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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended June 30, 2001

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period From \_\_\_\_ to \_\_\_\_

Commission File Number 333-75913

**Jones Soda Co.**

(Exact name of registrant as specified in its charter)

**Washington**  
(State or other jurisdiction of incorporation  
or organization)

**91-1696175**  
(I.R.S. Employer Identification Number)

**234 9th Avenue North**  
**Seattle, Washington 98109**  
(Address of principal executive office)

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

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

As of June 30, 2001, the issuer had 20,241,846 shares of common stock outstanding.

Transitional Small Business Disclosure Format: Yes  No

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**JONES SODA CO.  
FORM 10-QSB**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### JONES SODA CO. AND SUBSIDIARIES

Interim Consolidated Balance Sheets

(Expressed in U.S. dollars)

June 30, 2001 with comparative figures for December 31, 2000

	June 30, 2001	December 31, 2000
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,726,477	\$ 3,034,708
Accounts receivable	4,367,783	1,713,864
Inventory	3,972,498	1,894,489
Prepaid expenses	488,738	261,984
	10,555,496	6,905,045
Fixed assets	711,033	735,482
Intangible assets	116,480	112,922
	\$ 11,383,009	\$ 7,753,449
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Line of credit	\$ 2,766,655	\$ 1,566,915
Accounts payable and accrued liabilities	3,690,299	1,878,980
Current portion of capital lease obligations	78,923	81,116
	6,535,877	3,527,011
Capital lease obligations, less current portion	79,727	70,029
Stockholders' equity		
Common stock:		
Authorized: 100,000,000 common stock, no par value		
Issued and outstanding: 20,241,846 common stock (2000 – 19,303,378)	11,264,419	10,708,519
Additional paid-in capital	429,955	407,455
Accumulated other comprehensive income	107,752	107,752
Deficit	(7,034,721)	(7,067,317)
	4,767,406	4,156,409
	\$ 11,383,009	\$ 7,753,449

See accompanying notes to interim consolidated financial statements.

**JONES SODA CO. AND SUBSIDIARIES**  
Interim Consolidated Statements of Operations  
(Expressed in U.S. dollars)  
(Unaudited)

Three and six months ended June 30, 2001 and 2000

	Six months ended June 30, 2001	Three months ended June 30, 2001	Six months ended June 30, 2000	Three months ended June 30, 2000
Revenue	\$ 13,024,528	\$ 7,691,235	\$ 9,160,952	\$ 5,962,990
Cost of goods sold	8,135,393	4,823,969	5,506,747	3,498,263
Gross margin	4,889,135	2,867,266	3,654,205	2,464,727
Operating expenses:				
Promotion and selling	3,574,168	1,881,746	2,586,551	1,557,340
General and administrative	1,382,718	732,741	1,143,796	662,118
	4,956,886	2,614,487	3,730,347	2,219,458
Income (loss) from operations	(67,751)	252,779	(76,142)	245,269
Other income (expense):				
Interest income, net	(40,507)	(34,939)	(52,301)	(47,709)
Other income	140,854	75,246	114	-
	100,347	40,307	(52,187)	(47,709)
Income (loss) for the period	\$ 32,596	\$ 293,086	\$ (128,329)	\$ 197,560
Income (loss) per share, basic	\$ 0.00	\$ 0.01	\$ (0.01)	\$ 0.01
Income (loss) per share, diluted	0.00	0.01	(0.01)	0.01
Weighted average common stock, basic	19,618,542	19,920,626	17,371,163	17,435,412
Weighted average common stock, diluted	19,630,868	20,051,296	17,413,523	18,913,523

See accompanying notes to interim consolidated financial statements.

**JONES SODA CO. AND SUBSIDIARIES**

Interim Consolidated Statements of Stockholders' Equity and Comprehensive Income

(Expressed in U.S. dollars)

(Unaudited)

