at June 25, 2002: Series A, 3,000,000; Series B, 2,250,053; Series C, 7,415,206; Series D, 10,028,905; Series E, 2,482,726	49,573	45,918
COMMON STOCKHOLDERS' DEFICIT:	98	97
Common stock, no par value, 50,000,000 shares authorized, 10,025,374 and 9,947,315 shares issued and outstanding, respectively	10,833	9,713
Additional paid-in-capital	(112)	(121)
Notes receivable from sale of stock	(43,306)	(45,426)
Accumulated deficit	(32,487)	(35,737)
Total common stockholders' deficit	(32,487)	(35,737)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 44,491</b>	<b>\$ 45,358</b>

See notes to consolidated financial statements.

# JAMBA JUICE COMPANY AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS FISCAL YEARS ENDED JUNE 25, 2002, JUNE 26, 2001 AND JUNE 27, 2000 (In thousands, except earnings (loss) per share)

	2002	2001	2000
REVENUES:			
Company stores	\$ 117,550	\$ 110,152	\$ 93,206
Other revenue	<u>3,661</u>	<u>3,690</u>	<u>3,687</u>
Total revenue	<u>121,211</u>	<u>113,842</u>	<u>96,893</u>
EXPENSES:			
Cost of sales and related occupancy costs	41,263	41,078	36,957
Store operating expense	46,610	44,449	34,505
Other operating expense	4,309	6,018	5,023
Depreciation and amortization	6,706	8,630	7,236
General and administrative expense	17,739	14,327	10,148
Store pre-opening expense	605	855	1,071
Asset impairment and (gain)/loss on disposals	701	20,050	(540)
Integration costs			900
Total expenses	<u>117,933</u>	<u>135,407</u>	<u>95,300</u>
INCOME (LOSS) FROM OPERATIONS	3,278	(21,565)	1,593
INTEREST EXPENSE, Net	<u>1,121</u>	<u>2,037</u>	<u>1,548</u>
INCOME (LOSS) BEFORE INCOME TAXES	2,157	(23,602)	45
INCOME TAX EXPENSE	<u>37</u>	<u>6</u>	<u>4</u>
NET INCOME (LOSS)	<u>\$ 2,120</u>	<u>\$ (23,608)</u>	<u>\$ 41</u>

See notes to consolidated financial statements.

## JAMBA JUICE COMPANY AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' DEFICIT FISCAL YEARS ENDED JUNE 25, 2002, JUNE 26, 2001 AND JUNE 27, 2000 (In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Notes Receivable from Stock Sales
	Shares	Amount		
BALANCE, June 29, 1999	8,253,414	\$ 80	\$ 8,857	\$ (135)
Issuance of common stock	953,049	9	297	
Warrants issued			114	
Payments on notes receivable from stock sales				5
Net income				
BALANCE, June 27, 2000	9,206,463	89	9,268	(130)
Issuance of common stock	740,852	8	298	
Warrants issued			147	
Payments on notes receivable from stock sales				9
Net loss				
BALANCE, June 26, 2001	9,947,315	97	9,713	(121)
Issuance of common stock	78,059	1	73	
Warrants issued			968	
Payments on notes receivable from stock sales				9
Other			79	
Net income				
BALANCE, June 25, 2002	<u>10,025,374</u>	<u>\$ 98</u>	<u>\$ 10,833</u>	<u>\$ (112)</u>

See notes to consolidated financial statements.

# JAMBA JUICE COMPANY AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS FISCAL YEARS ENDED JUNE 25, 2002, JUNE 26, 2001 AND JUNE 27, 2000 (In thousands)

	2002	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 2,120	\$ (23,608)	\$ 41
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	6,706	8,630	7,236
Asset impairment and (gain) loss on disposals	701	20,050	(540)
Deferred rents	614	311	47
Changes in assets and liabilities:			
Notes and accounts receivable, net of allowance	(20)	484	(779)
Inventories	130	(139)	(126)
Prepaid expenses and other current assets	(352)	283	76
Other long-term assets	316	473	(1,677)
Accounts payable	555	(1,230)	2,201
Accrued expenses	2,551	3,364	(1,936)
Deferred franchise revenues	(13)	(198)	(246)
	<u>13,308</u>	<u>8,420</u>	<u>4,297</u>
Net cash provided by operating activities			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(4,575)	(6,636)	(11,881)
Net cash received (paid) in acquisitions	(640)	(514)	4
Proceeds from sale of stores and other	278		800
	<u>(4,937)</u>	<u>(7,150)</u>	<u>(11,077)</u>
Net cash used in investing activities			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds from preferred stock offering	4,623		
Proceeds from exercise of stock options and other	153	305	306
Borrowings on debt facilities		7,500	15,500
Payments on notes and capital lease obligations	(11,669)	(6,094)	(12,016)
	<u>(6,893)</u>	<u>1,711</u>	<u>3,790</u>
Net cash provided by (used in) financing activities			
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,478</b>	<b>2,981</b>	<b>(2,990)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>3,985</u></b>	<b><u>1,004</u></b>	<b><u>3,994</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 5,463</u></b>	<b><u>\$ 3,985</u></b>	<b><u>\$ 1,004</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid for interest, net	\$ 1,212	\$ 1,980	\$ 1,523
Income taxes (received) paid, net	35	(59)	50
Investing and financing non-cash transactions:			
Debt assumed in connection with acquisitions		100	740
Capital lease obligations			125
Lease acquisition obligations			306
Warrants issued in connection with acquisitions		147	114

See notes to consolidated financial statements.

