JONES SODA CO
Form 10QSB
August 12, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended June 30, 2005

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

For the Transition Period From __________ to __________

Commission File Number 0-28820

Jones Soda Co.

(Exact name of registrant as specified in its charter)

Washington	**91-1696175**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification Number)**
234 9th Avenue North	
Seattle, Washington 98109	**(206) 624-3357**
(Address of principal executive office)	**(Registrant s telephone number,**
	including area code)

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

As of June 30, 2005, the issuer had 21,433,346 shares of common stock outstanding.

Transitional Small Business Disclosure Format: Yes ¨ No x

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JONES SODA CO.

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EXPLANATORY NOTE

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

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This Report on Form 10-QSB contains a number of forward-looking statements that reflect management s current views and expectations with respect to our business, strategies, products, future results and events and financial performance. All statements made in this Report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to distributor channels, volume growth, revenues, profitability, new products, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward looking statements. In particular, the words believe, expect, intend, anticipate, estimate, may, will, variations of such words, and similar expres identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. Our actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated or implied by these forward-looking statements. We do not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

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

CURRENCY TRANSLATION

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

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PART I. FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

JONES SODA CO. AND SUBSIDIARIES

Consolidated Balance Sheets

(Expressed in U.S. dollars)

June 30, 2005 with comparative figures for December 31, 2004

	June 30, 2005 (Unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 50,810	$ 333,533
Accounts receivable	4,040,046	2,834,882
Inventory (note 3)	4,406,584	3,550,595
Prepaid expenses	244,354	399,779
	8,741,794	7,118,789
Capital assets	763,679	682,439
Intangible assets	49,306	49,444
	$ 9,554,779	$ 7,850,672
Liabilities and Shareholders Equity		
Current liabilities:		
Bank indebtedness	$	$ 480,285
Accounts payable and accrued liabilities	4,515,186	2,745,602
Current portion of capital lease obligations	116,478	63,549
Current portion of deferred revenue	52,273	50,000
	4,683,937	3,339,436
Capital lease obligations	148,040	113,509
Deferred revenue	25,000	50,000
Shareholders equity		
Common stock:		
Authorized: 100,000,000 common stock, no par value Issued and outstanding:		
21,433,346 common shares (2004 20,956,346)	12,268,832	11,780,996
Additional paid-in capital	764,622	758,877
Accumulated other comprehensive income	107,752	107,752

Deficit	(8,443,404)	(8,299,898)
	4,697,802	4,347,727
	$ 9,554,779	$ 7,850,672

See accompanying notes to interim consolidated financial statements

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JONES SODA CO. AND SUBSIDIARIES

Consolidated Statements of Operations

(Expressed in U.S. dollars)

(Unaudited)

Three months and six months ended June 30, 2005 and 2004

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Revenue	$ 8,984,808	$ 7,458,022	$ 15,858,984	$ 13,260,269
Cost of goods sold	5,916,407	4,809,001	10,559,592	8,697,662
Gross profit	3,068,401	2,649,021	5,299,392	4,562,607
Licensing Revenue	230,243		333,791	
Operating expenses:				
Promotion and selling	2,576,892	1,535,556	4,158,165	2,643,967
General and administrative	887,464	579,154	1,626,363	1,097,124
Non-cash stock compensation	860	6,537	5,745	9,842
	3,465,216	2,121,247	5,790,273	3,750,933
Earnings from operations	(166,572)	527,774	(157,090)	811,674
Other income (expense):				
Interest expense, net	(3,648)	(4,001)	(11,698)	(6,998)
Other income, net	9,787	30,539	25,282	36,693
	6,139	26,538	13,584	29,695
Earnings (loss) for the period	$ (160,433)	$ 554,312	$ (143,506)	$ 841,369
Earnings (loss) per share, basic	$ (0.01)	$ 0.03	$ (0.01)	$ 0.04
Earnings (loss) per share, diluted	(0.01)	0.03	(0.01)	0.04
Weighted average common stock, basic	21,419,157	20,507,047	21,273,578	20,415,386
Weighted average common stock, diluted	21,419,157	21,920,563	21,273,578	21,902,987

See accompanying notes to interim consolidated financial statements.

