JAMBA, INC.
Form 10-Q
August 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 1, 2014

OR

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

For the transition period from to

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.)**

6475 Christie Avenue, Suite 150, Emeryville, California 94608

(Address of principal executive offices)

Registrant's telephone number, including area code: (510) 596-0100

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 x 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 x No ¨

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 definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company¨

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

The number of shares of common stock, $0.001 par value, of Jamba, Inc. issued and outstanding as of July 29, 2014 was 17,213,842.

JAMBA, INC.

QUARTERLY REPORT ON FORM 10-Q

QUARTERLY PERIOD ENDED JULY 1, 2014

Exhibits

PART I - FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JAMBA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)	July 1, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 32,376	$ 32,386
Receivables, net of allowances of $223 and $291	14,926	14,110
Inventories	2,429	2,670
Prepaid and refundable taxes	237	483
Prepaid rent	2,954	307
Prepaid expenses and other current assets	5,914	6,727
Total current assets	58,836	56,683
Property, fixtures and equipment, net	40,032	37,485
Goodwill	1,233	1,233
Trademarks and other intangible assets, net	1,535	1,317
Other long-term assets	3,154	1,198
Total assets	$ 104,790	$ 97,916
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,445	$ 5,086
Accrued compensation and benefits	7,430	5,538
Workers' compensation and health insurance reserves	1,511	1,046
Accrued jambacard liability	33,215	37,121
Other current liabilities	14,785	13,082
Total current liabilities	62,386	61,873
Deferred rent and other long-term liabilities	6,967	9,201
Total liabilities	69,353	71,074
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value, 30,000,000 shares authorized; 17,209,127 and 17,154,655 shares issued and outstanding at July 1, 2014 and December 31, 2013, respectively	17	17
Additional paid-in capital	393,632	391,234

Accumulated deficit	(358,317)	(364,409)
Total equity attributable to Jamba, Inc.	35,332	26,842
Noncontrolling interest	105	—
Total stockholders’ equity	35,437	26,842
Total liabilities and stockholders’ equity	$ 104,790	$ 97,916

See accompanying notes to condensed consolidated financial statements

JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except share and per share amounts)	13 Week Period Ended July 1, 2014	13 Week Period Ended July 2, 2013	26 Week Period Ended July 1, 2014	26 Week Period Ended July 2, 2013
Revenue:				
Company Stores	$58,632	$63,365	$105,904	$115,134
Franchise and other revenue	5,566	4,469	9,927	8,385
Total revenue	64,198	67,834	115,831	123,519
Costs and operating expenses:				
Cost of sales	13,587	14,858	25,169	27,262
Labor	16,243	16,849	30,573	32,604
Occupancy	6,899	7,319	13,866	14,695
Store operating	8,495	9,040	15,897	17,808
Depreciation and amortization	2,680	2,768	5,298	5,540
General and administrative	9,582	10,237	17,932	19,390
Other operating, net	106	120	709	878
Total costs and operating expenses	57,592	61,191	109,444	118,177
Income from operations	6,606	6,643	6,387	5,342
Other(expense) income, net:				
Interest income	18	—	34	—
Interest expense	(48)	(59)	(94)	(137)
Total other expense, net	(30)	(59)	(60)	(137)
Income before income taxes	6,576	6,584	6,327	5,205
Income tax expense	(223)	(234)	(218)	(95)
Net income	6,353	6,350	6,109	5,110
Redeemable preferred stock dividends and deemed dividends	—	(104)	—	(588)
Less: Net income attributable to noncontrolling interest	(17)	—	(17)	—
Net income attributable to Jamba, Inc.	$6,336	$6,246	$6,092	$4,522
Weighted-average shares used in the computation of earnings per share:				
Basic	17,200,698	16,793,260	17,182,893	16,478,352
Diluted	17,611,007	17,473,249	17,604,395	16,895,654

Earnings per share attributable to Jamba, Inc. common stock shareholders:				
Basic	$0.37	$0.37	$0.36	$0.27
Diluted	$0.36	$0.36	$0.35	$0.27