# JAMBA JUICE COMPANY AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FISCAL YEARS ENDED JUNE 30, 2002, 2001 AND 2000

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### 1. DESCRIPTION OF THE COMPANY AND ITS BUSINESS

**Business** - Jamba Juice Company and subsidiary (the "Company") operate fresh juice and smoothie stores which offer a wide variety of fresh blended-to-order smoothies, fresh squeezed juices, baked goods and snacks. At June 30, 2002 the Company operated 179 stores, franchisees and licensees operated 150 stores and 18 stores operated as joint ventures. Stores operate primarily in the western United States. The Company began operations in July 1991.

**Fiscal Year End** - The Company's fiscal year consists of 52 weeks and ends on the Tuesday preceding June 30. For convenience, all references herein to years are stated as years ended June 30.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** - The consolidated financial statements include the accounts of Jamba Juice Company and its wholly owned subsidiary, Zuka Juice, Inc. All significant intercompany balances and transactions have been eliminated.

**Certain Significant Estimates, Risks and Uncertainties** - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimated.

**Concentration** - One supplier provides for 86%, 70% and 76% of product included in cost of sales for fiscal years 2002, 2001 and 2000, respectively. The Company is dependent on this supplier. If this supplier had operational problems or ceased making product available to the Company, operations could be adversely affected.

**Inventories** - Inventories are stated at the lower of cost (first-in, first-out method) or market.

**Property, fixtures and equipment** - Property, fixtures and equipment are stated at cost less accumulated depreciation and amortization. The cost of fixtures and equipment held under capital leases is generally equal to the net present value of the minimum lease payments. Depreciation of property, fixtures and equipment, which includes depreciation of assets under capital leases, is calculated using the straight-line method over the estimated useful life of the asset generally ranging from five to seven years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term, which is generally ten years.

**Goodwill** - Goodwill resulting from business acquisitions represents the excess purchase price paid over net assets of businesses acquired and is amortized on a straight-line basis over the periods of expected benefit, which range from 5 to 20 years. Accumulated amortization was \$2,064,000 and \$1,801,000 as of June 30, 2002 and 2001, respectively. Amortization expense was \$263,000, \$875,000 and \$712,000 in 2002, 2001 and 2000, respectively.

**Impairment of Long-Lived Assets** - Asset impairments are recorded when the carrying value of assets are not recoverable. For purposes of recognizing and measuring impairment of long-lived assets, the Company categorizes assets of operating stores as "Assets to be Held and Used" and assets of stores that have been closed as "Assets to be Disposed Of". The Company evaluates assets at the store level because this is the lowest level of identifiable cash flows ascertainable to evaluate impairment. Assets being tested for recoverability at the store level include tangible long-lived assets, identifiable intangibles and allocable goodwill that arose in purchase business combinations.

The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the undiscounted expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss. Impairment losses are measured as the amount by which the carrying amount of assets exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset.

**Other Long-Term Assets, Net** - Other long-term assets, net include lease rights of \$818,000 and \$906,000 as of June 30, 2002 and 2001, respectively. Lease rights represent payments made to lessors to secure retail locations and are amortized on a straight-line basis over the initial lease term. Accumulated amortization was \$667,000 and \$589,000 as of June 30, 2002 and 2001, respectively.

**Deferred rent** - The Company's lease agreements generally provide for scheduled rent increases during the lease terms, or for rental payments commencing at a date other than the date of initial occupancy. Rent expense is recognized on a straight-line basis over the respective terms of the leases. The difference between the amount charged to operations and cash paid under the leases is recorded as deferred rent.

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

**Mezzanine Equity** - Convertible redeemable preferred stock is presented as mezzanine equity in the consolidated balance sheet in accordance with the rules and regulations of the Securities and Exchange Commission.

**Revenue Recognition** - Revenue from Company stores is recognized when product is sold. Generally, franchise royalties, determined as a percentage of sales, are recognized in the same year that related franchise store revenue is generated. If collection is doubtful, a receivable and an allowance are recorded without any revenue recognition. If collected, revenue is recognized at the time of collection. Initial franchise fees are recognized as income when substantially all of the initial services of the franchisor required by the franchise agreement have been performed and no other material conditions or obligations related to the determination of substantial performance exist. Area development fees are recognized ratably as the franchise stores open.

**Advertising Costs** - Advertising costs are expensed as incurred and were \$2,897,000, \$4,083,000 and \$3,559,000 in fiscal years 2002, 2001 and 2000, respectively.

**Store Pre-Opening Expenses** - Costs incurred in connection with start-up and promotion of new store openings are expensed as incurred.

**Income Taxes** - Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than changes in the tax law or rates. A valuation allowance is recorded when it is deemed more likely than not that a deferred tax asset will be not realized.

**Employee Stock Options** - The Company accounts for its employee stock options in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25. Required pro forma disclosures of compensation expense determined under the fair value method of Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, are presented in Note 15.

**Recent Accounting Pronouncements** - In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination and SFAS No. 142 addresses the initial recognition and measurement of intangibles assets acquired outside of a business combination whether acquired individually or with a group of other assets. SFAS No. 142 also addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. As a result of SFAS No. 142, goodwill will no longer be amortized but will be tested for impairment at least annually at the reporting unit level. Intangible assets are required also to be tested for impairment. Intangible assets with determinable useful lives will be amortized over their useful life and intangible assets with an indefinite useful life are not amortized until a determinable useful life is determined. SFAS No. 142 will become effective for the Company at the beginning of fiscal 2003. The Company has not completed its evaluation of the impact that the adoption of SFAS No. 142 will have on its financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." SFAS No. 144 will become effective for the Company at the beginning of fiscal 2003. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions relating to the disposal of a segment of a business of Accounting Principals Board Opinion No. 30. The company does not expect that the adoption of SFAS No. 144 will have significant impact on its financial statements.

In June 2002, the FASB issued SFAS no. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addressed accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally *Emerging Issues Task force Issue No. 94-3*, which stated that a liability for an exit cost should be recognized at the date of the Company's commitment to an exit plan. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The Company adopted SFAS 146 in fiscal 2002. The adoption did not have a material effect on the financial statements.