Six months ended June 30, 2001

Two Years ended December 31, 2000 and 1999

	Common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Comprehensive income (loss)	Total stockholders' equity
	Number	Amount					
Balance, December 31, 1998	15,150,164	8,947,585	173,376	95,325	(7,854,497)		1,361,789
Options exercised	25,000	15,610	—	—	—		15,610
Warrants exercised	68,480	35,585	—	—	—		35,585
Common stock issued for cash	3,510,754	1,462,538	188,922	—	—		1,651,460
Comprehensive loss:							
Net loss	—	—	—	—	(809,176)	\$ (809,176)	(809,176)
Foreign currency translation adjustments	—	—	—	12,427	—	<u>12,427</u>	12,427
Total comprehensive loss						<u>\$ (796,749)</u>	
Balance, December 31, 1999	18,754,398	10,461,318	362,298	107,752	(8,663,673)		2,267,695
Warrants issued	—	—	9,600	—	—		9,600
Warrants exercised	548,980	247,201	—	—	—		247,201
Stock-based compensation	—	—	35,557	—	—		35,557
Comprehensive loss:							
Net income	—	—	—	—	1,596,356	<u>\$ 1,596,356</u>	1,596,356
Total comprehensive income						<u>\$ 1,596,356</u>	
Balance, December 31, 2000	19,303,378	\$ 10,708,519	\$ 407,455	\$ 107,752	\$ (7,067,317)		\$ 4,156,409
Options exercised	25,000	12,931	—	—	—		12,931
Warrant exercised	913,468	542,969	—	—	—		542,969
Stock-based compensation	—	—	22,500	—	—		22,500
Comprehensive loss:							
Net Income	—	—	—	—	32,596	<u>\$ 32,596</u>	32,596
Total comprehensive loss						<u>\$ 32,596</u>	
Balance, June 30, 2001	20,241,846	\$ 11,264,419	\$ 429,955	\$ 107,752	\$ (7,034,721)		\$ 4,767,406

See accompanying notes to interim consolidated financial statements.

**JONES SODA CO. AND SUBSIDIARIES**  
Interim Consolidated Statements of Cash Flows  
(Expressed in U.S. dollars)  
(Unaudited)

Six months ended June 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Income (loss) for the period	\$ 32,596	\$ (128,329)
Items not involving cash:		
Depreciation and amortization	127,477	116,007
Non-cash interest expense	-	400
Stock-based compensation expense	22,500	34,660
Changes in assets and liabilities:		
Accounts receivable	(2,653,919)	(2,118,593)
Inventory	(2,078,009)	(1,665,507)
Prepaid expenses	(226,754)	(192,296)
Accounts payable and accrued liabilities	1,811,319	1,621,115
Net cash used in operating activities	(2,964,790)	(2,332,543)
Cash flows from investing activities:		
Purchase of fixed assets	(88,028)	(66,215)
Purchase of intangible assets	(18,558)	(6,882)
Net cash used in investing activities	(106,586)	(73,097)
Cash flows from financing activities:		
Net borrowing under line of credit	1,199,740	1,748,688
Net borrowing (repayment of) capital lease obligations	7,505	(40,526)
Proceeds from exercise of options	12,931	-
Proceeds from exercise of warrants	542,969	121,648
Cash flows provided by financing activities	1,763,145	1,829,810
Effect of foreign exchange rate changes on cash	-	(61,361)
Net increase (decrease) in cash and cash equivalents	(1,308,233)	(637,191)
Cash and cash equivalents, beginning of year	3,034,708	344,551
Cash and cash equivalents, end of period	\$ 1,726,477	\$ (292,640)
Supplemental disclosure of non-cash financing and investing activities:		
Stock-based compensation	\$ 22,500	\$ 69,320
Increase in capital lease obligations	41,066	119,073
Warrant issued as a prepaid financing charge	-	-
Cash paid during year for:		
Interest payments	\$ 110,589	\$ 62,370
Income taxes	-	-

See accompanying notes to interim consolidated financial statements.

## **JONES SODA CO. AND SUBSIDIARIES**

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

(Unaudited)

Six months ended June 30, 2001

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### **1. Nature and continuance of operations:**

Jones Soda Co. (the “Company” or “Jones Soda”) develops, produces, markets, and distributes or “new age” beverages. The Company’s main product lines include the brands: *Jones Soda Co.*, a carbonated soft drink; *WhoopAss*, a high energy drink; *Jones Juice*, a non-carbonated juice & tea drink; and *WAZU*, a natural spring water. Urban Juice and Soda Company Limited, the Company’s predecessor, was incorporated in 1986 under the Company Act of British Columbia. On December 31, 1999, Urban Juice continued its incorporation in Wyoming. On August 3, 2000, Urban Juice merged with its wholly-owned Washington subsidiary, Jones Soda Co., and continued operations under this name. The merged company has two operating subsidiaries, Jones Soda Co. (USA) Inc., and Wazu Products Limited, as well as a non-operating subsidiary, myJones.com Inc.