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JONES SODA CO. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity and Comprehensive Income

(Expressed in U.S. dollars)

Six months ended June 30, 2005 (Unaudited)

Year ended December 31, 2004

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated Income (deficit)	Comprehensive Income	Total shareholders equity
	Number	Amount					
Balance, December 31, 2003	20,089,096	$ 11,178,475	$ 739,140	$ 107,752	$ (9,630,258)		$ 2,395,109
Options exercised	867,250	602,521					602,521
Stock-based compensation			19,737				19,737
Comprehensive Income:							
Earnings for the year					1,330,360	$ 1,330,360	1,330,360
Balance, December 31, 2004	20,956,346	11,780,996	758,877	107,752	(8,299,898)		4,347,727
Options exercised	477,000	487,836					487,836
Stock-based compensation			5,745				5,745
Comprehensive Income:							
Earnings for the period					(143,506)	$ (143,506)	(143,506)
Balance, June 30, 2005	21,433,346	$ 12,268,832	$ 764,622	$ 107,752	$ (8,443,404)		$ 4,697,802

See accompanying notes to interim consolidated financial statements.

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JONES SODA CO. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Expressed in U.S. dollars)

Six months ended June 30, 2005 and 2004 (Unaudited)

	2005	2004
Cash flows from (used in) operating activities:		
Earnings (loss) for the period	$ (143,506)	$ 841,369
Items not involving cash:		
Depreciation and amortization	100,950	91,715
Non-cash stock based compensation	5,745	9,842
Changes in assets and liabilities:		
Accounts receivable	(1,205,164)	(1,212,782)
Inventory	(855,989)	(1,222,885)
Prepaid expenses	155,425	(86,495)
Accounts payable and accrued liabilities	1,769,584	1,529,441
Net cash used in operating activities	(172,955)	(49,796)
Cash flows used in investing activities:		
Purchase of capital assets	(166,094)	(256,005)
Purchase of intangible assets	(15,958)	(1,600)
Net cash used in investing activities	(182,052)	(257,605)
Cash flows from (used in) financing activities:		
Net repayment of bank indebtedness	(480,285)	
Proceeds from capital lease assets acquired	87,460	129,752
Deferred revenue	(22,727)	(25,000)
Proceeds from exercise of options	487,836	410,019
Net cash used in financing activities	72,284	514,771
Net increase in cash and cash equivalents	(282,723)	207,370
Cash and cash equivalents, beginning of period	333,533	315,988
Cash and cash equivalents, end of period	$ 50,810	$ 523,358
Supplemental disclosure of non-cash financing and investing activities:		
Stock-based compensation	$ 5,745	$ 9,842
Increase in capital lease obligation	118,741	156,899
Cash paid during the period:		
Interest payments	(11,698)	(6,998)

See accompanying notes to interim consolidated financial statements.

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JONES SODA CO. AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

Three months ended June 30, 2005 and 2004 (Unaudited)

1. Nature of operations:

Jones Soda Co. (the Company or Jones Soda) develops, produces, markets, and distributes alternative or new age beverages. The Company s main product lines include the brands: Jones Soda Co.®, Jones Naturals, a non-carbonated juice & tea drink, Jones Energy, a high energy drink, WhoopAss, a high energy drink and Jones Organics, an organic tea. Urban Juice and Soda Company Limited, the Company s predecessor, was incorporated in 1986 under the Company Act (British Columbia). The Company has three operating subsidiaries, Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., and myJones.com Inc., as well as one non-operating subsidiary, Whoopass USA Inc.

2. Significant accounting policies:

(a) Basis of presentation:

The financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated on consolidation.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles but do not include all information and footnotes required by United States generally accepted accounting principles for annual financial statements. However, in the opinion of management, all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the relevant periods have been made. Results for the interim period are not necessarily indicative of the results to be expected for the year or for any other period. These financial statements should be read in conjunction with the summary of accounting policies and the notes to the consolidated financial statements for the year ended December 31, 2004 included in the Company s annual report on Form 10-KSB.

(b) Use of estimates:

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Areas of significant estimate include the assessment of collectibility of accounts receivable, net realizable value of inventory, and valuation allowance against deferred income tax assets. Accordingly, actual results may differ from these estimates.

(c) Foreign currency translation:

All foreign exchange gains or losses, including those arising from translating the net monetary assets of the Company s Canadian operations to the Company s functional currency of US dollars, have been included in income. For the six-month period ended June 30, 2005, the Company incurred a foreign exchange gain of $24,082 (2004 gain $36,693), which is classified in Other income in the Consolidated Statement of Operations.

(d) Cash and cash equivalents:

The Company considers all short-term investments with a term to maturity at purchase of three months or less to be cash equivalents.