**Reclassifications** - Certain reclassifications of prior year balances have been made to conform to the fiscal year 2002 presentation.



### 3. BUSINESS COMBINATIONS

*Zuka Merger* - The Company incurred integration costs of \$900,000 in 2000 as part of the Zuka merger, which occurred in 1999. The costs included contractually obligated expenses to convert Zuka franchisee units to the Jamba Juice format and expenses associated with the Company's decision to cease operating Company-owned units in the greater Phoenix market as a result of the Zuka merger.

*Acquisition of Stores* - In 2002 and 2001 the Company acquired 7 stores from franchisees. Total consideration paid included \$1,392,000 cash, \$81,000 in other assets and 150,000 warrants. The acquisitions were accounted for using the purchase method and resulted in goodwill of \$979,000, which is being amortized over the remaining terms of the related store leases, which range from 7 to 10 years.

In July 1999 the Company acquired 5 stores in the Denver, Colorado area from Zuka Juice franchisees for \$755,000 plus the assumption of a \$125,000 capital lease obligation. The \$755,000 component of the purchase price consisted of \$740,000 in convertible promissory notes and \$15,000 in cash. The acquisition was accounted for using the purchase method and resulted in goodwill of \$236,000.

The operating results of stores acquired are included in the Consolidated Statement of Operations from the date of each acquisition.

### 4. AREA DEVELOPMENT AFFILIATIONS

The Company has entered into development and licensing agreements ("Agreements") with area developers and various individuals to develop units in certain geographic regions or venues. The Agreements generally stipulate that an aggregate of 223 units will be developed over 5 years with various renewal options. As of June 30, 2002, 91 units have been developed. The Company received \$4,201,000 in non-refundable fees related to these agreements of which \$1,652,000 and \$1,664,000 were included in deferred franchise revenue at June 30, 2002 and 2001, respectively. The Company also receives front-end franchise, royalty and marketing fees on the individual units developed. The Company is not required to contribute capital as a part of these Agreements.

### 5. PROPERTY, FIXTURES AND EQUIPMENT

Property, fixtures and equipment consisted of the following at June 30 (in thousands):

	2002	2001
Leasehold improvements	\$ 29,707	\$ 28,592
Furniture, fixtures and equipment	26,671	25,232
Construction in progress	809	212
Total	57,187	54,036
Less accumulated depreciation and amortization	25,370	19,649
Total	<u>\$ 31,817</u>	<u>\$ 34,387</u>

The cost of assets under capital lease agreements classified as furniture, fixtures and equipment was \$3,668,000 and \$3,791,000 as of June 30, 2002 and 2001, respectively. Accumulated amortization was \$2,034,000 and \$1,558,000 as of June 30, 2002 and 2001, respectively. The leases have an original term of up to 42 months. At the end of the initial lease term, the Company has the right to purchase all

of the leased assets or renew the leases for an additional term of up to 24 months.

#### 6. ASSET IMPAIRMENT AND (GAIN) LOSS ON DISPOSAL OF ASSETS

Impairment charges, store closure charges and (gain) loss on disposal of fixed assets consisted of the following:

	Jamba	Former Zuka	2002 Total	Jamba	Former Zuka	2001 Total	2000 Total Jamba
Goodwill impairment					\$ 10,485	\$ 10,485	
Fixed asset impairment	\$ 277	\$ 9	\$ 286	\$ 4,562	873	5,435	
Store closures	258	(33)	225	972	1,018	1,990	
(Gain) loss on disposal of other assets	<u>187</u>	<u>3</u>	<u>190</u>	<u>2,099</u>	<u>41</u>	<u>2,140</u>	<u>\$ (540)</u>
Total	<u>\$ 722</u>	<u>\$ (21)</u>	<u>\$ 701</u>	<u>\$ 7,633</u>	<u>\$ 12,417</u>	<u>\$ 20,050</u>	<u>\$ (540)</u>

#### *Impairment Charges*

*Acquired Zuka Assets* - On March 24, 1999 the Company merged with Zuka and also acquired the net assets of Juice Investments, LLC. In addition, in July 1999 the Company acquired 5 stores in the Denver, Colorado area from a Zuka Juice franchisee. Through June 30, 2002 the Company had closed 39 stores, including franchise locations, acquired in these transactions and expects to close at least 3 more stores during fiscal 2003 due to underperformance. This represents approximately 43% of stores and franchise royalty rights originally acquired. These stores are spread through all markets involved in this acquisition, which include Utah, Texas, Washington, Oregon, Arizona and Colorado. Based on these closures, the underperformance of the remaining stores and the failure of many franchisees to pay their contractual franchise royalties, the Company evaluated the remaining assets, including goodwill, related to the Zuka acquisition for impairment. The Company recorded non-cash charges of \$9,000 and \$11,358,000 in fiscal 2002 and 2001 to reduce the carrying values of these assets to the Company's estimates of fair value. At June 30, 2002, the acquired Zuka assets had a remaining carrying amount of \$562,000 and \$373,000 for goodwill and fixed assets, respectively.

*Jamba Fixed Assets* - In fiscal 2002 and 2001, due to declining market conditions, competition, insufficient occupancy rates in neighboring businesses, over-saturation of Company stores in certain markets, underperformance of soup assets and other factors, the Company recorded non-cash charges of \$277,000 and \$4,562,000 to write down a portion of the recorded asset values of 23 stores to their estimated fair values.

The impairment charges have been recorded pursuant to SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*. The Company performed a comprehensive review of recoverability of these long-lived assets held for use, including allocable goodwill, and impairment was recognized when the future undiscounted cash flows for each store were estimated to be insufficient to recover their related carrying values. Impairment losses were measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair values were based upon the Company's estimate of future discounted cash flows for each store. The Company considered several factors when estimating the future operating cash flows of the stores, including

quality of the local market and real estate, the store's historical cash flows, local competition, saturation of markets due to proximity of other stores, general economic conditions and other trends.

