

JAMBA, INC.
Form 10-K
February 12, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 2017

OR

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

Jamba, Inc.

(Exact name of registrant as specified in its charter)

Delaware	001-32552	20-2122262
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

3001 Dallas Parkway, Suite 140,

Frisco, Texas 75034,

(Address of principal executive offices)

Registrant's telephone number, including area code: (469) 294-9600

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.001 per share The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates as of the last day of the registrant's second fiscal quarter ended June 28, 2016 was \$76,692,507 based upon the closing sales price of registrant's common stock on such date). For purposes of this disclosure, shares of common stock held by persons who held more than 5% of the outstanding shares of common stock and shares held by officers and directors of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of

affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of common stock of Jamba, Inc. issued and outstanding as of February 2, 2018 was 18,447,023 and 15,588,206, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

None

JAMBA, INC.

ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED JANUARY 3, 2017

Form 10-K

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these statements by forward-looking words such as “may,” “will,” “would,” “could,” “should,” “might,” “project,” “plan,” “forecast,” “designed,” “goal,” “approximately,” “expect,” “anticipate,” “contemplate,” “believe,” “estimate,” “intend,” “plan,” or the negative of those words or words of similar meaning. Any statement that is not a historical fact, including any other estimates, projections, future trends and the outcome of events that have not yet occurred, is a forward-looking statement. Examples of such statements include references to accelerated growth, new store openings, Company Store comparable sales, expense management and the like. You should read statements that contain these words carefully because they:

- discuss future expectations;
- contain projections of future results of operations or financial condition; or
- state other “forward-looking” information.

We believe it is important to communicate our expectations to our shareholders. However, there may be events and circumstances in the future that we are not able to accurately predict or over which we have no control. The risk factors and cautionary language discussed in this document outline examples of risks, uncertainties and events that may cause actual results to differ materially and adversely from the expectations described in the forward-looking statements, including among other things:

- our business strategy and financial performance, including our transition to an asset-light business model and relocation of our corporate headquarters and data center;
- our revenue and customer volatility based upon weather and general economic conditions;
- the operating results of our franchisees;
- fluctuations in various food and supply costs;
- competition and other risks related to the food services business;
 - our ability to retain our executive management team and key employees; and
- other factors discussed in the “Risk Factors” and “Management Discussion and Analysis of Financial Condition and Results of Operations” portion of this annual report.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document.

All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

You should be aware that the occurrence of the events described in the “Risk Factors” portion of this annual report, the documents incorporated herein and our other SEC filings could have a material adverse effect on our business, prospects, financial condition or operating results.

PART I

ITEM 1. BUSINESS

Background of Jamba, Inc.

Jamba, Inc. through its wholly-owned subsidiary, Jamba Juice Company, is a healthful, active lifestyle brand with a robust global business driven by a portfolio of franchised and company-owned Jamba Juice[®] stores and Jamba Juice Express[™] formats. The Jamba[®] brand was created by founder Kirk Perron to inspire and simplify healthy living. This mission is alive today in the more than 900 retail locations globally and in Jamba branded products. We are a leading restaurant retailer of “better-for-you” specialty beverage blends and food offerings which include flavorful, whole fruit and vegetable smoothies, fresh squeezed juices and juice blends, Energy (smoothie) Bowls, signature “boosts”, shots and a variety of food items including; hot oatmeal, breakfast wraps, sandwiches, Artisan Flatbreads, baked goods and snacks.

Jamba, Inc. was incorporated in Delaware on January 6, 2005 as a blank check company formed to serve as a vehicle for the acquisition of a then unidentified operating business. On July 6, 2005, Jamba, Inc. consummated its initial public offering. On March 10, 2006, Jamba, Inc. entered into an Agreement and Plan of Merger with Jamba Juice Company, which first began operations in 1990. The merger between Jamba, Inc. and Jamba Juice Company was completed on November 29, 2006. The Company’s headquarters were located in Emeryville, California and were relocated to Frisco, Texas in the fourth quarter of fiscal year 2016.

Unless the context otherwise requires, Jamba, Inc., the registrant, together with Jamba Juice Company, are referred to in this Form 10-K annual report (“Form 10-K”) as the “Company”, “Jamba Juice”, “Jamba”, “we”, “us” and “our.” Information regarding the Company’s fiscal periods is included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Fiscal Year

Our fiscal year ends each year on the Tuesday closest to December 31st and therefore we have a 52 or 53 week fiscal year. Fiscal Year 2016 was a 53 week fiscal year, ended on January 3, 2017, with the fourth quarter comprised of 14 weeks. Fiscal Years 2015 and 2014, were 52 week fiscal years, ended on December 29, 2015 and December 30, 2014, respectively.

Narrative Description of Business

As of January 3, 2017, there were 909 Jamba Juice stores globally, consisting of 66 Company-owned and operated stores, all located in the United States (“Company Stores”), 773 franchisee-owned and operated stores (“Franchise Stores”) in the United States and 70 Franchise Stores in international locations (“International Stores”), collectively the (“Jamba System”). During 2015, we substantially completed the move from a primarily company-store to a franchise-business model by refranchising 179 locations. Currently, approximately 93% of our stores are owned and operated by franchisees.

Our Strategic Priorities

Fiscal year 2016 was a year of transition for the Jamba, Inc. business and brand. Dave Pace, Chief Executive Officer (“CEO”) joined the company in March 2016 and outlined a plan for transformation of the business. The plan focuses on five core strategies, amplifying the position Jamba holds as an iconic lifestyle brand and a best-in-class franchisor, which highlights the brand’s commitment to increase shareholder value. With the transition to an asset-light business model now complete, the organization focused on hiring a new leadership team with deep food service experience.

While the majority of fiscal year 2016 we executed against the existing business plan, the newly established leadership team made large strides in building the foundation needed to drive the five core strategies into the future, beginning in fiscal 2017.

The transition initiatives in fiscal 2016 included the move into our new offices in Frisco, Texas, reenergizing our franchise system and rebuilding the leadership and support teams that were affected by the move from Emeryville, California. As part of the transition, approximately 10% of our support center team members relocated to Frisco. The remaining 90% of our support center team are new to the organization, including many of the individuals on the senior leadership team. More specifically, Marie Perry, previously the interim CFO for Brinker International, joined Jamba in the second quarter as Chief Financial Officer (“CFO”). In March 2017, Joe Thornton joined Jamba as our Chief Operating Officer, and in November 2017, Claudia Schaefer joined Jamba as our Chief Marketing Officer. With the hire of Mr. Thornton and Ms. Schaefer, our Executive Team is fully in place.

The Company’s move to Frisco, Texas, a Dallas suburb, is designed to position the Company for sustainable, long-term growth and thus better serve Jamba’s franchise system and unlock emerging market growth potential. The relocation also served as a catalyst for cultural transformation. The team re-grounded their strategy in the roots of the brand and hired a support center team aligned with both the mission and core values of Jamba and with deep industry knowledge and experience. The new “Jamba Whirl’d Support Center” includes 25,000 square feet of office and collaboration space as well as a world-class test kitchen for product innovation and optimization.

With the transition complete in late 2016, the organization is focused on generating results and creating shareholder value through the transformation of Jamba. The five key strategies include:

- Build an Iconic Global Brand;
- Establish a Customer and Store-Centric Operating Environment;
- Drive Sales and Transactions through Innovation;
- Improve Store Profitability through Simplification; and
- Expand Our Global Footprint.

Build an Iconic Global Brand

During fiscal 2016, brand activities were predominately guided by the existing brand strategy. That strategy included ongoing efforts to build total brand value as we continue to position Jamba as a leading global health and wellness, lifestyle brand. With 93% of our stores now franchisee-owned, we have increased our focus on building the brand on a local level, leveraging multi-channel brand marketing tactics, including the expansion of consumer loyalty programs, the development of engaging local marketing promotions and high-performing social media communications. Local brand activation plays a critical role and we believe it will be a significant revenue and consumer traffic driver for our franchisees. By providing our franchisees with tools and technologies that target their guests through email, social media, radio and out-of-home advertising, we are helping them reach new and lapsed consumers in their immediate trade areas. In late 2016, the field marketing team was re-structured to provide additional support to franchise partners.

In late fiscal 2016, the brand strategy began a pivot in an effort to differentiate Jamba from the competitive set and engage guests through a health benefit driven message. We focused on sharing the benefits of blending with our existing, lapsed and potential guests. This shift demonstrated our intent to return to a brand strategy guided by our mission of inspiring and simplifying healthy living. Ongoing, innovative product development, will allow us to meet the needs of today’s increasingly health-conscious and time-starved consumer. The innovation team hired an on-staff nutritionist that works to establish a nutritional point of view for product offerings. We will continue to focus on product innovation offerings that expand our “healthy on the go” offerings across all parts of the day.

By leveraging technology and digital services such as text messaging, email and local social media tools, we enhance and simplify the Jamba experience for today’s socially connected, time-constrained consumers. We continue to upgrade the features of our Jamba Juice mobile application (“app”), helping customers locate stores, order ahead, speed up transactions and improve the online and in-store experience. With more than 2 million members, our Jamba Insider

Rewards (“JIR”) program provides incentives for our most loyal customers to make increased visits to Jamba stores. Through JIR, we distribute timely emails to our members informing them of new products and promotions. Increased segmentation efforts in late fiscal 2016 yielded stronger engagement with existing guests and the new digital marketing team outlined plans to elevate the consumer journey in the digital space.