(e) Inventory:

Inventory has been stated at the lower of cost and estimated net realizable value and includes adjustments for estimated obsolescence. Cost includes laid-down cost and is determined principally using actual cost on a first-in first-out basis. Inventory that is older than 12 months is considered to be obsolete and is expensed as part of cost of goods sold.

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(f) Capital assets:

Capital assets are recorded at cost and are depreciated on the declining balance basis over the estimated useful lives of the assets as follows:

Asset	Rate
Equipment	20% to 50%
Automobile and computers	30%
Equipment under capital lease	Lease term

(g) Intangible assets:

The Company s intangible assets include costs associated with attaining trademarks and patents for the Company s products and are amortized on a straight-line basis over 5 years.

(h) Impairment of long-lived assets and long-lived assets to be disposed of:

Long-lived assets, which include fixed assets and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(i) Revenue recognition:

Sales are recorded when title passes, which is when goods are received by the customer, and represent amounts realized net of provisions for sales returns, discounts and allowances which are recognized at the time of sale. The Company s sales arrangements are not subject to warranty. Cash received in advance of delivery is recorded as deferred revenue in the consolidated balance sheet.

Licensing revenue is recorded when confirmation of the sale to third parties is received from the customer, and represents amounts realized net of provisions for sales returns.

The Company recognizes sale of concentrate relating to licensing agreements, in accordance with EITF 99-19 on Reporting Revenue Gross as a Principal versus Net as an Agent . As a result, the sale of the concentrate and associated costs are recorded on a net basis. As concentrate is sold at cost, there is no impact on the Company s statement of operations.

For sales returns, the Company issues a credit note to the customer once it has obtained the returned goods. Discounts are offered to customers via promotional events. Discounts are recorded at the time of sale by issuing a credit note for the discount relating to the shipment.

Consideration given by the Company to a customer (including a reseller of the Company s products) is accounted for as a reduction of revenue when recognized in the Company s income statement. For the six-month period ended June 30, 2005, revenue was reduced by $157,714 (2004 $161,146).

(j) Research and development:

Research and development costs, which consist primarily of product development costs, are expensed in the period incurred and are included in general and administrative expenses. For the six-month period ended June 30, 2005, research and development costs were $6,328 (2004 nil).

(k) Stock-based compensation:

The Company accounts for its stock-based compensation arrangements with employees in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations. As such, compensation expense under fixed plans is recorded on the date of grant only if the market value of the underlying stock at that date exceeds the exercise price.

SFAS No. 123, Accounting for Stock Based Compensation , requires entities that continue to apply the provisions of APB Opinion No. 25 for transactions with employees to provide pro forma earnings and pro forma earnings per share disclosures for employee stock option grants as if the fair-value-based method in SFAS No. 123 had been applied to these transactions.

The Company recognizes compensation expense for stock options, common stock and other equity instruments issued to non-employees for services received based upon the fair value of the equity instruments issued at the date of performance completion.

Under APB 25, compensation expense is measured as the excess, if any, of the market price of the underlying stock over the exercise price on the measurement date of the grant. Had stock compensation expense for grants to employees under the Company s stock option plan been determined based on the fair value methodology under SFAS 123, the Company s net earnings (loss) for the periods ended June 30, 2005 and 2004 are presented as follows:

	Three Months ended June 30		Six Months ended June 30	
	2005	2004	2005	2004
Earnings (loss) for the period	$ (160,433)	$ 554,312	$ (143,506)	$ 841,369
Add: Stock-based employee compensation expense included in reported earnings	860	6,537	5,745	9,842
Deduct: Total stock-based employee compensation expenses determined under fair value method for all awards	(6,188)	(4,516)	(370,031)	(144,083)
Pro forma earnings (loss)	$ (165,761)	$ 556,333	$ (507,791)	$ 707,127
Earnings (loss) per share				
Basic - as reported	(0.01)	0.03	(0.01)	0.04
Basic - pro forma	(0.01)	0.03	(0.02)	0.03
Diluted - as reported	(0.01)	0.03	(0.01)	0.04
Diluted - pro forma	(0.01)	0.03	(0.02)	0.03

The fair value of these options was estimated at the date of grant using the Black-Scholes option pricing model, which takes into account (1) the market price of the underlying stock at the grant date, (2) the exercise price, (3) an expected life ranging from one to five years, (4) 0% dividend yield, (5) a risk-free interest rate of 3.26% (2004 1.63% to 1.95%), and (6) an estimated volatility of 82% (2004 86%)

The weighted average fair value of options granted in the second quarter 2005 and 2004 was $nil and $nil, respectively.