The Company continually considers the market conditions and changes occurring in its industry to evaluate the status of individual stores. Management believes that all necessary impairment adjustments have been recorded at June 30, 2002.

*Store Closures* - In 2002 and 2001, due to underperformance, the Company closed 4 and 12 stores, respectively. Management has approved the closure of an additional 4 stores to occur in fiscal 2003. The Company recorded charges related to store closure of \$225,000 and \$1,990,000 in 2002 and 2001, respectively. Of these charges \$98,000 and \$1,520,000 were non-cash. Net revenues for the stores that have closed and are identified for closure were \$1,753,000, \$2,649,000 and \$5,199,000 and net operating losses were \$262,000, \$1,461,000 and \$760,000 in fiscal 2002, 2001 and 2000, respectively.

*(Gain) Loss on Disposal of Other Assets* - The Company wrote off the net book value of certain technology assets, computer and other assets that were abandoned due to the implementation of new technology or that were no longer in use.

In 2002 and 2000, the Company sold a total of 1 and 2 stores, respectively, to former employees for \$275,000 and \$800,000 cash, respectively. These sales resulted in a loss of \$15,000 and a gain of \$589,000 in 2002 and 2000, respectively.

#### 7. OTHER LONG-TERM ASSETS, NET

Other long-term assets, net consisted of the following at June 30 (in thousands):

	2002	2001
Leasehold acquisition costs, net	\$ 818	\$ 907
Deposits, prepaid loan fees and other	801	869
Loan to officer	<u>450</u>	<u>600</u>
Total	<u>\$2,069</u>	<u>\$2,376</u>

In fiscal 2000 the Company made a loan to officer in the amount of \$750,000. The loan bears interest at 6.3% per annum and will be forgiven if the Officer remains with the Company for five years. The Company also agreed to reimburse the officer for taxes on income associated with the forgiveness. The loan and tax liability, which is equal to the amount of the loan, is being charged to expense on a pro rata basis over five years.

#### 8. LEASES

The Company leases its office, retail stores and some equipment under operating leases, with terms expiring through 2012. Most store leases contain renewal options of up to ten years and provide for payment of common area operating expenses and real estate taxes. Rental expense, net of sublease income, was \$9,471,000, \$8,919,000 and \$7,515,000 in 2002, 2001 and 2000, respectively.

The aggregate future minimum annual lease payments at June 30, 2002 were as follows (in thousands):

	Capital Leases	Operating Leases
Fiscal year ending:	\$ 139	\$ 9,672
2003	-	9,363
2004	-	8,794
2005	-	8,258
2006	-	6,739
2007	-	11,018
Thereafter	<u>139</u>	<u>\$ 53,844</u>
Total minimum lease commitments		
	(4)	
Less: executory costs	<u>(1)</u>	
Interest		
Present value of net minimum lease payments - current	<u>\$ 134</u>	

Future minimum lease payments under operating leases have not been reduced by minimum sublease rental income of approximately \$819,000.

#### 9. ACCRUED EXPENSES

Accrued expenses consisted of the following as of June 30 (in thousands):

	2002	2001
Accrued payroll and related	\$ 5,945	\$ 4,286
Gift certificate and promotional liabilities	2,826	1,790
Other accrued expenses	<u>3,302</u>	<u>3,432</u>
Total	<u>\$ 12,073</u>	<u>\$ 9,508</u>

#### 10. NOTES PAYABLE

On December 2, 1999 the Company obtained a four-year revolving line of credit ("Line") with a bank syndication group ("Bank") for an original principal amount of up to \$22,500,000 (\$15,000,000 as of June 30, 2002), which expires in December 2003. Borrowings under the Line are used for general working capital, capital expenditures and acquisitions and are limited by certain financial covenant-based borrowing formulas.

Borrowings bear interest at either the London Interbank Offering Rate ("LIBOR") plus a margin of 1.5% to 3.75% or a Base Rate (determined by certain base rates such as Prime, Federal Funds Effective Rate, or Base CD rate) plus a margin of 1% to 2.25%, depending on the Company's ratio of senior funded indebtedness to EBITDA (as defined by the Line). The weighted average interest rate was 4.22% as of June 30, 2002. In addition, the Company paid a facility fee upon execution of the Line and pays a quarterly commitment fee on the unused portion of the credit line. The Line is secured by substantially all of the assets of the Company and requires compliance with certain quarterly financial covenants, including certain leverage ratios, scheduled revolver commitment reductions, fixed charge

coverage ratios, maximum capital expenditures and minimum trailing EBITDA. The Line also includes limitations on certain additional indebtedness, loans, mergers, acquisitions, asset sales, capital expenditures and cash dividends.

As of June 30, 2002, the outstanding balance on the Line was \$5,500,000 and the availability on the Line was \$9,500,000.

The Company has entered into several notes payable agreements related to leasehold and store acquisitions. As of June 30, 2002 and 2001, the balance related to these notes was \$155,000 and \$1,017,000, respectively, with amounts payable in two to three years.

## 11. INCOME TAXES

The deferred tax asset (liability) consisted of the following temporary differences as of June 30 (in thousands):

	2002	2001
Net operating losses	\$ 6,151	\$ 7,502
Basis difference in fixed assets	3,270	3,790
Reserves and accruals	1,572	862
Deferred franchise revenues	1,964	1,539
Other	<u>68</u>	<u>470</u>
Total	13,025	14,163
Valuation allowance	<u>(13,025)</u>	<u>(14,163)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has established a \$13,025,000 valuation allowance as of June 30, 2002 due to the uncertainty of realizing future tax benefits from its net operating loss carryforwards and the realization of other net deferred tax assets.