We are actively engaged in the most popular social media platforms, delivering engaging content and leveraging the power of influencers to actively promote Jamba to their own followers in Facebook®, YouTube®, Pinterest® and other social media platforms. These influencers post about Jamba's nutritional benefits in an authentic voice, exponentially amplifying our own marketing communications and reaching more consumers most interested in health and wellness. We also continue to build a strong following on Facebook®, Twitter® and Instagram® with postings that receive increasing favor with Jamba fans. Our YouTube channel attracts fans and increases awareness with fun and informative videos of our high-profile influencers and celebrity athletes. Late in the year, we developed a revised social media engagement strategy focused on developing authentic and sincere relationships within our social communities.

Giving back to the community is a hallmark of the brand and service to our communities has been a consistent focus of Jamba from the Company's beginning. We continued that work in 2016. Our work in the community ladders up to our mission. We drive awareness of the need to encourage strong dietary and fitness habits in kids through our Team Up For a Healthy America program and through partnerships with the American Heart Association®, National Gardening Association and the GENYOUth Foundation. Our Jamba fundraising card helps support schools in Jamba markets across the country. Additionally, our franchise partners are actively involved in their local communities, raising awareness and providing much needed funding for organizations including Meals on Wheels, Juvenile Diabetes Research Foundation, St. Jude's, National Breast Cancer Foundation and other national and local organizations focused on making our communities healthier.

Jamba launched several marketing campaigns during the year, which are designed to drive significant traffic into our Franchise and Company Stores. We worked closely with local franchisees on numerous local promotions designed to increase trial and awareness.

Establish a Customer and Store-Centric Operating Environment

In 2016, we began to reengage and reenergize our franchise system, field and store teams. Establishing a leadership team with deep food service experience was central to this initiative and the team quickly worked to reprioritize initiatives through the lens of the franchise partners and guests.

As the newly formed leadership team outlined key priorities in each discipline, franchise operators were asked to participate in problem solving, prioritization of initiatives and sharing of best practices. By leveraging franchise operator knowledge and spending time in stores with operating partners and guests, the team has worked to quickly reduce friction in the guest experience and build trust within the franchise system. The Franchise Advisory Council ("FAC") is also leveraged to ensure the needs of the franchise system were prioritized effectively.

In 2016, Learning and Development systems were evaluated and investments have been made to improve field training by providing in-market support for large brand initiatives. Additionally, the field marketing team was restructured and goals were aligned with FAC approved success metrics. These changes will strengthen the franchisor/franchisee relationship and ensure support center team members are aligned with franchise partner needs.

Finally, after a thorough evaluation of each brand extension within the Jamba system, decisions were made to eliminate any under-performing, non-retail programs. This included an exit from Ready to Drink and Energy products in early fiscal 2016 and JambaGO® in the fourth quarter of 2016. These decisions allow the support center team to focus on the success of company and franchise retail operations.

Drive Sales and Transactions through Innovation

Our long-term growth prospects have been largely driven by our product innovation around our core offerings of smoothies, juices and bowls. In fiscal 2016, product innovation remained a high priority, but our strategy shifted to ensure future innovation efforts extend beyond product innovation and include innovation in technology, including digital marketing and refreshed operational systems.

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Our product innovation team transitioned fully late in the year and is working to establish a revised innovation pipeline focused on leveraging the core equity of the blender to unlock revenue through expansion of categories and parts of the day. The team, composed of food scientists, quality assurance specialists, nutritionists and food industry experts, is continually developing and testing new and improved menu items that support not only the integrity of the Jamba Juice brand, but our mission of inspiring and simplifying healthy living.

Beyond product innovation, a new IT and digital roadmap was outlined in late 2016. The roadmap outlines nine key projects that will serve to strengthen store operations, improve profitability and enhance the consumer journey in both the in-store and online environments. Digital transformation will begin in fiscal 2017 and will ensure Jamba remains a leader in category and will unlock revenue opportunities across multiple platforms. Improvements to our app, website, customer relationship management and digital marketing channels are central to this strategy.

Improve store profitability through simplification

With the shift to an asset-light business model, we are highly focused on improving franchisee profitability and 4-wall margins. Benefits captured in fiscal 2016 primarily resulted from supply chain efficiencies and simplification of in store product execution.

In fiscal 2016, we created a task force to identify, test and implement opportunities across all expense categories. The task force includes cross functional experts, best in system franchise operators, and operations leadership. We initially identified a focused set of near term opportunities to benefit Jamba in fiscal 2017, and are building a robust pipeline of initiatives for 2017 and beyond. Implementation of the successful opportunities identified will be phased in to the system to ensure savings from each initiative are captured.

The renewed focus on a store centric operating model has created a strong franchisee/franchisor relationship that will prove beneficial to capturing the opportunities in front of us.

Expand our global footprint

As we continue on our path as an asset-light business, our focus will be on expanding our retail footprint globally through franchising. As described below, our focus is on domestic growth and on both traditional and non-traditional store formats. In addition, in fiscal 2016, we refocused our international expansion to our Asia and Middle East markets and exited our previous presence in Canada. Jamba Juice store locations at the end of fiscal 2016 were comprised of approximately 7% Company Store locations and 93% Franchise locations, globally.

Jamba Juice - Domestic

We have a portfolio of flexible store formats that can be utilized in a number of different venues. We generally categorize our stores as either traditional or non-traditional locations. A traditional location is characterized as a business premise that exists primarily as a Jamba Juice store. Traditional stores average approximately 1,000 - 1,200 square feet in size. These stores are located either in major urban centers or in suburban strip mall centers. As of January 3, 2017, there were 599 traditional Jamba Juice store locations. A non-traditional location is characterized as a Jamba Juice store located within another primary business, in conjunction with another business or at institutional settings, such as colleges and universities, entertainment venues, shopping malls, transportation centers, supermarkets and airports. A “captive” audience is a common characteristic of non-traditional locations. We believe one benefit of the development of non-traditional stores is to increase awareness of the Jamba Juice brand to complement the traditional stores in the area. As of January 3, 2017, there were 240 non-traditional Jamba Juice store locations.

We announced a franchise incentive program designed to accelerate new store openings in 2017, including our new Drive-Thru format which is intended to expand our available trade-areas by increasing accessibility to the market. We believe this program will spur additional growth of the incentivized store formats.

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We continue to innovate in the design of traditional and non-traditional stores. Our goal is to vary the size and format of our stores to allow us to locate them in or near a variety of settings. Our flexibility in store construction enables us to develop stores in a wide range of venues, broadening the visibility of the Jamba brand and giving more customers easier, more convenient access. We believe format flexibility will help us to attract qualified franchisees and offer them the potential to earn a higher return on their investment in capital expenditures. In 2016, we continued the expansion of the refresh and remodel program for our Company Stores in order to provide a contemporary and fresh experience for our customers. We continue to refresh stores, which includes upgrading the stores' facilities to effectively and efficiently serve our blended, whole food and premium juice platforms.

The Jamba Juice Express concept was launched in 2012. The concept is designed to target venues with a smaller footprint than our historical, non-traditional store. Jamba Juice Express units offer a limited menu of the brand's top selling smoothies and juices as compared to our other store formats. Our Jamba Juice Express platform is an in-fill strategy for venues such as colleges and universities, grocery stores, hospitals and business cafeterias where the Jamba brand is already a known presence in the market. As of January 3, 2017, there were 47 Jamba Juice Express locations open in 21 states. Due to the nature of the business format and smaller footprint, an Express unit generates a smaller financial store contribution than other formats. To better reflect the key contributors of new store development, Express units will be excluded from store counts, beginning in the first quarter of 2017.

As of January 3, 2017, we had 839 Jamba Juice store locations in the United States, operating in 35 states and Washington, D.C., consisting of 66 Company Stores and 773 Franchise Stores. We lease the real estate for all of our Company Stores. Our market planning has shown that there is potential for a total of at least 2,700 Jamba Juice stores in the United States which would meet our current store opening criteria. During fiscal 2016, 54 new Franchise Stores opened, 30 Franchise Stores closed and we completed the refranchise of one Company Store.

Domestic Franchise Opportunity

Through our franchising program, we offer franchisees choices in store location, format and number of stores they wish to operate including traditional "stand alone" stores and non-traditional store venues such as mall, university, supermarket or transportation center locations. Furthermore, we offer franchisees the opportunity to reserve larger territories by entering into multi-unit development agreements which grant the franchisee exclusive rights to develop and operate a specified number of stores within a specified period of time and geographic area.

As of January 3, 2017, we had 27 development agreements that contain rights to develop additional Franchise Stores. The exclusive territories covered by these agreements include selected markets in the states of Arizona, California, Delaware, Florida, Georgia, Michigan, Minnesota, Missouri, Nevada, New York, North Carolina, Oregon, Pennsylvania, Tennessee, Texas, Utah, Washington and Wisconsin. In 2016, as part of our ongoing east coast expansion, we entered into development agreements which will yield 24 new locations in the greater Detroit, Michigan, Philadelphia, Pennsylvania and Midland, Texas markets.