The Company’s future operations are dependent upon the market’s acceptance of its products. There can be no assurance the Company’s products will be able to secure sufficient market acceptance to generate income from operations. Operations to date have primarily been financed through the issuance of common stock and short-term debt. These consolidated financial statements have been prepared on a basis which assumes the realization of assets and settlement of liabilities in the normal course of business. During the periods ended June 30, 2001 and 2000, the Company incurred income of \$32,596 and loss of \$128,329, respectively, and generated negative cash flows from operating activities. The Company’s ability to continue as a going concern is dependent upon the ability to raise additional financing and also to generate future profitable operations.

### **2. Significant accounting policies:**

#### **(a) Basis of presentation:**

These consolidated financial statements have been prepared using generally accepted accounting principles in the United States.

The financial information as at June 30, 2001 and for each of the six month periods ended June 30, 2001 and 2000 is unaudited; however, in the opinion of management such financial information includes all adjustments (consisting solely of normal recurring adjustments) necessary for its fair presentation in conformity with generally accepted accounting principles. Interim results are not necessarily indicative of results for a complete fiscal year. The results of operation for an interim period are not necessarily indicative of the results to be expected for a complete financial year or for any other period.

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

## **JONES SODA CO. AND SUBSIDIARIES**

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

(Unaudited)

Six months ended June 30, 2001

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### **2. Significant accounting policies (continued):**

The financial information included herein should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2000 included in its 2000 annual report on Form 10-KSB.

(b) Use of estimates:

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results may differ from these estimates.

(c) Foreign currency translation:

To December 31, 1999, the functional currency of the Company was the Canadian dollar, with the financial statements prepared using the United States (U.S.) dollar as the reporting currency. Assets and liabilities were translated into U.S. dollars at the exchange rate in effect at the balance sheet date and revenue and expenses were translated at the average rates of exchange prevailing during the year. The translation adjustment resulting from the process was presented separately as a component of accumulated other comprehensive income (loss) in stockholders' equity. Exchange gains or losses arising on translation or settlement of foreign currency denominated monetary items were included in the consolidated statement of operations.

At December 31, 1999, the Company migrated its operations to Seattle, Washington, and subsequently the majority of the Company's transactions are originally denominated in U.S. dollars. Accordingly, for the period ended June 30, 2001 the functional currency of all companies within the group is the US dollar. As such, all foreign exchange gains or losses, including those arising from translating Canadian operations to US dollars, have been included in income. For the period ended June 30, 2001, the Company incurred a foreign exchange gain of \$47,001 (2000 – Nil).

(d) Cash and cash equivalents:

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

## **JONES SODA CO. AND SUBSIDIARIES**

Notes to Interim Consolidated Financial Statements

(Expressed in U.S. dollars)

(Unaudited)

Six months ended June 30, 2001

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### **3. Line of credit:**

The Company has a \$ 3,000,000 bank line expiring March 22, 2003. Borrowings under the line bear interest at the prime rate plus 1.5% (8.25% at June 30, 2001).

### **4. Stockholders' equity:**

#### **(a) Stock options and stock-based compensation:**

During the three months ended June 30, 2001, the Company issued incentive stock options to purchase 207,000 shares of the Company's common stock to employees. The options have an exercise price of C\$0.90 per share expiring May 27, 2006. The granting of these options have been accounted for in accordance with the intrinsic value method under APB 25. As these options were granted with an exercise price less than the market price at the date of grant, \$22,500 compensation expense was recorded in the period as a result of the issuance of these options.

### **5. Segmented information and export sales:**

The Company operates in one industry segment, with operations in both the United States and Canada. During the period ended June 30, 2001, sales in Canada were approximately \$1,927,983 (2000 - \$1,474,518); sales in the United States were approximately \$11,028,232 (2000 - \$7,625,913); sales in the United Kingdom were approximately \$68,313 (2000 - \$60,521).

### **6. Recent accounting pronouncements**

In April 2001, the FASB issued Emerging Issue Task Force 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" ("EITF 00-25"). The abstract sets out the FASB's interpretation of United States GAAP with respect to a vendor's income statement characterization of consideration paid to a reseller of the vendor's products. Specifically, these types of consideration are presumed to be a reduction of revenue when recognized in the vendor's income statement. The Company's current policies with respect to these consideration is to characterize them as a cost when recognized in the Company's income statement. Adoption of EITF 00-25 is required for periods beginning after December 15, 2001 and requires reclassification of prior periods presented for comparative purposes. The company plans to adopt EITF 00-25 at that time. Adoption of EITF will have no impact on the Company's net income (loss) for any period.