As of June 30, 2002, the Company had net operating loss carryforwards for federal and state tax purposes of approximately \$17,704,000 and \$2,049,000, respectively, which begin to expire in 2008 for federal and 2002 for state. As of June 30, 2002, the Company had credit carryforwards for state tax purposes of approximately \$34,000, which are unlimited. In April 1997 and September 1995, the Company experienced ownership changes as defined in IRC section 382. As a result, \$7,620,000 of the federal net operating loss carryforward is subject to an annual utilization limitation of \$2,257,000. The remaining \$10,084,000 of net operating loss carryforward is not subject to a section 382 limitation.

## 12. CONVERTIBLE REDEEMABLE PREFERRED STOCK

From 1994 through 1997, the Company sold 3,000,000, 2,250,053, 7,415,206 and 10,028,905 shares of Series A, Series B, Series C and Series D convertible redeemable preferred stock ("Preferred Stock"), respectively, at prices of \$1.00, \$1.33, \$2.18 and \$2.50 per share, respectively, and received \$46 million in net proceeds.

On December 14, 2001 the Company sold 2,482,726 shares of Series E Preferred Stock and 2,482,726 warrants at a purchase price of \$2.00. The Series E Preferred Stock was valued at \$1.61 per share and warrants were valued at \$.39 per warrant. The warrant entitles the holder to purchase a 1/3 share of the Company's common stock at an exercise price of \$.75, or \$2.25 for each full share (the "Warrant"). The Warrants are exercisable for a period of 10 years following the issuance date of the Warrants and will be adjusted as needed to account for stock splits, combinations, reclassifications and reorganizations. Net proceeds from this offering were allocated to convertible redeemable preferred stock and additional paid in capital in the amounts of \$3,655,000 and \$968,000, respectively.

Upon completion of the Series E offering, the Company filed Amended Articles of Incorporation with the California Secretary of State. Upon this filing, Series A, B, C, D and E Preferred Stock have the following rights and preferences:

**Conversion** - All outstanding shares of Preferred Stock have the right to convert their shares into common stock at any time. At June 30, 2002 the conversion ratio is one for one for Series A and Series B Preferred Stock, 1.092 shares of common stock to one share of Series C Preferred Stock and 1.012 shares of common stock to one share of Series D Preferred Stock. Each share of Series E Preferred Stock initially will be convertible into one share of common stock. Under the anti-dilution provisions applicable to all shares of Series A, Series B, Series C, Series D and Series E Preferred Stock, the conversion price of all series will be subject to adjustment in the event of any stock split, dividend or combination or reclassification or reorganization of the Company's capital stock or completion of an initial public offering, under certain conditions. The conversion price of Preferred Stock also will be adjusted, upon the issuance of additional shares of common stock or warrants or rights to purchase common stock or securities convertible into common stock for per-share consideration that is less than the initial conversion price of the applicable series of Preferred Stock. The Company has reserved for issuance 31,739,000 common shares for conversion of Series A, B, C, D and E convertible preferred stock, stock options and warrants.

The conversion price of Preferred Stock will not be adjusted for issuances of common stock upon the exercise or conversion of presently outstanding securities, or on the future issuance of stock options to purchase up to 4,900,000 shares of common stock currently issued or available for issuance pursuant to the Company's stock option plan.

The Series A and Series B Preferred Stock convert automatically into common stock upon the earlier to occur of the completion of a public offering raising gross proceeds of \$10,000,000 or more and at an offering price per share of not less than \$6.50 or upon the written consent of the holders of at least a majority of the then outstanding shares of Series A and Series B, voting together as one class.

The Series C and Series E Preferred Stock convert automatically into common stock upon the earlier to occur of the completion of a public offering raising gross proceeds of \$10,000,000 or more and at an offering price per share greater than or equal to \$10.35 or upon the written consent of the holders of at least 2/3 of the Series C and 75% of the Series E shares then outstanding, voting as two separate classes.

The Series D Preferred Stock convert automatically into common stock upon the earliest to occur of the completion of a public offering raising gross proceeds of \$10,000,000 or more and at an offering price per share greater than or equal to \$10.35 or upon the written consent of the holders of at least a majority of the Series D shares then outstanding, voting as a single class.

**Dividend Preference** - The holders of Series A, Series B, Series C, Series D and Series E Preferred Stock are entitled, if and when declared by the Board of Directors, to non-cumulative dividends of \$0.10, \$0.133, \$0.21847, \$0.25 and \$0.20, respectively, per share per annum.

**Liquidation Preference** - In the event of a liquidation event (defined below), the holders of shares of the Series A, Series B, Series C, Series D and Series E then outstanding shall be entitled to be paid, out of the assets of the corporation available for distribution to its shareholders, whether from capital, surplus or earnings ("Available Assets"), before any payment shall be made in respect of the common stock, an amount equal to \$1.00 per share of Series A, \$1.33333 per share of Series B, \$2.1847 per share of Series C, \$2.50 per share of Series D and \$6.00 per share of Series E (in each case, adjusted for stock dividends, stock splits, stock combinations and the like), plus all declared and unpaid dividends thereon to the date fixed for distribution of assets (the "Liquidation Preference Amount"); provided, however, that if the amount of Available Assets is greater than the aggregate of the liquidation payment per share specified above plus all declared and unpaid dividends for all outstanding Series A, Series B, Series C, Series D and Series E, the Liquidation Preference Amount shall be zero. If upon a Liquidation Event, the Available Assets shall be insufficient to pay the holder of the Series A, Series B, Series C, Series D and Series E the full amount to which they shall be entitled, then the entire assets of the corporation legally available for distribution shall be distributed ratably among the holders of the Series A, Series B, Series C, Series D and Series E so that the per share amount distributed to each series constitutes the same percentage of the full per share Liquidation Preference Amount for each such series. Assets legally available for distribution are defined as (a) positive retained earnings after deducting redemptions and dividends or (b) certain net asset to certain net liability ratios as defined by Section 500 of the California Corporations Code. A liquidation, winding up, merger or consolidation of the corporation into or with another corporation in which the shareholders of the corporation shall own less than 50% of the voting securities of the surviving corporation, or the sale, transfer or lease (but not including a transfer or lease by pledge or mortgage to a bona fide lender) of all or substantially all of the assets of the corporation, shall be deemed to be a "Liquidation Event."