To help maximize the growth of our non-traditional franchise development, we continue to strengthen our relationships with beverage and food concessionaires operating at venues such as colleges, universities, airports and other transportation centers, as well as other retail and entertainment venues. In addition to our own efforts, we are regularly approached by concessionaires and contract feeders whose independent research has identified us as desired for non-traditional venues where they have secured exclusive development rights from venue owners. When it fits our expansion strategies, these opportunities are incorporated into our development plans.

Our comprehensive market planning and site selection process helps guide the successful execution of our growth strategy. We have processes for identifying, analyzing and assigning undeveloped markets for Franchise Store development. Once a market is selected, we carefully screen trade areas for demand based on demographic,

psychographic and Jamba Juice specific variables to assess the risk of developing a store or permitting a franchisee to do so. We review trade areas to ensure that they meet our guidelines for new store development and begin the site selection or approval process. Once a trade area is approved, we carefully screen prospective locations for visibility, traffic patterns, ease-of-use, occupancy costs and co-tenancy for potential Franchise Store locations. Our expansion strategy involves using this market planning and site selection process to leverage areas of demand within each market. We use this approach as a means to create critical mass within specific geographic areas of demand, in order to increase brand awareness and improve operating and marketing efficiencies for Franchise Stores while leveraging the costs associated with regional supervision. Distribution efficiencies can also be realized through this strategy.

International Franchising Opportunity

Our international partners work closely with us to build the Jamba Juice brand and implement the Jamba Juice system in their local geographic markets, as well as to maximize revenue and margin growth opportunities, recognizing commercial, cultural and dietary diversity in each market. There were 70 International Stores as of January 3, 2017, with stores located in Indonesia, South Korea, the Philippines, Mexico, Taiwan and the Middle East. As of January 3, 2017, we had six master developers with commitments to open 307 stores internationally.

We anticipate that global new unit development will continue to be a contributor to achieving our stated long term objectives. At the end of fiscal 2016, we had international master development agreements with partners in Indonesia, Thailand, South Korea, the Philippines, Mexico, Taiwan, and the countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).

We believe our brand and products have international appeal and we continue to engage in discussions with additional interested partners regarding the expansion of Jamba Juice stores into new international markets. The success of further international expansion will depend on, among other things, local acceptance of the Jamba Juice concept and menu offerings, regional supply chain infrastructure to drive profitable growth for our partners and our ability to attract qualified franchise partners. Our international developer agreements take the form of development and franchise agreements under which we typically receive an initial territory fee, store opening fees and ongoing royalty revenues based on a percentage of sales.

Early progress on our five core strategies has reenergized our company and franchise system and have provided focus for our leadership team. In fiscal 2017, we anticipate that the business will more fully realize the benefits from the work accomplished against each strategy. Work will continue against these core strategies and we expect that further benefits to the business will be realized.

Domestic Store Operations

Franchise Store Management

We continuously partner with franchisees to ensure excellence in Franchise Store operations, principally through our Franchise Business Consultants ("FBCs"). FBCs are Company team members that work closely with franchise owners to review the financial health, strength of the team, best practices and procedures of our franchisees. We engage with our system through a Franchise Advisory Council ("FAC"), which formalizes a channel of communication through a representative group of franchisees to provide advice, counsel and input to us on all aspects impacting our business. Our franchise agreement calls for franchise partners to meet certain operational and maintenance requirements intended to align the operating processes system-wide around a common set of standards. Performance is monitored regularly by the FBCs, who in addition to ensuring operational standards, provide feedback, coaching and support, as needed.

Company Store Management

We believe operational excellence throughout the Jamba system is vital to our success. Our field and store operations teams are responsible for maximizing the performance of our Company Stores across the system. We recruit and retain leaders with broad experience in management within our industry. Our field leadership consists of two Operational Directors and District Managers to support our Company Store operations. Our strong core values have contributed to a highly tenured field team that is deeply experienced and invested in the health of the business and the brand.

Our Store Excellence Program is designed to improve operational execution and performance by establishing comprehensive standards, which we expect all of our stores to achieve and maintain. In addition, we implemented a bonus program that offers Company Store managers rewards on achievement of sales and profit goals. These factors continue to positively impact customer satisfaction and help ensure that all stores in the Jamba System are delivering against the key drivers of customer satisfaction on a consistent basis. We believe team members are the key to our success and support the development of a culture that fosters personal interaction, mutual respect, trust, empowerment, enthusiasm and commitment.

Maintaining a culture and a management style that embodies healthy, active lifestyles in an authentic, fun, friendly and efficient manner in Company Stores, as well as Franchise Stores, is essential as we continue to expand, and we believe that it is critical to developing our brand and ensuring our continued success.

Training

Our training programs ensure all team members in the system have the knowledge needed to deliver excellence in guest experience and connect team members to our mission. We conduct training through a variety of programs for franchise partners, team members, support center staff and our leadership team on a regular basis. We are dedicated to providing a meaningful experience for all employees, with ample opportunity to develop leadership skills as they build a career at Jamba. All of our training programs reinforce the importance of prioritizing the guest experience and building sales through menu knowledge. Training materials and best practices are available to our franchisees to help create, preserve and support a singular culture of excellence within all of the stores that comprise our system. Additionally, in 2016 we continued to build our online training resources through Launchpad, an online training eco-system designed to elevate engagement and deliver timely and cost effective training resources to our team and franchise partners.

Recruiting and Retention

We carefully screen potential team members to ensure that they embody our core values and fit into our culture. By maintaining this emphasis and encouraging responsibility and accountability at every level, we believe that we have created a sense of team member loyalty and an open and interactive work environment, resulting in a highly passionate workforce. Our team members are paid competitive wages and are offered opportunities for advancement. In addition to competitive wages, store managers are eligible for performance-based bonuses. In order to preserve a singular culture within the stores that comprise the Jamba System, we share best practice information, qualifications and other relevant information to assist franchisees with hiring and retention.

Advertising and Marketing

In 2016, much of our advertising and marketing efforts focused on product innovation and transformation of our systems and digital eco-system. We reaffirmed our commitment to providing healthier food and beverage options to consumers, specifically by leveraging our historic core equity of blending. In Q4 2016, we initiated a campaign designed to start consumer conversations about the benefits of blending.

Through a variety of product centric innovations, we focused consumers' attention on the fresh fruits and vegetables that are used to make Jamba juices, smoothies and bowls, underscoring our commitment to providing healthier food and beverage options and fulfilling our mission of inspiring and simplifying healthy living. We continued our partnership with the technology company Spendgo[®] to provide consumers with an easy-to-use loyalty solution.

Jamba marketing, promotional and public relations activities are designed to promote the Jamba brand image and differentiate it from competitors. Marketing and promotional efforts focus on providing consumers with simple, easy-to-adopt solutions for pursuing a healthy active lifestyle and we continuously endeavor to improve our social responsibility and environmental practices to achieve long-term sustainability. We believe our marketing efforts in 2016 extended our reach and relevance to consumers. By improving our use of technology, expanding our reach into various lifestyle activities, helping communities and guiding our nation's youth to improve health and wellness, we have continued to inspire and simplify healthy living and have made progress toward our goal of being a leading health and wellness brand.

Product Supply

We are committed to providing only the finest smoothies, juices, bowls and other food products. Smoothie, juice and bowl products depend heavily upon supplies of fresh and individually quick-frozen (“IQF”) fruit and vegetables. We have an established nationwide fresh produce supply chain in order to facilitate our made-to-order freshly squeezed juice platform. The quality of each beverage depends to a large degree on the quality of the basic

fruit and vegetable ingredients from which it is made. It is essential that the supply of fruit and vegetables is of the highest quality and is consistent throughout the year. To achieve these goals, we purchase our projected requirements for the coming year from suppliers at the height of the season. The supply and price of fresh and IQF fruit and vegetables are dependent upon the supply and demand at the time of purchase and are subject to volatility. Supply and price can be affected by multiple factors in the producing regions, including weather, natural disasters and national/regional political and economic conditions.

We buy certain produce and dairy using fixed priced or to-be-fixed priced purchase commitments to secure adequate supply of quality ingredients for our products. As a result, we have purchase obligations with certain suppliers for certain produce and dairy for various terms typically ranging from one year to three years. We depend on our relationships with our suppliers for our supply of produce, dairy and other products. While two distributors accounted for approximately 92% of the supplies delivered to our Company Stores, and also service our Franchise Stores, we believe, based on our established relationships with our suppliers, the risk of non-delivery on our purchase commitments is remote.

Our supply chain, purchasing and product organization are funded by all stores across the Jamba System. This funding contributes to the cost of system-wide procurement and management of our supplies and supports our suppliers. The program allows for cost recovery of certain products purchased by Company Stores and Franchise Stores.

Competition

The retail beverage and food industry remains highly competitive and fragmented. Stores compete based on a number of factors, including quality, price-value relationships, customer service, name recognition, employee hiring and retention and location. We compete with international, national, regional and local retailers of beverage and food products, including quick service restaurants/fast food establishments, coffee shops, juice bars, donut shops, frozen yogurt shops and grocery stores. Competition in the beverage and food market is fragmented, and increasingly so, and a major competitor with substantially greater resources than us could enter the market at any time and compete directly against Jamba Juice stores.