See accompanying notes to condensed consolidated financial statements

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JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands, except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Equity Attributable To Jamba, Inc.	Non-controlling Interest	Total Stockholders' Equity
Balance as of January 1, 2013	15,481,782	$ 78	$ 380,007	$ (366,489)	$ 13,596	$ —	$ 13,596
Share-based compensation expense	—	—	1,154	—	1,154	—	1,154
Issuance of common stock pursuant to stock plans	114,808	1	556	—	557	—	557
Conversion of preferred stock	1,457,780	7	8,375	—	8,382	—	8,382
Accretion of Series B preferred shares	—	—	(466)	—	(466)	—	(466)
Redeemable preferred stock dividends	—	—	(122)	—	(122)	—	(122)
Repurchase of fractional shares due to reverse stock split	(412)	(69)	63	—	(6)	—	(6)
Net income	—	—	—	5,110	5,110	—	5,110
Balance as of July 2, 2013	17,053,958	$ 17	$ 389,567	$ (361,379)	$ 28,205	$ —	$ 28,205
Balance as of December 31, 2013	17,154,655	$ 17	$ 391,234	$ (364,409)	$ 26,842	$ —	$ 26,842
Share-based compensation expense	—	—	1,403	—	1,403	—	1,403
Issuance of common stock pursuant to stock plans	54,472	—	333	—	333	—	333
Sale of subsidiary shares to noncontrolling interest	—	—	662	—	662	88	750
Net income	—	—	—	6,092	6,092	17	6,109
Balance as of July 1, 2014	17,209,127	$ 17	$ 393,632	$ (358,317)	$ 35,332	$ 105	$ 35,437

See accompanying notes to condensed consolidated financial statements

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JAMBA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	26 Week Period Ended July 1, 2014	26 Week Period Ended July 2, 2013
Net income	$6,109	$5,110
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	5,298	5,540
Impairment, store closure costs and disposals	(893)	(322)
Jambacard breakage income and amortization, net	(1,327)	(1,462)
Share-based compensation	1,403	1,154
Bad debt and purchase obligation reserves	202	352
Deferred rent	(2,553)	(783)
Changes in operating assets and liabilities:		
Receivables	796	4,107
Inventories	202	(801)
Prepaid and refundable taxes	246	391
Prepaid rent	(2,647)	(5)
Prepaid expenses and other current assets	320	(798)
Other long-term assets	(1,915)	142
Restricted cash from operating activities	—	205
Accounts payable	(276)	(1,748)
Accrued compensation and benefits	1,892	(760)
Workers' compensation and health insurance reserves	465	81
Accrued jambacard liability	(2,579)	(3,953)
Other current liabilities	1,703	91
Other long-term liabilities	336	884
Cash provided by operating activities	$6,782	$7,425
Cash provided by investing activities:		
Capital expenditures	(9,050)	(7,911)
Investment purchase	—	(300)
Proceeds from sale of stores	1,175	1,358
Cash used in investing activities	$(7,875)	$(6,853)
Cash provided by financing activities:		
Redeemable preferred stock dividends paid	—	(36)
Proceeds pursuant to stock issuance	333	551
Proceeds from sale to noncontrolling interest	750	—
Cash provided by financing activities	$1,083	$515
Net (decrease) increase in cash and cash equivalents	(10)	1,087

Cash and cash equivalents at beginning of period	32,386	31,486
Cash and cash equivalents at end of period	$32,376	$32,573
Supplemental cash flow information:		
Cash paid for interest	$15	$20
Income taxes paid	47	204
Noncash investing and financing activities:		
Property, fixtures and equipment in accounts payable	$635	$767
Conversion of preferred stock		8,382
Accretion of preferred stock issuance costs		466

See accompanying notes to condensed consolidated financial statements.

JAMBA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Jamba, Inc., a Delaware corporation (the "Company"), and its wholly-owned subsidiary, Jamba Juice Company, is a healthy, active lifestyle brand with a global business driven by a portfolio of company-owned and franchised Jamba Juice® stores, innovative product platforms that utilize our JambaGO® and Jamba Smoothie Station™ formats, and Jamba-branded consumer packaged goods ("CPG"). As a leading "better-for-you," specialty food and beverage brand, Jamba offers great tasting, whole fruit smoothies, fresh-squeezed juices and juice blends, hot teas, and a variety of food items including, hot oatmeal, breakfast wraps, sandwiches, Artisan Flatbreads™, baked goods and snacks in our stores. Jamba Juice Company has expanded the Jamba brand by direct selling of CPG products and licensing its trademarks.