(l) Advertising:

The Company expenses advertising costs as incurred. During the six-month period ended June 30, 2005, the Company incurred advertising costs of $2,875,043 (2004 $1,272,496).

(m) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, current taxes are recognized for the estimated income taxes payable for the current period. Deferred income taxes are provided based on the estimated future tax effects of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases as well as the benefits of losses available to be carried forward to future years for tax purposes.

Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets when it is not more likely than not that such deferred tax assets will be realized.

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(n) Earnings (loss) per share:

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the periods, excluding reacquired stock and common stock held in escrow that is subject to cancellation if certain criteria are not achieved. Diluted earnings per share is computed by adjusting the weighted average number of common shares by the effective net exercise or conversion of all dilutive securities.

(o) Comprehensive income:

SFAS No. 130, Reporting Comprehensive Income , establishes standards for reporting and disclosure of comprehensive income and its components in a full set of general-purpose financial statements. The Company discloses the comprehensive income in the Consolidated Statements of Shareholders Equity.

(p) Volume rebates from vendors:

The Company follows EITF 02-16 on Accounting by a Customer for Certain Consideration Received from a Vendor . As a result, consideration received by the Company from the vendor is accounted for as a reduction of cost of sales if sold or inventory if the associated product has yet to be sold. For the six months ended June 30, 2005, the reduction against cost of goods sold was $43,129 (2004 nil).

(q) Recent accounting pronouncements:

In December 2004, the Financial Accounting Standards Board (FASB) issued revised Statement of Financial Accounting Standards No. 123 entitled Share Based Payment (FAS No. 123R). This revised statement addresses accounting for stock-based compensation and results in the fair value of all stock-based compensation arrangements, including options, being recognized as an expense in a company s financial statements as opposed to supplemental disclosure in the notes to financial statements. The revised Statement eliminates the ability to account for stock-based compensation transactions using APB Opinion No. 25. FAS No. 123R is effective for public entities that file as small business issuers as of the beginning of the first annual reporting period that begins after December 15, 2005. The Company is currently assessing the implications of FAS 123R to its consolidated financial statements.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151 entitled Inventory Costs an amendment of ARB No. 43, Chapter 4 (FAS No. 151). This statement amends the guidance in ARB No. 43 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. FAS No. 151 requires that these items be recognized as current period charges. The Company has adopted FAS No. 151 in the year ended December 31, 2004, which had no effect on our consolidated financial statements.

In December 2003, the FASB issued a revised Interpretation of FIN No. 46. FIN No. 46R, Consolidation of Variable Interest Entities clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements , to require consolidation of business entities under certain circumstances particularly with respect to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. To the extent that one party holds the majority of the residual risks or estimated returns of the variable interest entity, they are defined to be the primary beneficiary and are required to consolidate said entity, and is effective in the Company s 2004 fiscal year. Application of FIN 46R in 2004 did not impact the Company s financial position or results of operations.

(r) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

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3. Inventory:

	June 30 2005	December 31 2004
Finished goods	$ 2,857,503	$ 1,964,875
Raw materials	1,549,081	1,585,720
	$ 4,406,584	$ 3,550,595

4. Bank indebtedness:

On June 25, 2005, the existing credit facility granted to the Company by Capco Financial Company, a division of Greater Bay Bank N.A, was renewed for a further one-year revolving line of credit of up to $5,000,000. The amount available for borrowing from time to time under the revolving line of credit is dependent upon the levels of certain accounts receivable and inventory of the Company. This revolving line of credit is secured by all of the Company s assets, including accounts receivable, inventory, trademarks and other intellectual property, and certain equipment. Borrowings under the credit facility bear interest at prime plus 0.5% per annum (6.75% at June 30, 2005). The credit facility does not impose any financial covenants. As of June 30, 2005, the Company had nil outstanding under the line of credit, out of a total of $3,855,187 available for borrowing based on eligible accounts receivable and inventory at that time. In addition, as part of the agreement, all receivables collected are submitted to Capco as collateral on the line of credit, if no amounts are outstanding on the line of credit, the payments received by Capco are subject to a 1-day hold to allow for the application of funds. As of June 30, 2005, $33,986 included in cash and cash equivalents was subject to this 1-day hold.