We compete most directly with regional smoothie stores, most of which are franchises of other smoothie brands. The rising popularity of convenient and healthy food items resulted in increased competition from non-smoothie retailers as they increased their offerings of smoothies and other juice-related products, and as we increase our food offerings, we have placed ourselves into direct competition with other quick serve food concepts with well established businesses.

Additionally, we face increasing competition from specialty juice bars and stores, which focus on made-to-order juices, juice blends, cold-press juices and fasting/cleansing packages. Many of these brands have cold-press direct-to-consumer capabilities that multiply the geographic reaches of their stores.

We also face intense competition from both restaurants and other specialty retailers for suitable sites for new stores and qualified personnel to operate both new and existing stores. There can be no assurance that we or our franchisees will be able to continue to secure adequate sites at acceptable rent levels or that we or franchisees will be able to attract a sufficient number of qualified personnel to operate our stores.

Government Regulation and Environmental Matters

Government Regulation. We and our franchisees are subject to extensive and varied federal, state and local government regulation, including regulations relating to public health and safety and zoning codes. We operate each of our stores in accordance with standards and procedures designed to comply with applicable codes and regulations.

However, if we or our franchisees could not obtain or retain food or other licenses, it would adversely affect our operations. Although we have not experienced, and do not anticipate, any significant difficulties, delays or failures in obtaining required licenses, permits or approvals, any such problem could delay or prevent the opening of, or adversely impact the viability of, a particular store or group of stores.

California and other states and local jurisdictions have enacted laws, rules, regulations and ordinances which may apply to the operation of a Company Store or a Franchise Store, including those which (a) establish general standards, specifications and requirements for the construction, design and maintenance of the store premises; (b) regulate matters affecting the health, safety and welfare of our customers, such as general health and sanitation requirements for restaurants; employee practices concerning the storage, handling, cooking and preparation of food; special health, food service and licensing requirements; restrictions on smoking; exposure to tobacco smoke or other carcinogens or reproductive toxicants and saccharin; availability of and requirements for public accommodations, including restrooms; (c) set standards pertaining to employee health and safety and mandatory health insurance; (d) set standards and requirements for fire safety and general emergency preparedness; (e) regulate the proper use, storage and disposal of waste, insecticides and other hazardous materials; (f) establish general requirements or restrictions on advertising containing false or misleading claims, or health and nutrient claims on menus or otherwise, such as “low calorie”, “healthy” or “organic”; (g) establish requirements concerning withholdings and employee reporting of taxes on tips; (h) regulate the amount or type of ingredients in food and beverages; and (i) regulate or ban the use of particular packaging materials.

In order to develop and construct more stores, we, or our franchisees, need to comply with applicable zoning, land use and environmental regulations. Federal and state environmental regulations have not had a material effect on our operations to date, but expansion of our menu offerings or more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or even prevent construction and increase development costs for new stores. We, and our franchisees, are also required to comply with the accessibility standards mandated by the U.S. Americans with Disabilities Act, which generally prohibits discrimination in accommodation or employment based on disability. We may, in the future, have to modify stores, for example, by adding access ramps or redesigning certain architectural fixtures, to provide service to or make reasonable accommodations for disabled persons. While these expenses could be material, our current expectation is that any such action will not require us to expend substantial funds.

We are subject to the U.S. Fair Labor Standards Act, the U.S. Immigration Reform and Control Act of 1986 and various federal and state laws governing various matters including minimum wages, overtime meal and rest periods, accommodations to certain employees and other working conditions. Complying with these rules subjects us to substantial expense and can also expose us to liabilities from claims for non-compliance. In addition, we and our franchisees pay a significant number of our hourly staff at rates consistent with, but higher than, the applicable federal, state or local minimum wage. Accordingly, increases in the minimum wage would increase our labor cost. We are also subject to various laws and regulations relating to our current and any future franchise operations. See “Risk Factors - Governmental regulation may adversely affect our ability to open new stores or otherwise adversely affect our existing and future operations and results.”

We are also subject to various federal and state laws that regulate the offer and sale of franchises and aspects of the licensor-licensee relationships. Many state franchise laws impose restrictions on the franchise agreement, including the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew and the ability of a franchisor to designate sources of supply. The Federal Trade Commission, or the FTC, and some state laws also require that the franchisor furnish to prospective franchisees a franchise disclosure document that contains prescribed information and, in some instances, require the franchisor to register the franchise offering.

Environmental Matters

We and our franchisees are subject to federal, state and local environmental laws and regulations concerning the use of, among others, polystyrene products, and several counties in which our stores are located have already banned the use of our polystyrene cups. We continued to make progress on certain eco-sustainability initiatives first launched in 2009, including phasing out the use of polystyrene cups, as well as increasing the use of recyclable products and

reducing waste. At the beginning of 2016 we launched plastic cups, which are more easily recycled than the double-walled coated paper cups we introduced in 2013. Our other green initiatives include the use of more environmentally friendly packaging for our cup carriers, oatmeal cups and lids, breakfast clear cups and lids, spoons and napkins, all of which are made from recycled material. We have also reduced the amount of corrugated cardboard used for bulk shipping, reduced labeling requirements, and reduced freight, resulting in lower fuel emissions. We have established several optimization programs to reduce waste, such as participation in recycling and composting programs for our food waste, where it is feasible for us to do so.

Trademarks and Domain Names

We own and/or have applied to register numerous trademarks and service marks in the United States and in other jurisdictions throughout the world. Some of our trademarks, including Jamba Juice[®] and the Jamba logo are of material importance to the Company. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained. In addition, the Company has registered and maintains numerous Internet domain names, including “jamba.com” and “jambajuice.com”.

Management Information Systems

Each Company Store has computerized point-of-sale registers, which collect transaction data used to generate pertinent information, including sales transactions and product mix. Additionally, the point-of-sale system is used to authorize, batch and settle credit card data. All product prices are programmed into the point-of-sale register from the Company’s corporate office. Franchise Stores generally use the same point-of-sale registers as Company Stores, but may elect to use alternative systems provided Company approval and certain information is shared with the Company. Franchisees set their own menu prices.

Company Stores use the Company’s licensed labor management software to record employee time clock information, schedule labor and provide management reports. Company Stores and many Franchise Stores use the Company’s licensed food cost management software to improve inventory management and provide management reports.

Our continued focus on technological and procedural enhancements, in areas such as labor and inventory management, has relieved our store managers from manual administrative tasks and enables them to better focus on delivering exceptional customer service.

Seasonality

Our business is subject to day-to-day volatility based on weather and varies by season. A significant portion of the Company’s revenue is realized during the second and third quarters of the fiscal year, which include the summer months. The fourth quarter of the fiscal year, which encompasses the winter months and the holiday season, has traditionally been our lowest revenue volume quarter. Our business will likely continue to be subject to seasonal patterns for the foreseeable future, given that the largest portion of our sales continues to be from the sale of smoothies during the warmer parts of the year. Because of the seasonality of the business, results for an individual quarter are not necessarily indicative of the results, which may be achieved for the full fiscal year.

Executive Officers

Our executive officers, their respective ages and positions and descriptions of their business experience are set forth below. There are no family relationships among any of the executive officers named below.

David A. Pace, Chief Executive Officer, age 58

Mr. Pace is one of our directors as well as our Chief Executive Officer, and, as such, his biographical information is included below under Item 10 “Directors, Executive Officers and Corporate Governance”.

Marie L. Perry, Executive Vice President, Chief Financial Officer and Chief Administrative Officer, age 52

Ms. Perry has served as the Company's Chief Financial Officer, Executive Vice President and Chief Administrative Officer since August 2016 and served as the Company's Executive Vice President, Finance, from May 2016 to August 2016. From 2003 to 2016, Ms. Perry held roles leading all aspects of the Brinker International finance team including having served as interim CFO during a 12-month period, and most recently, serving as Senior Vice President, Controller and Treasurer. Ms. Perry also held senior finance and accounting roles at American Airlines and KPMG.

Claudia Schaefer, Senior Vice President and Chief Marketing Officer, age 49

Ms. Schaefer has served as the Company's Chief Marketing Officer and Senior Vice President since November 2017. Previously, Ms. Schaefer served as Chief Marketing Officer for Cheddar's Casual Café from January 2015 to November 2017. From 2008 to 2015, Ms. Schaefer served as Vice President of Marketing at Brinker International. From 2004 to 2008, Ms. Schaefer served as Vice President of International Restaurants for T.G.I. Friday's.

Joe Thornton, Senior Vice President, Chief Operations Officer, age 50

Mr. Thornton has served as the Company's Senior Vice President, Chief Operations Officer, since March 2017. Previously, Mr. Thornton served as Vice President, U.S. License Stores, for Starbucks Coffee Company from February 2016 to March 2017. From 2006 to 2016, Mr. Thornton held a variety of other leadership positions at Starbucks Coffee Company. From 1992 to 2006, Mr. Thornton held operational leadership roles at Blockbuster Video.