As of July 1, 2014, there were 857 Jamba Juice® stores globally, consisting of 258 Company-owned and operated stores ("Company Stores"), 551 franchisee-owned and operated stores ("Franchise Stores") in the United States, and 48 Franchise Stores in international locations ("International Stores").

Unaudited Interim Financial Information — The condensed consolidated balance sheet as of July 1, 2014 and the condensed consolidated statements of operations, stockholders' equity and cash flows for each of the 13 and 26 week periods ended July 1, 2014 and July 2, 2013 have been prepared by the Company, without audit, and have been prepared on the same basis as the Company's audited consolidated financial statements. In the opinion of management, such statements include all adjustments (which include only normal recurring adjustments) considered necessary to present fairly the financial position as of July 1, 2014 and the results of operations and cash flows for the 13 and 26 week periods ended July 1, 2014 and July 2, 2013. The condensed consolidated balance sheet as of December 31, 2013 has been derived from the Company's audited consolidated financial statements.

Certain information and disclosures normally included in the notes to annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted from these interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, these interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Annual Report").

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

The advertising fund assets, consisting primarily of accounts receivable from franchisees, can only be used for selected purposes and are considered restricted. The advertising fund liabilities represent the corresponding obligation arising from the receipts of the marketing program. The receipts from the franchisees are recorded as a liability against which specified advertising costs are charged. The Company does not reflect franchisee contributions to the fund in its consolidated statements of operations.

Advertising fund assets as of July 1, 2014 include $2.0 million of receivables from franchisees, which is recorded in receivables on the consolidated balance sheet. Advertising fund liabilities as of July 1, 2014 of $0.5 million are reported in other current liabilities and accounts payable on the consolidated balance sheet.

Advertising fund assets as of December 31, 2013 include $0.8 million of receivables from franchisees, which is recorded in receivables on the consolidated balance sheet. Advertising fund liabilities as of December 31, 2013 of $0.6 million are reported in other current liabilities and accounts payable on the consolidated balance sheet.

Comprehensive Income — Comprehensive income is defined as the change in equity during a period from transactions and other events, excluding changes resulting from investments from owners and distributions to owners. The Company currently has no components of Comprehensive Income other than net income, therefore no separate statement of comprehensive income is presented.

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

Anti-dilutive shares have been excluded from the calculation of diluted weighted-average shares outstanding. Anti-dilutive shares of restricted stock awards, warrants and stock options of 1.5 million and 1.7 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 13 week period ended July 1, 2014 and in the 13 week period ended July 2, 2013, respectively. Anti-dilutive shares of 1.5 million and 1.7 million have been excluded from the calculation of diluted weighted-average shares outstanding in the 26 week period ended July 1, 2014 and in the 26 week period ended July 2, 2013, respectively.

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All shares of preferred stock were completely converted to shares of common stock as of June 14, 2013. For the 13 week periods ended July 2, 2013, for purposes of determining the net income available to common stockholders used in the computation of diluted earnings per share, the amount of the income is increased by the preferred stock dividends and deemed dividends. The deemed dividend represents the accretion of the issuance costs and beneficial conversion feature of the Company's preferred stock. For the 13 and 26 week periods ended July 1, 2014, the incremental shares from assumed exercise of restricted stock awards, warrants and stock options are dilutive.

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

	13 Week Period Ended July 1, 2014	13 Week Period Ended July 2, 2013	26 Week Period Ended July 1, 2014	26 Week Period Ended July 2, 2013
Net income attributable to Jamba, Inc. (numerator for basic earnings per share)	$6,336	$6,246	$6,092	$4,522
Preferred stock dividends and deemed dividends	—	104	—	—
Numerator for diluted earnings per share	$6,336	$6,350	$6,092	$4,522
Basic weighted-average shares outstanding	17,200,698	16,793,260	17,182,893	16,478,352
Incremental shares from assumed conversion of Series B preferred shares	—	242,824	—	—
Incremental shares from assumed exercise of restricted stock awards, warrants and options	410,309	437,165	421,502	417,302
Diluted weighted-average shares outstanding	17,611,007	17,473,249	17,604,395	16,895,654

Fair Value Measurement — Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

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

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

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

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance related to revenue recognition. This new standard will replace current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the beginning of fiscal year 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are evaluating the impact of adopting this new accounting standard on our financial statements.

In June 2014, the FASB issued new guidance related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. We are evaluating the impact, if any, of adopting this new accounting guidance on our financial statements.