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

### **Results of Operations for the Three Months Ended June 30, 2001 (Expressed in U.S. Dollars)**

#### **Net Sales**

For the three months ended June 30, 2001, net sales were \$7,691,235, an increase of \$1,728,245, or 29% over the \$5,962,990 sales for the three months ended June 30, 2000. The increase in net sales was attributable to increased sales of Jones Soda and Jones Whoopass through the existing distribution network, and, to a lesser extent, increasing sales of Jones Juice, a non-carbonated juice & tea line launched in April 2001. As of June 30, 2001, Jones Soda products were sold in 45 states of the United States and ten provinces or territories of Canada.

#### **Gross Profit**

Gross profit was \$2,867,266 for the three months ended June 30, 2001, an increase of \$402,539, or 16.3% over the \$2,464,727 gross profit for the three months ended June 30, 2000. Gross profit as a percentage of net sales decreased to 37.3% for the three months ended June 30, 2001 from 41.3% for the three months ended June 30, 2000. The increase in gross profit was attributable to increased net sales. The decrease in gross profit as a percentage of sales was attributable to a lower gross margin earned on the Jones Juice product extension.

#### **Total Operating Expenses**

Total operating expenses were \$2,614,487 for the three months ended June 30, 2001, an increase of \$395,029, or 17.8% higher than total operating expenses of \$2,219,458 for the three-month period ended June 30, 2000. Total operating expenses as a percentage of sales decreased to 34.0% from 37.20%. The increase in total operating expenses was attributable to increased promotion and selling expenses and to a lesser extent general and administrative expenses.

#### **Promotion and Selling Expenses**

Promotion and selling expenses were \$1,881,746 for the three months ended June 30, 2001, an increase of \$324,406, or 20.8% from \$1,557,340 for the three months ended June 30, 2000. Promotion and selling expenses as a percentage of net sales decreased to 24.5% for the three months ended June 30, 2001 from 26.1% for the three months ended June 30, 2000. The increase in promotion and selling expenses was primarily attributable to increases in distributor programs associated with the increased size of the Company's distribution network and associated volume as well as costs associated with the launch of the Company's Jones Juice product.

**General and Administrative Expenses**

General and administrative expenses were \$732,741 for the three months ended June 30, 2001, an increase of \$70,623, or 10.7% compared to \$662,118 for the three months ended June 30, 2000. General and administrative expenses as a percentage of net sales decreased to 9.5% for the three months ended June 30, 2001 from 11.1% for the three months ended June 30, 2000. The increase in general and administrative expenses was primarily attributable to expenses associated with the Company's retention of a recruiting firm for a senior executive and additional senior executive salary (COO), as well as increased general legal expenses and stock-based compensation. This was partially offset by no expenses in 2001 associated with the Company's physical relocation into the United States and legal fees associated with the Company's litigation against Tastemaker.

**Other expenses**

Other income of \$75,246 for the three months ended June 30, 2001 compared to nil for the three months ended June 30, 2000. Other income primarily includes foreign exchange gains.

**Net Income**

Net income was \$293,086 for the three months ended June 30, 2001, compared to \$197,560 for the three months ended June 30, 2000. The \$95,526 increase in net income was primarily attributable to other income and net interest income earned in 2001.

**Results of Operations for the Six Months Ended June 30, 2001  
(Expressed in U.S. Dollars)**

**Net Sales**

For the six months ended June 30, 2001, net sales were \$13,024,528 an increase of \$3,863,576, or 42.2% over the \$9,160,952 sales for the six months ended June 30, 2000. The increase in net sales was attributable to increased sales of Jones Soda and Jones Whoopass through the existing distribution network, and, to a lesser extent, increasing sales of Jones Juice, a non-carbonated juice & tea line launched in April 2001.

**Gross Profit**

Gross profit was \$4,889,135 for the six months ended June 30, 2001, an increase of \$1,234,930, or 33.8% over the \$3,654,205 gross profit for the six months ended June 30, 2000. Gross profit as a percentage of net sales decreased to 37.5% for the six months ended June 30, 2001 from 39.9% for the six months ended June 30, 2000. The increase in gross profit was primarily attributable to increased net sales.