Employees

As of January 3, 2017, we employed approximately 1,177 persons, approximately 109 of whom were at our corporate offices or part of our field, licensing, direct selling and franchise support and operations. The remainder of our team members was comprised of Company Store management and hourly store personnel. The Company also hires a significant number of seasonal team members during its peak selling seasons of the spring and summer. Our team members are not covered by a collective bargaining agreement. We consider our employee relations to be good. We place a priority on staffing our stores and support center positions with highly skilled team members who embrace our culture and we invest in training programs to ensure the quality of our store operations.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available on our website at <http://ir.jambajuice.com>, free of charge as soon as reasonably practicable after we electronically file such reports with, or furnish those reports to, the Securities and Exchange Commission (the "SEC"). The SEC also maintains an Internet site that contains reports, proxy and information statements and other information that we file electronically with the SEC at <https://www.sec.gov/edgar>. The public may also read and copy any materials that we file with the SEC at the SEC's Public Reference Room at U.S. Securities and Exchange Commission Office of FOIA/ PA Operations, 100 F Street, NE, Washington, DC 20549-2736. Investors may obtain information on the operation of the SEC Public Reference Room by calling the SEC at 1-800-SEC-0330. Our Corporate Governance Principles and Practices, Board of Directors committee charters (including the charters of the Audit Committee, Compensation and Executive Development Committee and Nominating and Governance Committee) and our code of ethics entitled "Code of Business Conduct and Ethics" also are available at that same location on our website. Information on our website is not incorporated into this annual report. Further, our references to the URLs for these websites are intended to be inactive textual references only. Shareholders may request free copies of these documents from:

Jamba, Inc.

c/o ICR, Inc.

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New York, NY 10017

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investors@jambajuice.com

We included the certifications of the Chief Executive Officer and the Chief Financial Officer of Jamba, Inc. relating to the quality of our public disclosure, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, in this Annual Report on Form 10-K as Exhibits 31.1 and 31.2 hereto.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks described below. If any of the risks and uncertainties described below actually occurs, our business, financial condition and results of operations could be materially and adversely affected. The risk factors listed below have been identified as material, however, are not exhaustive. Other sections of this Annual Report on Form 10-K include additional factors that could adversely impact our business, financial condition and results of operations. Moreover, we operate in a very competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all of these factors on our business, financial condition or results of operation.

RISKS RELATED TO OUR BUSINESS

The loss of our Chief Executive Officer, or one or more of our executive management team could adversely affect our business.

On January 22, 2016, David A. Pace who has been on our Board of Directors since 2012 was appointed Chief Executive Officer of the Company. Our success depends substantially on the contributions and abilities of our executive management team as well as other key employees. We believe that these individuals understand our operational strategies and priorities and the steps necessary to drive our long-term growth and shareholder value. Competition for personnel in our industry is strong and the ability to retain key employees can be difficult. While we have entered into employment agreements with each of our executive officers, we cannot make any assurances that we can retain these individuals for the period necessary for us to achieve and sustain profitability. Our failure to retain and motivate executive management, key employees and Chief Executive Officer sufficient to maintain a competitive position within our industry, and to implement our strategic priorities, would adversely affect our results of operations.

The relocation of our corporate headquarters and data center could adversely affect our operations, operating results and financial condition, as we have experienced and may continue to experience disruptions to our business.

During 2016, we relocated our corporate headquarters from Emeryville, California to Frisco, Texas, a suburb of Dallas. In addition, we relocated our data center from Emeryville, California to Richardson, Texas, also a suburb of Dallas. We incurred expenses of approximately \$7.4 million as a result of the move, associated with personnel relocation, employee attrition, retention, severance and replacement, office relocation and other costs. The relocation is intended to, among other things, reduce costs, attract and retain talent and provide a more central location for our market expansion plans.

The relocation included our corporate operations including human resources, finance and accounting, information technology and legal teams, our data center and associated employees. The relocation resulted in significant employee turnover and the planned and unplanned loss of personnel led to business disruptions stemming from delays in filling vacant positions and a lack of personnel with institutional or procedural knowledge and experience. The relocation has also required significant management time and effort, greater than had been anticipated, which was not otherwise devoted to focusing on ongoing business operations and other initiatives and opportunities.

As previously disclosed in the our Form 12b-25 filings with respect to our Form 10-K for our fiscal year ended January 3, 2017 and Form 10-Q for our quarters ended April 4, 2017, July 4, 2017 and October 3, 2017, our financial statements have been delayed as a result of significant changes occurring in 2016, including the relocation of our corporate office in 2016. While we had implemented a transition plan to mitigate the risk relating to the relocation, the replacement and training of new personnel Company wide and transition of operating knowledge created unanticipated difficulties and delays in completing our year-end financials.

The expected benefits of the move may not be fully realized due to associated disruption to our operations and personnel. Any continued difficulties or disruptions could have an adverse effect on our business, results of operations or financial condition.

Our revenue is subject to volatility based on weather and varies by season and our operational results may be subject to unusual weather conditions.

Seasonal factors cause our revenue to fluctuate from quarter to quarter. Because the majority of our revenue results from the sale of smoothies, our revenue is typically lower during the winter months and the holiday season, and during periods of inclement weather (because fewer people choose cold beverages) and higher during the spring, summer and fall months (for the opposite reason). Unusual weather conditions, which may or may not result from climate change or other changes in global meteorological conditions, may add to this volatility. Unusual weather conditions may also have an adverse impact on agriculture, result in increased ingredients and raw materials costs, and adversely affect our results of operations.

We are subject to risks associated with climate change and climate change regulation.

Laws and regulations regarding climate change, energy usage and emissions controls may impact the Company directly through higher costs of goods. The potential impacts of climate change and climate change regulations are highly uncertain at this time, and the Company cannot anticipate or predict the material adverse effect on our financial condition, results of operations or cash flows as a result of climate change and climate change regulations. For instance, changes in the prevailing climate may result in a reduction in, or increased prices of available produce and packaging, which may adversely affect our revenue and operating margins.

Our financial results depend upon the operating results of our franchisees.

Following the implementation of our significant refranchising initiative, we receive a substantial portion of our revenues in the form of royalties and other franchise revenues, which are generally based on development fees, initial franchise fees and a percentage of sales at franchise-operated stores and Jamba Juice Expresses. Accordingly, our financial results to a large extent are dependent upon the operational and financial success of our franchisees. If sales trends or economic conditions worsen for our franchisees, their financial results may deteriorate and our royalty and other revenues may decline and our accounts receivable from franchisees and related allowance for doubtful accounts for our franchisees may increase.

We may not be successful in implementing our strategic priorities, which may have a material adverse impact on our business and financial results.

Our business depends upon our ability to implement our strategic priorities, which we believe necessary to support the Company's continued growth and long-term shareholder value. There can be no assurance that we will be able to continue to successfully implement our strategic priorities or whether these strategic priorities will be successful, and a failure of either could impede our growth and negatively affect our operating results.

We have a history of net losses and may incur losses in the future.

We have incurred net losses in six of the last eight fiscal years. We may continue to incur net losses in the future, and we cannot assure you that we will ever sustain profitability. Continued losses could adversely affect our liquidity and cash reserves and could negatively affect our operating results.

Failure to establish and maintain our internal control over financial reporting may result in us not being able to accurately report our financial results which could result in the loss of investor confidence and adversely affect the market price of our common stock.

Management is responsible for establishing and maintaining adequate internal control over our financial reporting. For fiscal 2016, we disclosed a material weakness in our internal control over financial reporting related to ineffective risk assessment of the risks of material misstatement in financial reporting. This material weakness was related to significant changes in our business model, leadership, key personnel, and relocation of our corporate office. These changes resulted in a significant increase in non-routine transactions and impacted certain routine processes needed to effectively accumulate and present consolidated financial results. This material weakness affected the design, implementation and operation of controls over the preparation, analysis and review of significant balances and disclosures and impacted its ability to close the books in a timely manner. This material weakness also contributed to misstatements related to a number of significant accounts and disclosures.

As a result of this material weakness, our management has developed a comprehensive remediation plan designed to address the factors contributing to the material weakness noted above and improve our overall system of internal controls. Our remediation plan provides that we will improve our system of internal controls by enhancing our risk assessment process, including ongoing evaluation of all of components established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

We cannot, however, be certain that other material weaknesses and control deficiencies will not be discovered in the future. If additional material weaknesses or significant deficiencies in our internal controls are discovered or occur in the future, we may be unable to report our financial results accurately or on a timely basis, which could result in the loss of investor confidence and adversely affect the market price of our common stock.

A worsening of economic conditions or a decrease in consumer spending may substantially decrease our revenues and may adversely impact our ability to implement our business strategy.

To a significant extent, our success depends on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. While economic conditions have been improving, there is no certainty that this trend will continue or that credit and financial markets and confidence in economic conditions will not deteriorate again. Accordingly, we may experience declines in revenue during economic turmoil or during periods of uncertainty. Any material decline in the amount of discretionary spending, leading cost-conscious consumers to be more selective in restaurants visited, could have a material adverse effect on our revenue, results of operations, business and financial condition.

The challenges of competing with the many food services businesses may result in reductions in our revenue and operating margins.