In the event of a Liquidation Event, after the distribution to holders of Series A, Series B, Series C, Series D and Series E in an amount equal to the Liquidation Preference Amount in accordance with the above, the remaining assets of the Corporation legally available for distribution, if any, to shareholders shall be distributed ratably to the holders of the Common Stock, the Series A, Series B, Series C, Series D and Series E then outstanding, with each share of Series A, Series B, Series C, Series D and Series E being treated for such purposes as if it had been converted into Common Stock at the then effective rate of conversion.

**Voting** - Each Series of Preferred Stock is entitled to the number of votes equal to the number of shares of common stock into which it could be converted, except that as long as 740,000 shares of Preferred Stock of any Series are outstanding, certain restrictions apply.

The holders of the Preferred Stock also have certain contractual rights. The contractual rights include certain demand and piggyback registration rights, certain rights of first refusal to maintain proportionate ownership interests in the Company, certain co-sale rights and certain rights to receive information related to the business. In the case of Series A, Series B, Series C and Series D Preferred Stock, all of the rights listed terminate upon the effective date of a registration statement under the Securities Act relating to an initial public offer of the Company's common stock made on a firm-commitment underwriting basis.

**Registration Rights** - The holders of at least 50% of the shares of registrable stock (any common stock issued or issuable upon conversion of the Series A, Series B, Series C, Series D and Series E Preferred Stock) who propose to dispose of at least 15% of such stock at an aggregate offering price to the public of not less than \$5 million may require that the Company, with certain limitations, effect a registration of the stock to be disposed of. In addition, the holders of the Company's Series E Preferred Stock are entitled to unlimited piggyback registration rights on registrations initiated by the Company, with certain limitations.

**Redemption** - Holders of a majority of shares of each of the Series A, Series B, Series C, Series D and Series E Preferred Stock may elect, at any time after September 1, 2003, to have the Company redeem all of the then-outstanding shares of the applicable Series at the original purchase price per share, plus all declared but unpaid dividends on each share from funds legally available for distribution. If there are insufficient funds to redeem the number of shares requested, then the Company shall redeem the maximum number of shares for which funds exist. As of June 30, 2002, funds legally available for distribution were zero.

**Co-Sale Rights and Rights of First Refusal** - The holders of the Series A and Series D Preferred Stock, and the holders of at least 100,000 shares of Series B and Series C Preferred Stock, have certain co-sale rights. Holders of Series E Preferred Stock will not have rights as Co-Sale Holders.

The holders of outstanding shares of Preferred Stock and warrants to purchase Preferred Stock have certain rights of first refusal. If the Company proposes to sell any shares of capital stock then the holders of the rights of first refusal shall have the opportunity to purchase on the same terms and conditions a pro rata share of those securities, with certain limitations. The right of first refusal does not apply to certain business combinations and certain other issuances.

### 13. NOTES RECEIVABLE FROM STOCK SALES

In 1998, the Company granted loans to certain employees to enable them to exercise stock options. As of June 30, 2002 and 2001, 374,000 shares had been purchased and the notes receivable balance related to these loans was \$112,000 and \$121,000, respectively, which is classified as part of Common Stockholders' Deficit on the balance sheets. The notes are full recourse promissory notes bearing interest at 6% per annum and are secured by the stock issued upon exercise of the stock options. Principal and interest are due upon the occurrence of a liquidation event of the Company.

### 14. STOCK OPTIONS

**Stock Options** - The Company maintains two stock option plans, the 1994 Stock Incentive Plan (the "1994 Plan") and the 2001 Equity Incentive Plan (the "2001 Plan"), which provide for granting incentive stock options and non-qualified stock options to employees and certain non-employee directors and consultants. The objectives of these plans include attracting and retaining the best personnel, providing performance incentives and promoting the success of the Company by providing employees the opportunity to acquire common stock. The 2001 Plan is the only plan with stock option awards available for grant; the 1994 plan has shares exercisable at June 30, 2002. Under the plans, the Company has reserved 7,600,000 shares of common stock and 150,000 shares of preferred stock for granting of stock options. Options are granted at an exercise price equal to or greater than the fair market value of the related common or preferred stock at the date of the grant. Options remaining under the 1994 plan generally vest over four years and are exercisable for up to ten years. Options remaining under the 2001 Plan generally vest 20% on the date of grant and 20% per year on the anniversary of the



grant thereafter. A summary of all stock option transactions for both plans is as follows as of June 30 (shares in thousands):

	Number of Options			Weighted Average Exercise Price		
	2002	2001	2000	2002	2001	2000
Options outstanding at beginning of fiscal year	3,956	4,602	4,222	\$ 3.06	\$ 2.43	\$ 1.10
Options granted	3,219	925	2,305	1.99	3.90	3.74
Options exercised	(78)	(747)	(959)	0.90	0.43	0.33
Options cancelled	<u>(2,433)</u>	<u>(824)</u>	<u>(966)</u>	<u>3.95</u>	<u>2.89</u>	<u>1.83</u>
Options outstanding at end of fiscal year	<u>4,664</u>	<u>3,956</u>	<u>4,602</u>	<u>\$ 1.89</u>	<u>\$ 3.06</u>	<u>\$ 2.43</u>
Options exercisable at end of fiscal year	<u>2,778</u>	<u>1,898</u>	<u>1,966</u>	<u>\$ 1.77</u>	<u>\$ 2.34</u>	<u>\$ 1.34</u>