2. REDEEMABLE PREFERRED STOCK

On June 16, 2009, the Company issued (i) 170,000 shares of its Series B-1 Convertible Preferred Stock, par value $0.001, (the “Series B-1 Preferred”) to affiliates of Mistral Equity Partners at a price of $115 per share, for an aggregate purchase price of approximately $19.6 million, and (ii) 134,348 shares of its Series B-2 Convertible Preferred Stock, par value $0.001, (the “Series B-2 Preferred”) to CanBa Investments, LLC at a price of $115 per share, for an aggregate purchase price of approximately $15.4 million. The issuance of shares of the Series B-1 Preferred and the B-2 Preferred (together the “Series B Preferred Stock” or “Preferred Stock”) for $35 million, less approximately $3.1 million in total transaction costs, which included $2.2 million in transaction fees and $885,000 paid to investors, was completed through a private placement to the purchasers as accredited investors and pursuant to the exemptions from the registration requirements of the Securities Act.

As of July 1, 2014, there are no shares of Series B Preferred Stock outstanding, as the balance of such shares was fully converted to the Company’s common stock in June 2013. During the 13 week period ended July 2, 2013, holders of 16,109 shares of outstanding B-2 Preferred Stock converted such stock into an aggregate of 322,180 shares of common stock at the conversion price of $5.75 per share. During the 26 week period ended July 2, 2013, holders of 19,649 shares of outstanding Series B-1 Preferred Stock and 72,889 shares of outstanding Series B-2 Preferred Stock converted such stock into an aggregate of 1,457,780 shares of common stock at the conversion price of $5.75 per share.

During the 13 and 26 week periods ended July 2, 2013, the Company paid cash dividends on the Series B Preferred Stock of less than $0.1 million and of $0.1 million, respectively. Accretion related to the Series B Preferred Stock for the 13 and 26 week periods ended July 2, 2013 was $0.1 million and $0.5 million, respectively, including the acceleration of accretion on converted shares. Accretion is fully amortized as of July 2, 2013.

3. SHARE-BASED COMPENSATION

On May 14, 2013, at its 2013 Annual Meeting of Stockholders (the “Annual Meeting”), the Company’s stockholders, upon the recommendation of the Board of Directors, approved the Jamba, Inc. 2013 Equity Incentive Plan (the “2013 Plan”). The 2013 Plan authorizes the Company to provide incentive compensation in the form of stock options, stock appreciation rights (“SARs”), restricted stock and stock units, performance shares and units, other stock-based awards, cash-based awards and deferred compensation awards. The 2013 Plan authorizes up to 3,145,122 shares.

A summary of stock option activity under the Plans as of July 1, 2014, and changes during the 26 week period then ended is presented below:

	Number of Options (in thousands)	Weighted-Average Exercise Price (per share)	Aggregate Intrinsic Value ($ in thousands)
Options outstanding at December 31, 2013	1,126	$ 11.20	$ 5,255
Options granted	—	—	
Options exercised	(37)	$ 10.07	
Options canceled	(4)	$ 27.99	
Options outstanding at July 1, 2014	1,085	$ 11.15	$ 5,014
Options vested or expected to vest at July 1, 2014	1,076	$ 11.16	$ 4,992
Options exercisable at July 1, 2014	946	$ 11.37	$ 4,648

No stock options were granted during the 13 and 26 week periods ended July 1, 2014, respectively. No stock options were granted during the 13 and 26 week periods ended July 2, 2013, respectively. No performance stock units ("PSUs") were granted, canceled or forfeited during the 13 and 26 week periods ended July 1, 2014, and no PSUs vested during the periods.

Information regarding activity for outstanding restricted stock units ("RSUs") granted as of July 1, 2014 is as follows (shares in thousands):

	Number of shares of RSUs	Weighted-Average Grant Date Fair Value (per share)
RSUs outstanding as of December 31, 2013	209	$ 11.39
RSUs granted	80	$ 11.56
RSUs forfeited (canceled)	(5)	$ 13.32
RSUs vested	(20)	$ 11.20
RSUs outstanding as of July 1, 2014	264	$ 11.43

Share-based compensation expense, which is included in general and administrative expense, was $0.7 million for both 13 week periods ended July 1, 2014 and July 2, 2013. Share-based compensation expense, which is included in general and administrative expense, was $1.4 million and $1.2 million for the 26 week periods ended July 1, 2014 and July 2, 2013, respectively. At July 1, 2014, non-vested share-based compensation for stock options and restricted stock awards, net of forfeitures, totaled $2.9 million. This expense will be recognized over the remaining weighted average vesting period of approximately 2 years. There was no income tax benefit related to share-based compensation expense during the 13 week periods ended July 1, 2014 and July 2, 2013.