We compete with many well-established companies, food service and otherwise, on the basis of taste, quality and price of product offered, customer service, atmosphere, location and overall consumer experience. Our success depends, in part, upon the popularity of our products and our ability to develop new menu items that appeal to consumers across all four day-parts. Shifts in consumer preferences away from our products, our inability to develop new menu items that appeal to consumers across all day-parts, or changes in our menu that eliminate items popular with some consumers could harm our business. We compete with other smoothie and juice bar retailers, specialty coffee retailers, yogurt and ice cream shops, bagel shops, fast-food restaurants, delicatessens, cafés, take-out food service companies, supermarkets and convenience stores. Our competitors change with each of the four day-parts, ranging from coffee bars and bakery cafés to casual dining chains. Many of our competitors, or potential competitors, have substantially greater financial and other resources than we do, which may allow them to react to changes in the market quicker than we can. In addition, aggressive pricing by our competitors or the entrance of new competitors into our markets, could reduce our revenue and operating margins.

Fluctuations in various food and supply costs, particularly produce and dairy, could adversely affect our operating results.

Supplies and prices of the various products that we use to prepare our offerings can be affected by a variety of factors, such as weather, seasonal fluctuations, demand, politics and economics in the producing countries. These factors subject us to shortages or interruptions in product supplies, which could adversely affect our revenue and profits. In addition, the prices of fruit and dairy, which are the main products in our offerings, can be highly volatile. The quality of produce we seek tends to trade on a negotiated basis, depending on supply and demand at the time of the purchase. An increase in pricing of any produce that we use in our products could have a significant adverse effect on our profitability. In addition, higher diesel and gasoline prices may affect our supply or transportation costs and may affect our profitability. Although we attempt to mitigate the risks of volatile commodity prices and allow greater

predictability in pricing by entering into fixed price, or to-be-fixed price, purchase commitments for a portion of our produce and dairy requirements, we cannot assure you that these activities will be successful or that they will not result in our paying substantially more for our produce supply than would have been required absent such activities. Declines in sales may also adversely affect our business to the extent we have long-term purchase commitments in excess of our needs.

We are dependent upon a limited number of distributors for a significant amount of our food distribution for our Stores.

For Company Stores, we maintain food distribution contracts primarily with two regional distributors, Systems Services of America (“SSA”) and Gordon Food Services (“GFS”), which also service a majority of our Franchise Stores. SSA distributes to the Western United States, and GFS primarily distributes to the Eastern United States. Although we believe our relationship with these distributors will result in operational efficiencies and cost savings, we cannot assure you that we will be successful or that we will not have to pay substantially more for distributor services in the event GFS or SSA has operational problems. Should GFS or SSA have operational problems, our operations and our operating margins could be adversely affected.

We may face difficulties entering into new or modified arrangements with existing or new suppliers or new service providers.

If we expand our operations into new geographic areas through new Company Stores, Franchise Stores, Jamba Juice Express, or introduce new products with special manufacturing, storage or distribution requirements, we may have to seek new suppliers and service providers, or enter into new arrangements with existing ones. We may also encounter difficulties or be unable to negotiate pricing or other terms as favorable as those we currently enjoy, which could harm our business and operating results. For example, the potential growth in smaller format stores may cause the frequency of shipments to increase and the average number of cases per shipment to decrease, thereby increasing the Company’s per case shipment costs.

The Company’s success depends on the value of the Jamba Juice® brands.

The Jamba Juice® brand promise is to inspire and simplify healthy living. We believe we must preserve and grow the value of the Jamba Juice brands in order to be successful in building our business, and particularly in building a consumer products growth platform under the Jamba brands. Brand value is based in part on consumer perceptions, and the Jamba Juice brand has been highly rated in several recent brand studies. We intend to reinforce and extend these perceptions for the Jamba brands to help support our licensing efforts. Our brand building initiatives involve increasing our product offerings, opening new Franchise Stores and Jamba Juice Express platforms, and entering into licensing arrangements to increase awareness of our brands and create and maintain brand loyalty. Our franchisees and licensees are often authorized to use our logos and provide branded beverages, food and other products directly to customers. We provide training and support to, and monitor the operations of, these business partners, but the product quality and service they deliver may be diminished by any number of factors beyond our control, including financial pressures. We believe customers expect the same quality of products and service from our franchisees and licensees as they do from us. Any shortcoming of one of our business partners, particularly an issue affecting the quality of the service experience or the safety of beverages or food, may be attributed by customers to us, thus damaging our reputation and brand value and potentially affecting our results of operations. If our brand building initiatives are unsuccessful, or if business incidents occur that erode consumer perceptions of our brand, then the value of our products may diminish and we may not be able to implement our business strategy.

We may experience higher than anticipated costs in connection with the refresh and remodel of existing Company Stores.

Updating the format and design of our Company Stores is important to maintaining a positive consumer association with the Jamba Juice brand. While we intend for such remodeling efforts to inure to the benefit of the Company, the associated costs may be higher than expected, and our revenues and expenses could be negatively impacted.

We may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.

Our intellectual property is material to the conduct of our business. Our ability to implement our business plan successfully depends in part on our ability to build further brand recognition using our trademarks, service marks, trade dress and other proprietary intellectual property, including our name and logos and the unique ambiance of our

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stores, both domestically and overseas. We have secured the ownership and rights to our marks in the United States and have filed or obtained registrations in select classes including restaurant services in most other significant foreign jurisdictions. We undertake similar efforts to protect our brands in other relevant consumer product categories in relevant jurisdictions. If our efforts to protect our intellectual property are inadequate, or if any third party misappropriates or infringes on our intellectual property, the value of our store brand and our consumer products brands may be harmed, which could have a material adverse effect on our business. While we have not encountered material claims from prior users of intellectual property relating to restaurant services in areas where we operate or intend to conduct material operations in the near future, there can be no assurances that we will not encounter any material claims in the future. If so, this could harm our image, brands or competitive position and cause us to incur significant penalties and costs.

Our business could be adversely affected by increased labor or healthcare costs. Self-insurance plan claims could materially impact our results.

Labor is a primary component in the cost of operating our business. We compete with other employers in our markets for hourly workers and may become subject to higher labor costs as a result of such competition. We devote significant resources to recruiting and training our team members. A considerable number of the team members employed by us are paid at rates related to the federal minimum wage. In 2009, the federal minimum wage increased to \$7.25 per hour. Additionally, many of our Company Store team members work in stores located in states where the minimum wage is greater than the federal minimum wage and receive compensation equal to the state's minimum wage. The current minimum wage in California for businesses with 26 or more employees increased to \$10.50 per hour effective January 1, 2017, and increases each year until reaching \$15.00 per hour in 2022.

Moreover, municipalities may set minimum wages above the applicable state standards, such as in San Francisco, which raised the minimum wage to \$13.00 as of July 1, 2016, and will reach \$15.00 on July 1, 2018. Any further increases in the federal minimum wage or the enactment of additional state or local minimum wage increases where our employees may be located will increase our labor costs. Competition for employees in various markets could also result in higher required wage rates. Furthermore, the Company is self-insured for employee healthcare and dental benefits. The Company pays a substantial part of the healthcare benefits for team members at the general manager level and above and for those working at the Company's corporate office. The Company has a guaranteed cost Worker's Compensation policy effective October 1, 2016. Liabilities associated with our self-insured plans the Company retains are estimated in part, by considering historical claims experience, reserves and other actuarial assumptions. The estimated accruals for these liabilities are based on statistical analyses of historical industry data as well as the Company's actual historical trends. If actual claims experience differs from the Company's assumptions, historical trends, and estimates, changes in the Company's insurance reserves could materially impact our results of operations.

The Patient Protection and Affordable Care Act enacted in 2010, as well as other healthcare reform legislation being considered by Congress and state legislatures may have a material adverse impact on our business. We continue to monitor and evaluate any impact the Patient Protection and Affordable Care Act or alternative regulations may have on our business.

We are reliant on our outsourcing partner to provide effective administrative functions.

During the latter part of 2014, we engaged a third party service provider to provide outsourced accounting, IT, human resources and contract management services. This may allow us to achieve efficiencies and cost savings, in part, through a reduction in our workforce. If our outsourcing partner fails to perform at a sufficient level to ensure our efficient operation, we may not have the resources to timely and efficiently take over those functions, and our financial performance might be adversely impacted as a result.

We are subject to all of the risks associated with leasing space subject to long-term non-cancelable leases.

We, and our franchisees, compete in the market for real estate and our, or their, inability to secure appropriate real estate or lease terms could impact our respective abilities to grow. Our leases generally have initial terms of between five and 15 years, and generally can be extended only in five-year increments if at all. We generally cannot cancel these leases. If an existing or new store is not profitable, and we decide to close it, as we have done in the

past and may do in the future, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Additionally, because we sublease the premises of Company Stores sold to franchisees in our refranchising program, we are still legally liable to the landlords under the prime leases, and we will need to assume obligations under the prime lease should a franchisee default on its sublease obligations. Current locations of our stores and franchised locations may become unattractive as demographic patterns change. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could require us to close stores in desirable locations.

Our business and results may be subject to disruption from work stoppages, terrorism or natural disasters.

Our operations may be subject to disruption for a variety of reasons, including work stoppages, acts of war, terrorism, pandemics, fire, earthquake, flooding or other natural disasters. These disruptions can result in, among other things, lost sales when consumers stay home or are physically prevented from reaching our stores, property damage, lost sales when our stores are forced to close for extended periods of time and interruptions in supply when vendors suffer damages or transportation is affected. If a natural disaster were to occur near our headquarters and data center in Frisco, Texas, our corporate offices and data center may be damaged or destroyed. Such a disruption could result in the temporary or permanent loss of critical data, suspension of operations, delays in shipments of product, and disruption of business in both the affected region and nationwide, which would adversely affect our revenue and results of operations.