5. Segmented information and export sales:

The Company operates in one industry segment, with operations in the United States, Canada, Guam, the United Kingdom and Bermuda. During the six-month period ended June 30, 2005 sales in the United States were approximately $14,034,015 (2004 - $11,676,428), sales in Canada were approximately $1,754,123 (2004 $1,535,521), and sales in Guam, the United Kingdom and Bermuda were approximately $70,846 (2004 $48,320).

6. Earnings (loss) per share:

The computation for basic and diluted earnings (loss) per share is as follows:

	Three months ended June 30		Six months ended June 30	
	2005	2004	2005	2004
Earnings (loss) for the period	$ (160,433)	$ 554,312	$ (143,506)	$ 841,369
Weighted average number of common stock outstanding:				2
Basic	21,419,157	20,507,047	21,273,578	20,415,386

Dilutive stock options		1,413,516		1,487,601
Diluted	21,419,157	21,920,563	21,273,578	21,902,987
Earnings (loss) per share:				
Basic	$ (0.01)	$ 0.03	$ (0.01)	$ 0.04
Diluted	$ (0.01)	$ 0.03	$ (0.01)	$ 0.04

7. Shareholders equity:

(a) Stock options:

In 1996, the Company adopted a stock option plan (the 1996 Plan) that provides for the issuance of incentive and non-qualified stock options to officers, directors, employees and consultants. In addition, in 2002 the Company adopted another stock option plan for the issuance of incentive and non-qualified stock options to officers, directors, employees and consultants (the 2002 Plan). (The 1996 Plan and 2002 Plan are collectively referred to as the Plans.)

The Board of Directors determines the terms and conditions of the options granted under the Plans, including the exercise price and vesting schedule. The exercise price for qualified incentive stock options cannot be less than the fair

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market value of the underlying stock at the date of grant, and the maximum term is five years from the date of grant. Options granted generally vest over a period of 18 months.

Where options issued after January 18, 2001 have an exercise price in currency that is not either the (a) functional currency of the Company or (b) the currency in which the employee is paid, the options are to be accounted for as variable plan options and compensation expense will be recorded equal to changes in the market value of the underlying common shares at each reporting period.

For the six-month period ended June 30, 2005, the Company granted all options in US dollars. Included in general and administrative expenses for the six-month period ended June 30, 2005 is stock-based compensation of $5,745 (2004 $9,842).

A summary of the Company s stock option activity is as follows:

	Outstanding options		
	Number of shares	Average exercise price US	Average exercise price CDN
Balance at December 31, 2003	2,404,500	$ 0.58	$ 0.76
Option granted	560,500	2.39	2.88
Options exercised	(867,250)	(0.69)	(0.90)
Options cancelled	(65,500)	(0.44)	(0.54)
Balance at December 31, 2004	2,032,250	1.06	1.27
Option granted	562,500	4.00	4.92
Options exercised	(477,000)	(1.02)	(1.26)
Options cancelled	(137,000)	(2.95)	(3.63)
Balance at June 30, 2005	1,980,750	$ 1.76	$ 2.17

The following table summarizes information about stock options outstanding and exercisable under the Plans at June 30, 2005:

Range of exercise	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price US	Weighted average exercise price CDN	Number exercisable	Weighted average exercise prices US	Weighted average exercise prices CDN
$0.70 to $0.86	303,500	0.53	$ 0.76	$ 0.93	303,500	$ 0.76	$ 0.93
$0.25 to $0.50	732,000	2.25	0.41	0.50	732,000	0.41	0.50

$1.10 to $2.99	417,875	3.50	2.10	2.59	312,250	2.08	2.56
$3.00 to $4.00	527,375	4.31	3.95	4.85	138,500	3.90	4.80
	1,980,750		$ 1.76	$ 2.17	1,486,250	$ 1.16	$ 1.42

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

You should read the following discussion and analysis in conjunction with our consolidated financial statements and related notes included elsewhere in this Report. Except for historical information, the following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See Cautionary Notice Regarding Forward Looking Statements above.

Overview

We develop, produce, market and distribute alternative or New Age beverages. We currently produce, market and distribute five unique beverage brands:

Jones Soda Co.®, a premium soda;

Jones Naturals, a non-carbonated juice & tea;

Jones Energy, a citrus energy drink;

WhoopAss, a citrus energy drink; and

Jones Organics, an organic tea.

We currently sell and distribute our products primarily throughout the United States and Canada through our network of independent distributors (DSD) and our national retail accounts (DTR), as well as through licensing and distribution arrangements.

With respect to