**Total Operating Expenses**

Total operating expenses were \$4,956,886 for the six months ended June 30, 2001, an increase of \$1,226,539, or 32.9% higher than total operating expenses of \$3,730,347 for the six-month period ended June 30, 2000. Total operating expenses as a percentage of sales decreased to 38.1% from 40.7%. The increase in total operating expenses was primarily attributable to increased promotion and selling expenses incurred in the first six months of 2001.

**Promotion and Selling Expenses**

Promotion and selling expenses were \$3,574,168 for the six months ended June 30, 2001, an increase of \$987,617, or 38.2% from \$2,586,551 for the six months ended June 30, 2000. Promotion and selling expenses as a percentage of net sales decreased to 27.4% for the six months ended June 30, 2001 from 28.2% for the six months ended June 30, 2000. The increase in promotion and selling expenses was primarily attributable to increased selling expenses associated with an increasing size of the Company's distributor network and associated volume as well as costs associated with the launch of the Company's Jones Juice product.

**General and Administrative Expenses**

General and administrative expenses were \$1,382,718 for the six months ended June 30, 2001, an increase of \$238,922, or 20.9% compared to \$1,143,796 for the six months ended June 30, 2000. General and administrative expenses as a percentage of net sales decreased to 10.6% for the six months ended June 30, 2001 from 12.5% for the six months ended June 30, 2000. The increase in general and administrative expenses was primarily attributable to expenses associated with the Company's retention of a recruiting firm for a senior executive and additional senior executive salary (COO), as well as increased general legal expenses and stock-based compensation. In addition, all six month's operating expenses in 2001 were in US dollars compared to Canadian dollar operating expenses for the first three months of 2000.

**Other expenses**

Other income was \$140,854 for the six months ended June 30, 2001 compared to \$114 for the six months ended June 30, 2000. Other income is primarily foreign exchange gains.

**Net Loss**

Net income was \$32,596 for the six months ended June 30, 2001, compared to a net loss of \$128,329 for the six months ended June 30, 2000. The \$160,925 decrease in the net loss was primarily attributable to other income in 2001.

**Liquidity and Capital Resources**

The operations of the Company historically have primarily been funded through the issuance of common stock and external borrowings.

As at June 30, 2001, the Company had working capital of \$4,019,619 compared to working capital of \$3,378,034 as at December 31, 2000. The increase in working capital was primarily attributable to the exercise of warrants for the six month period ending June 30, 2001.

On March 17, 2000, a credit facility was granted to the Company by Banc of America Commercial Finance Corporation, consisting of a three-year revolving line of credit of up to \$3,000,000. Wells Fargo Business Credit has subsequently purchased the portfolio of loans from Banc of America Commercial Finance and therefore the Company is now dealing with Wells Fargo Business Credit.

The utilization of the revolving line of credit by the Company is dependent upon certain levels of eligible accounts receivable and inventory from time to time. Such revolving line of credit is secured by all of the Company's assets, including accounts receivable, inventory, trademark license and trademarks, and certain equipment. Borrowings under the credit facility bear interest at a rate of Prime +1.5%. The credit facility does not impose any financial covenants.

Cash and cash equivalents decreased to \$1,726,477 as at June 30, 2001 from December 31, 2000. Net cash used in operating activities was \$2,964,790 for the six months ended June 30, 2001. The Company's investing activities used \$106,586 for the six months ended June 30, 2001 primarily for the purchase of computer and cooler equipment. Cash flow provided by financing activities was \$1,763,145 for the six months ended June 30, 2001 and consisted primarily of borrowing under the line of credit and proceeds from the exercise of warrants.

**Investor Relations**

During the period ending June 30, 2001, the Company completed all Investor Relations activities in-house. The Company sent out copies of news or press releases, the Company's corporate brochure, and communicated to shareholders with a monthly newsletter and a quarterly Investor Conference Call.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On January 10, 2001, we received notice that Southwest Specialty Foods, Inc. had filed a suit in November 2000, against us in the United States District Court for the District of Arizona, alleging trademark infringement. Southwest offers a food product under a trademark similar to one of ours. We don't believe that the suit has merit, however, we can't assure you that we won't be found liable or be required to pay damages.

**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

Not Applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

Not Applicable.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

None

**SIGNATURE**

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

JONES SODA CO.

By: /s/ Peter van Stolk

Peter van Stolk  
President and Chief Executive Officer