We are highly dependent on the financial performance of stores concentrated in certain geographic areas.

Our financial performance is highly dependent on stores located in California. Stores located in California comprise over 74% of Company Stores and generate a significant portion of our Company Store revenue. These stores also comprise approximately 46% of our total global system stores. If geographic regions in which we have a high concentration of stores experience significant economic pressures, our sales and operating results could be negatively impacted. In addition, state and local laws, government regulations, weather conditions and natural disasters affecting California and other regions where we have a high concentration of stores may have a material impact upon our operating results.

We may not realize the anticipated benefits of any acquisitions, joint ventures or strategic investments.

We expect to continue to evaluate and consider a wide array of potential strategic transactions, including acquisitions, joint ventures and strategic investments. At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions. Any of these transactions could be material to our financial condition and results of operations. We may not realize the anticipated benefits of any or all of our acquisitions, joint ventures or strategic investments, or we may not realize them in the time frame expected. Future acquisitions, joint ventures or strategic investments may require us to issue additional equity securities, spend a substantial portion of our available cash, or incur debt or liabilities, amortize expenses related to intangible assets or incur write-offs of goodwill, which could adversely affect our results of operations and dilute the economic and voting rights of our shareholders.

Governmental regulation may adversely affect our ability to open new stores or otherwise adversely affect our existing and future operations and results.

We, and our franchisees, are subject to various federal, state and local regulations. Each of our stores is subject to state and local licensing and regulation by health, sanitation, food and workplace safety and other agencies. We, and our franchisees, may experience material difficulties or failures in obtaining the necessary licenses or approvals for new stores, which could delay planned store openings. In addition, stringent and varied requirements of local regulators

with respect to zoning, land use and environmental factors could delay or prevent development of new stores in particular locations.

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Our operations are also subject to the U.S. Fair Labor Standards Act and National Labor Relations Act, which governs such matters as minimum wages, overtime and other working conditions, along with the U.S. Americans with Disabilities Act, family leave mandates and a variety of similar laws enacted by the states that govern these and other employment law matters. In recent years, there has been an increased legislative, regulatory, and consumer focus on nutrition and advertising practices in the food industry. Establishments operating in the quick-service and fast-casual segments have been a particular focus, and compliance with additional regulations can become costly and affect our operating results.

Our federal, state and local tax returns may, from time to time, be selected for audit by the taxing authorities, which may result in tax assessments, interest or penalties that could have a material adverse impact on our results of operations and financial position.

We are subject to federal, state and local taxes in the U.S. In making tax estimates and paying taxes, significant judgment is often required. Although we believe our tax positions and estimates are reasonable, if a taxing authority disagrees with the positions taken by the Company, we could have an additional tax liability, including interest and penalties. If material, payment of such additional amounts could have a material impact on our results of operations and financial position.

We rely heavily on information technology and a material failure of that technology could impair our ability to efficiently operate our business.

Our business operations rely heavily on information systems, including point-of-sale processing in our stores, management of our supply chain and distribution system, vendor and franchisee invoicing, and various other processes and procedures. The efficient management of our business depends significantly on the reliability and capacity of these systems, and any related failure and/or breach of security could cause delays in customer service and reduce efficiency in our operations. Significant capital investments might be required to remediate any problems.

Failure to protect the integrity and security of individually identifiable data of customers, vendors or employees could expose us to data loss, litigation and liability, and our reputation could be significantly harmed.

Our business operations require us to process and/or maintain certain personal, business and financial information about customers, vendors and employees. The use of such information by us is regulated by federal, state and foreign laws, as well as certain third party agreements. If our security and information systems are compromised or if our employees or franchisees fail to comply with the applicable laws and regulations, and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation and result in litigation and settlement costs, damage awards, or penalties and fines. As privacy and information security law and regulations change, we may incur additional costs to ensure that we remain in compliance.

A failure or breach of our security systems or infrastructure as a result of cyber-attacks could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

Information security risks have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. These threats may derive from fraud or malice on the part of our employees or third parties, or may result from human error or accidental technological failure. These threats include cyber-attacks such as computer viruses, malicious code, phishing attacks or information security breaches.

To date, we have not experienced any material impact relating to cyber-attacks or other information security breaches. Any actual attacks could lead to damage to our reputation, additional costs (such as repairing systems and investigation or compliance costs), penalties, financial losses to both us and our customers and partners and the loss of customers and business opportunities. If such attacks are not detected immediately, their effect could be compounded. As cyber-threats continue to evolve, we may be required to expend significant additional resources to

continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could materially adversely affect our overall business and results of operations.

The new presidential administration may make substantial changes to regulatory policies that may adversely affect our business.

The new presidential administration has called for substantial change to various policies and regulations, including labor, healthcare, trade, tax and fiscal policy. We cannot predict the impact, if any, of these changes to our business. However, it is possible that these changes could adversely affect our business. It is likely that some policies adopted by the new administration will benefit us and others will negatively affect us. Until we know what changes are enacted, we will not know whether in total we benefit from, or are negatively affected by, the changes.

In December of 2017, the U.S. government enacted comprehensive tax legislation that includes significant changes to the taxation of business entities, including, among other provisions, a permanent reduction to the corporate income tax rate. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected.

RISKS RELATED TO OUR FRANCHISE BUSINESS

Termination of an arrangement with a master developer could adversely impact our revenues.

We enter into relationships with “master developers” to develop and operate restaurants in defined domestic and international geographic areas. Master developers are granted exclusive rights with respect to larger territories than our typical franchisees. The termination of an arrangement with a master developer or a lack of expansion by certain master developers could result in the delay of the development and expansion of our business in our targeted markets. Any such delay or interruption could result in lower revenues for us, particularly if we were to choose to close stores following the termination of an arrangement with a master developer.

Our growth strategy depends on increasing franchise ownership.

Our current growth strategy is to continue to pursue an asset-light business model, including selling Company Stores, and increasing the number of franchise locations as a percentage of all stores in the Jamba System. By emphasizing Franchise Store development, we receive an increasingly significant amount of our revenues in the form of royalties from our franchisees. Accordingly, the success of our business is increasingly dependent upon the operational and financial success of our franchisees. This strategy is subject to risks and uncertainties, which may be concentrated where any particular franchisee owns a significant number of franchise locations. While our franchise agreements set forth certain operational standards and guidelines, we have limited control over how our franchisees’ businesses are run, and any significant inability of our franchisees to operate successfully could adversely affect our operating results through decreased royalty payments. We may not be able to identify franchisee candidates with appropriate experience and financial resources or to negotiate mutually acceptable agreements with those that do. Our franchisee candidates may not have access to the financial or management resources that they need to open or continue operating the stores contemplated by their franchise agreements with us. In addition, franchisees may not be able to find suitable sites on which to develop new stores or negotiate acceptable lease terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. If our franchisees incur too much debt or if economic or sales trends deteriorate such that they are unable to repay existing debt, it could result in financial distress or even possible insolvency or bankruptcy. Some of our franchisees experienced financial pressures during fiscal 2016, 2015 and 2014. If a significant number of our franchisees become financially distressed, this could harm our operating results through reduced or delayed royalty payments or increased rent obligations for leased properties on which we are contingently

liable.

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Expansion into new geographic markets may present increased risks.

Franchise growth is planned in new geographic areas in the United States and select international markets. Our future results, and the results of new Franchise Stores, depend on various factors, including successful selection and expansion into these new geographic markets and market acceptance of the Jamba Juice experience. Those markets may have different competitive conditions, consumer tastes and discretionary spending patterns as compared to existing markets. As a result, those new stores may be less successful than stores in our existing markets. Consumers in a new market may not be familiar with the Jamba Juice brand, and we may need to build brand awareness in that market through greater investments in advertising and promotional activity than we originally planned. Franchisees may find it more difficult in new markets to hire, motivate and keep qualified employees who can project our vision, passion and culture. Stores opened in new markets may also have lower average store revenue than stores opened in existing markets, and may have higher construction, occupancy or operating costs than stores in existing markets. Furthermore, we may have difficulty in finding reliable suppliers or distributors or ones that can provide us, either initially or over time, with adequate supplies of ingredients meeting our quality standards. Revenue at stores opened in new markets may take longer to increase and reach expected revenue levels, and may never do so, thereby affecting our overall royalty income. As with the experience of other retail food concepts that have tried to expand nationally and internationally, we may find that the Jamba Juice concept has limited appeal to customers in new markets or we may experience a decline in the popularity of the Jamba Juice experience. Newly opened stores may not succeed, future markets and stores may not be successful and, even if we are successful, our average store revenue, and the royalty income generated therefrom, may not increase and may even decline.

Our efforts to expand internationally may not be successful and could impair the value of our brand.