Information on options outstanding and options exercisable at June 30, 2002 is as follows (shares in thousands):

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.20 - \$1.00	710	4.61	\$0.70	710	\$0.70
\$1.86 - \$1.95	3,110	9.87	1.93	1,451	1.94
\$2.25 - \$2.50	636	6.75	2.38	527	2.37
\$4.00	<u>208</u>	<u>8.16</u>	<u>4.00</u>	<u>90</u>	<u>4.00</u>
<u>\$0.20 - \$4.00</u>	<u>4,664</u>	<u>8.57</u>	<u>\$1.89</u>	<u>2,778</u>	<u>1.77</u>

**Stock Option Exchange Program** – In October 2001, the Jamba Juice Company Board of Directors approved a stock option exchange program. Under this program, all employees (including executive officers and outside directors) were given the opportunity to cancel one or more stock options previously granted to them in exchange for one or more new stock options to be granted at least six months and one day from the date the old options were cancelled, provided the individual was still employed or providing service on such date. The participation deadline for the program was December 21, 2001. Shares subject to the new options equaled the number of shares subject to the old options and the exercise price of the new options was the fair market value of the Company's common stock on the date they were granted. The options that were cancelled generally vested over 4 years; the new options vested 50% on the date of grant and 33% per year on the anniversary date of the grant thereafter. The exchange resulted in the voluntary cancellation of options to purchase approximately 2.2 million shares of common stock with an exercise price of \$4.00 per share. Approximately 1.9 million replacement options to purchase common stock were granted on June 25, 2002 at an exercise price of \$1.95 per share.

Stock options granted during the six month period prior to implementation of the option exchange program that were not canceled as part of the program are subject to variable plan accounting. During

the six months prior to implementation of the program, the Company granted approximately 513,000 options, at an average price of \$1.86 per option that are subject to variable plan accounting. Other stock options that are granted to participants of the program in the six months following implementation of the program will also be accounted for in this manner. 10,000 such options were granted at an average price of \$1.86 per option. Under variable plan accounting, the Company is required to record a non-cash compensation charge for the options until the options are exercised, forfeited or cancelled without replacement. The compensation charge will be based on any excess of the fair value of the stock at the end of the reporting period or date of exercise, forfeiture or cancellation without replacement, if earlier, over the exercise price of the related options. The resulting compensation charge to earnings will be recorded as the underlying options vest. Depending upon movements in the market value of the Company's common stock, this accounting treatment may result in significant compensation charges or credits in future periods. In 2002 the Company recorded a compensation charge of \$9,000 related to variable plan accounting.

**Additional Fair Value Information** - The Company has adopted the disclosure provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for the Company's stock option plan. If compensation cost for the Company's plan had been determined based on the fair value at the grant date for awards and consistent with the provisions of SFAS No. 123 the Company's net income (loss) for the fiscal years ended June 30 would have been adjusted to the pro forma amounts indicated below (in thousands):

	2002	2001	2000
Net income (loss) - as reported	\$ 2,120	\$ (23,608)	\$ 41
Net income (loss) - pro forma	2,337	(24,194)	(508)

The Company's valuations are based upon a multiple option valuation approach and forfeitures are recognized as they occur. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, such as expected life. The Company's employee stock options have characteristics significantly different from those of traded options and changes in the subjective input assumptions can materially affect the fair value estimate. As a result, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes multiple option pricing model. As provided by SFAS No. 123, the Company uses the minimum value method for options issued to employees in conjunction with employment service, which allows a 0% volatility assumption.

The following are the remaining weighted-average assumptions used in applying the Black-Scholes option pricing model:

	2002	2001	2000
Risk-free interest rate	3.79 %	5.11 %	6.20 %
Expected life after date of vest	3 years	3 years	2 years
Expected dividend yield	0 %	0 %	0 %

The estimated weighted-average fair value of options granted during the fiscal years ended June 30, 2002, 2001 and 2000, was \$0.01, \$0.01 and \$0.83, respectively.

## 15. WARRANTS

The Company has issued warrants in connection with a preferred stock offering, vendor agreements, acquisitions and debt financing. A summary of warrant activity as of June 30 is as follows (shares in thousands):

	Number of Warrants			Weighted Average Exercise Price		
	2002	2001	2000	2002	2001	2000
Warrants outstanding at beginning of fiscal year						
Common	897	747	687	\$ 2.94	\$ 2.73	\$ 2.62
Preferred	169	545	545	3.00	1.85	1.85
<b>Total</b>	<b>1,066</b>	<b>1,292</b>	<b>1,232</b>	<b>\$ 2.95</b>	<b>2.36</b>	<b>2.28</b>
Common warrants granted	827	150	60	-	4.00	4.00
Preferred warrants granted	25	-	-	2.00	-	-
Preferred warrants cancelled	(169)	(376)	-	3.00	1.33	0.00
Warrants outstanding at end of fiscal year						
Common	1,724	897	747	2.61	2.94	2.73
Preferred	25	169	545	2.00	3.00	1.85
<b>Total</b>	<b>1,749</b>	<b>1,066</b>	<b>1,292</b>	<b>\$ 2.60</b>	<b>\$ 2.95</b>	<b>\$ 2.36</b>
Warrants exercisable at end of fiscal year:						
Common	1,574	747	747	2.48	2.73	2.73
Preferred	25	141	483	2.00	3.00	1.70
<b>Total</b>	<b>1,599</b>	<b>888</b>	<b>1,230</b>	<b>\$ 2.47</b>	<b>\$ 2.77</b>	<b>\$ 2.33</b>

The weighted average remaining contractual life of preferred and common warrants is 9.5 and 6.3 years, respectively. The outstanding preferred warrants are 100% vested and the common warrants vest within 6 months of June 30, 2002.