Our current strategy includes international expansion in a number of countries around the world. Expanding into international markets will expose us to new risks and uncertainties, including product supply, import/export limitations and regulations to which we are not currently bound and may not be currently set up to handle, consumer preferences, occupancy costs, operating expenses and labor and infrastructure challenges. If stores open in international markets and such stores are unable to source inventory locally, franchisees may be required to import inventory from our U.S. distributors and any resulting import duties, tariffs, transportation or other charges may disproportionately impact such stores' cost of goods which could harm the viability of such stores. Finally, international operations have inherent risks such as foreign currency exchange rate fluctuations, the application and effect of local laws and regulations and enforceability of intellectual property and contract rights. Additionally, effectively managing growth can be challenging, particularly as we continue to expand into new international markets where we must balance the need for flexibility and a degree of autonomy for local management against the need for consistency with our goals, philosophy and standards. Failure of our international expansion strategy could have a material adverse impact on our results of operations.

Termination or non-renewal of franchise agreements may disrupt store performance.

Each franchise agreement is subject to termination by us in the event of default by the franchisee after the applicable cure period. Upon the expiration of the initial term of a franchise agreement, the franchisee generally has an option to renew for an additional term. There is no assurance that franchisees will meet the criteria for renewal or will desire or be able to renew their franchise agreements. If not renewed, a franchise agreement and payments required thereunder will terminate. We may be unable to find a new franchisee to replace such lost revenue. Furthermore, while we will be entitled to terminate franchise agreements following a default that is not cured within the applicable cure period, if any, the disruption to the performance of the stores could materially and adversely affect our business.

Our franchisees could take actions that harm our reputation and reduce our royalty revenue.

While we have franchise agreements in place with our franchisees that provide certain operational requirements, we do not exercise control over the day-to-day operations of our Franchise Stores. Any operational or developmental shortcomings of our Franchise Stores, including their failure to comply with applicable laws, are likely to be attributed to our system-wide operations in the eyes of consumers and could adversely affect our reputation and have a direct negative impact on the royalty revenue we receive from those and other stores.

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We could face liability from our franchisees and from government agencies.

A franchisee or government agency may bring legal action against us based on the franchisor/franchisee relationship. Various state and federal laws govern our relationship with our franchisees and our potential sale of a franchise. If we fail to comply with these laws, we could be liable for damages to franchisees, fines or other penalties. Expensive litigation with our franchisees or government agencies may adversely affect both our profits and our important relations with our franchisees.

RISKS RELATED TO THE FOOD SERVICE BUSINESS

Litigation and publicity concerning food quality, health claims, and other issues can result in liabilities, increased expenses, distraction of management, and can also cause customers to avoid our products, which could adversely affect our results of operations, business and financial condition.

Food service businesses can be adversely affected by litigation and complaints from customers or government authorities resulting from food quality, health claims, allergens, illness, injury or other health concerns or operating issues stemming from one retail location or a number of retail locations. Adverse publicity about these allegations may negatively affect us, regardless of whether the allegations are true, by discouraging customers from buying our products.

Our customers occasionally file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to our stores, or that we have problems with food quality or operations. We are also subject to a variety of other claims arising in the ordinary course of our business, including false advertising claims, personal injury claims, contract claims and claims alleging violations of federal and state law regarding workplace and employment matters, discrimination and similar matters, and we could become subject to class action or other lawsuits related to these or different matters in the future. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment significantly in excess of our insurance coverage, or for which we are not covered by insurance, could materially and adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also materially and adversely affect our reputation or prospects, which in turn, could adversely affect our results.

In addition, the food services industry has been subject to a growing number of claims based on the nutritional content of food products they sell, and disclosure and advertising practices. We may also be subject to this type of proceeding in the future and, even if not, publicity about these matters (particularly directed at the quick-service and fast-casual segments of the industry) may harm our reputation or prospects and adversely affect our results.

We are also impacted by trends in litigation, including class-action allegations brought under various consumer protection laws, securities and derivative lawsuits claiming violations of state and federal securities law, and employee lawsuits, including wage and hour claims. We may also be impacted by litigation involving our relationship with franchisees and the legal distinction between our franchisees and us for employee claims based on, among other things, wage and hour violations, discrimination, harassment, or wrongful termination, as these types of claims are increasingly asserted against franchisors on a co-employer theory by employees of franchisees.

Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, regardless of the outcome of any litigation or regulatory proceedings, these proceedings could result in substantial costs and may require that we devote substantial resources to defend our Company and could affect the future premiums we would be required to pay on our insurance policies.

Further, changes in governmental regulations could have adverse effects on our business and subject us to additional regulatory actions.

Food safety concerns and instances of food-borne illnesses could harm our customers, result in negative publicity and cause the temporary closure of some stores and, in some cases, could adversely affect the price and availability of fruits and vegetables, any of which could harm our brand reputation, result in a decline in revenue or an increase in costs.

We consider food safety a top priority and dedicate substantial resources toward ensuring that our customers enjoy high-quality, safe and wholesome products. However, we cannot guarantee that our internal controls and training will be fully effective in preventing all food-borne illnesses. Furthermore, our reliance on third-party food suppliers and distributors increases the risk that food-borne illness incidents (such as e. coli, hepatitis A, salmonella or listeria) could occur outside of our control and at multiple locations. Instances of food-borne illnesses, whether real or perceived, and whether at our stores or those of our competitors, could harm customers and otherwise result in negative publicity about us or the products we serve, which could adversely affect revenue. If there is an incident involving our stores serving contaminated products, our customers may be harmed, our revenue may decrease and our brand name and reputation may be impaired. If our customers become ill from food-borne illnesses, we could be forced to temporarily close some stores. In addition, we may have different or additional competitors for our intended customers as a result of making any such changes and may not be able to compete successfully against those competitors. Food safety concerns and instances of food-borne illnesses and injuries caused by food contamination have in the past, and could in the future, adversely affect the price and availability of affected ingredients and cause customers to shift their preferences, particularly if we choose to pass any higher ingredient costs along to consumers. As a result, our costs may increase and our revenue may decline. A decrease in customer traffic as a result of these health concerns or negative publicity, or as a result of a change in our menu or dining experience or a temporary closure of any of our stores, could materially and adversely impact our business, financial condition and results of operations.

RISKS RELATED TO OWNERSHIP OF COMMON STOCK

Failure of the Company's internal control over financial reporting could harm its business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes: (i) maintaining reasonably detailed records that accurately and fairly reflect our transactions; and (ii) providing reasonable assurance that we (a) record transactions as necessary to prepare the financial statements, (b) make receipts and expenditures in accordance with management authorizations; and (c) would timely prevent or detect any unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. In addition, we are required to comply with a variety of reporting, accounting and other rules and regulations. Compliance with existing requirements is expensive. Our accounting systems are older and require manual processing. We may need to implement additional finance and accounting systems and procedures and controls to comply with our reporting requirements. A significant financial reporting failure could cause an immediate loss of investor confidence in us and a sharp decline in the market price of our common stock.

In 2016, the Company underwent significant changes in its business model, leadership, key personnel, and relocation of its corporate office. These changes resulted in a significant increase in non-routine transactions and impacted certain routine processes needed to effectively accumulate and present consolidated financial results. The Company identified that its risk assessment process, which was intended to identify new transactions and changes to existing

processes and design appropriate control activities over financial reporting, was not sufficient to prevent or detect material misstatement in a timely basis. Consequently, a material weakness in internal control over financial reporting resulted from ineffective risk assessment of material misstatement in financial reporting.

Our anti-takeover provisions may delay or prevent a change of control of us, which may adversely affect the price of our common stock.

Certain provisions in our corporate documents and Delaware law may delay or prevent a change of control of us, which could adversely affect the price of our common stock. For example, the Company's amended and restated certificate of incorporation and bylaws include anti-takeover provisions such as:

- limitations on the ability of shareholders to amend our charter documents, including shareholder supermajority voting requirements;
- the inability of shareholders to act by written consent or to call a special meeting absent the request of the holders of a majority of the outstanding common stock; and
- advance notice requirements for nomination for election to the board of directors and for shareholder proposals.

The Company is also afforded the protections of Section 203 of the Delaware General Corporation Law which prevents it from engaging in a business combination with a person who acquires at least 15% of its common stock for a period of three years from the date such person acquired such common stock, unless board of directors or shareholder approval is obtained.

Our stock price may fluctuate significantly.

The trading price of our common stock has been volatile and is likely to continue to be volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors. The stock market has experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. Broad market factors, including the effect of international political instability, armed conflict, natural disasters, financial markets, and general economic conditions, may have a material adverse effect on our stock price, regardless of our actual performance.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters were located in Emeryville, California and were relocated to Frisco, Texas in the fourth quarter of fiscal year 2016. The Emeryville facility was occupied under a lease for approximately 37,000 square feet, at a cost of approximately \$1.2 million per year and has a lease term that expired on January 31, 2017. The Frisco facility is occupied under a lease for approximately 25,000 square feet, at a cost of approximately \$0.8 million per year and has a lease term that expires on March 31, 2027.

The Company, including our franchisees, currently operates all of its stores under leases and typically signs five to 15 year leases. The Company does not intend to purchase real estate for any of its sites in the future. The Company believes that the size and flexibility of its format provide it with a competitive advantage in securing sites. At January 3, 2017, the Company served its customers primarily through a combination of Company Stores, Franchise Stores and International Stores in 35 different States, the District of Columbia, Indonesia, Taiwan, South Korea, the Philippines, Mexico and the Middle East.

Store Count as of January 3,
2017

Franchise &
Company
Stores International Stores Total

United States

Arizona