## 16. EMPLOYEE BENEFIT PLAN

The Company maintains a voluntary defined contribution plan covering all eligible employees as defined in the plan documents. Eligible employees may elect to defer and contribute a percentage of their compensation to the plan, not to exceed the dollar amount set by law. At this time, the Company does not match the employees' contributions.

## 17. COMMITMENTS AND CONTINGENCIES

**Litigation with Landlord** – The Company is involved in litigation related to the lease (the "Lease") of its corporate headquarters in San Francisco, California (the "Premises.") In particular, the Company currently has a lawsuit pending with its landlord (the "Landlord"), relating both to the Premises and the premises next to the Company's corporate headquarters (the "Adjacent Premises"), which are also owned by the Landlord.

The disputes originated with the Landlord's refusal to consent to the assignment of the lease of the Adjacent Premises to the Company. Serazuki (the "Tenant") at the Adjacent Premises wanted to abandon the lease and the Company wanted to take an assignment of the lease. The Company also claimed a right to the Adjacent Premises under its lease with the Landlord.

The Landlord refused to consent to this assignment. The tenant of the Adjacent Premises then sued the Landlord as a result of this refusal. This claim was decided in favor of the Landlord in April of 2001. The Landlord sought indemnification from the Company against any claims and costs resulting from this lawsuit, claiming the Company was obligated to indemnify the Landlord under the lease for the Premises.

The Company filed suit against the Landlord for declaratory relief that it had no obligation to indemnify the Landlord. The Company also has additional claims, by which it seeks damages against the Landlord for (a) not consenting to the assignment of the Adjacent Premises to the Company; (b) not allowing the Company to exercise its contractual rights to the Adjacent Premises; and (c) other matters.

In a counter-claim filed by the Landlord, Landlord alleges that the Company had an obligation to indemnify him in connection with the lawsuit by the Tenant at the Adjacent Premises and that its failure to do so constitutes a default under the Lease and that the Lease is therefore terminated.

The Company recently went to trial on the declaratory relief claim (the Company dismissed its other claims at the start of trial) and Landlord's counterclaim. After trial, the Court rendered judgment in favor of Landlord, awarding him approximately \$1,100,000. As a result, and pending further adjudication, the Company may have additional liability for costs and attorneys' fees incurred in this matter in the approximate amount of additional \$1,100,000.

The Company filed an appeal at such time of the judgment and has obtained a stay of execution on the judgment pending resolution of the appeal. The Company believes it (a) has meritorious grounds to assert an appeal, and (b) may have potentially meritorious claims against Tenant for recovery of all or part of the judgment.

We are unable to determine whether the likelihood of an unfavorable outcome of the dispute is probable or remote. In the event the Company is not successful in its appeals or claims against Tenant, the maximum amount to be paid is estimated to be \$2,200,000.

The Landlord has filed a second action against the Company and its former counsel and against the Tenant. Landlord seeks damages of approximately \$18 million due to the alleged lost sale of the Premises, which Landlord blames on certain alleged misconduct by the Company and its former counsel in the first action described above. In this action, the Landlord seeks the same damages from the Company under the indemnity provisions of the Company's Lease and punitive damages of an unspecified amount.

The case is in its early stages, and no discovery has been undertaken as of yet. It is therefore not possible at this point to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of potential loss in the event of an unfavorable outcome. However, the Company believes it has meritorious defenses and intends to vigorously defend this matter. In the event the Company is not successful in defending this suit, the amount to be paid is estimated to be approximately \$18 million.

*Litigation with former employees* - There are three class action complaints against the Company alleging, generally, that the Company failed to pay overtime wages, in violation of Federal and California law, to current and former employees designated as "General Manager" and "Assistant General Manager." Generally, the Claimants are seeking unspecified general, special, compensatory and punitive damages and attorneys' fees and in one of the cases the Claimant is seeking a permanent injunction requiring the Company to pay overtime to all salaried store employees in California.

The cases are in their early stages, and no discovery has been undertaken as of yet. It is therefore not possible at this point to evaluate the likelihood of an unfavorable outcome or to estimate the amount or range of potential loss in the event of an unfavorable outcome.

*Oregon Franchisee Litigation* - The Claimants in this matter are Company franchisees that owned 4 stores in Portland, Oregon. Claimants were former franchisees of the Zuka Juice system. The suit charges that Claimants were defrauded by the Company and Zuka Juice employees ("Respondents") who sought Claimant's agreement to convert their restaurants from the Zuka Juice to the Jamba Juice concept in connection with the merger of Zuka Juice and Jamba Juice. Claimants charge that Respondents misrepresented that sales would increase as a result of converting to the Jamba Juice concept and falsely represented the level of support that would be provided in connection with the merger. The statement of claims sues for fraud, breach of the franchise agreements, violations of various state franchise and deceptive trade practice acts, negligence and gross negligence. Claimants seek damages of approximately \$2 million, which they claim would be the lost profits they would have earned had they not converted their stores from the Zuka Juice to the Jamba Juice concept. The Company has counter-sued for approximately \$180,000 in past due royalties.

A final arbitration hearing was held in San Francisco in August. A decision should be rendered by the end of November 2002. The Company has vigorously defended the claims. The Claimants signed releases at the time they converted to the Jamba Juice concept. Moreover, the information that serves as the basis for the claims are based on the best information available to Respondents and therefore should not be actionable. The Company's defenses appear strong and therefore the potential for losses should be minimal. In the event the Company is not successful in defending this suit, the amount to be paid is estimated to be approximately \$2 million.

The company is also a defendant in certain litigation arising in the normal course of business. In the opinion of management, the ultimate resolution of such litigation will not have a significant effect on the financial statements.

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