4. FAIR VALUE MEASUREMENT

Financial Assets and Liabilities

The following table presents our financial assets and liabilities that were accounted for at fair value on a recurring basis as of July 1, 2014 and December 31, 2013 by level within the fair value hierarchy (in thousands):

July 1, 2014	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration [1]	$ —	$ —	$ 553
December 31, 2013			
Liabilities:			
Contingent consideration [2]	$ —	$ —	$ 553

(1) $0.6 million included in deferred rent and other long-term liabilities on the consolidated balance sheet at July 1, 2014.

(2) $0.6 million included in deferred rent and other long-term liabilities on the consolidated balance sheet at December 31, 2013.

As of July 1, 2014, the fair value of contingent consideration is $0.6 million, resulting in no gain or loss for the 13 and 26 week periods ended July 1, 2014. At December 31, 2013, the fair value was $0.6 million.

Non-financial Assets and Liabilities

The Company's non-financial assets and liabilities primarily consist of long-lived assets, trademarks and other intangibles, and are reported at carrying value. They are not required to be measured at fair value on a recurring basis. The Company evaluates long-lived assets for impairment when facts and circumstances indicate that their carrying values may not be recoverable. Trademarks and other intangibles are evaluated for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Level 3 Inputs

The fair value of the contingent consideration is classified as level 3 because it is based on unobservable inputs. Significant inputs and assumptions include management's estimate of operating profits from the related business, the timing of the payout and the discount rate used to calculate the present value of the liability. Significant changes in any level 3 input or assumption would result in increases or decreases to the related fair value measurements.

5. CREDIT AGREEMENT

On February 14, 2012, we entered into a Credit Agreement with Wells Fargo Bank, National Association (the "Lender") which, as amended on November 1, 2012, July 22, 2013 and November 4, 2013 (as amended, the "Credit Agreement") makes available to the Company a revolving line of credit in the amount of $15.0 million. The outstanding balance under the Credit Agreement bears interest at a LIBOR Market Index Rate based upon the rate for one month U.S. dollar deposits, plus 2.50% per annum. Under the terms of the Credit Agreement, the Company is required to maintain a maximum consolidated leverage ratio, minimum levels of tangible net worth and a minimum fixed charge coverage ratio. The Credit Agreement terminates July 22, 2016 or may be terminated earlier by the Company or by the Lender. This credit facility is subject to customary affirmative and negative covenants for credit facilities of this type, including limitations on the Company with respect to liens, indebtedness, guaranties, investments, distributions, mergers and acquisitions and dispositions of assets. The credit facility is evidenced by a revolving note made by the Company in favor of the Lender, is guaranteed by the Company and is secured by substantially all of its assets including the assets of its subsidiaries and a pledge of stock of its subsidiaries. In addition, the Credit Agreement replaced restricted cash requirements established in prior periods, as the line of credit also collateralizes the Company's outstanding letters of credit of $0.9 million as of July 1, 2014.

During the 13 week period ended July 1, 2014, there were no borrowings under the Credit Agreement. To acquire the credit facility, the Company incurred upfront fees which are being amortized over the term of the Credit Agreement. As of July 1, 2014 and December 31, 2013, the unamortized commitment fee amount was not material. As of July 1, 2014, the Company was in compliance with all the financial covenants to the Credit Agreement. The unused borrowing capacity under the agreement on July 1, 2014, was $14.1 million.

6. INCOME TAXES

At the end of each interim period, the Company calculates an estimated annual effective tax rate based on the Company’s best estimate of the tax expense (benefit) that will be provided for the full year. The year-to-date income tax expense (benefit) is a result of applying the estimated annual effective tax rate to the year-to-date actual pre-tax income (loss). The interim period tax expense (benefit) is the difference between the year-to-date amount and the amounts reported for previous interim periods, adjusted for discrete tax items, if any.

A valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management has concluded that it is not more-likely-than-not that the deferred tax assets will be realized and a full valuation allowance has been maintained against the Company’s net deferred tax assets. Due to the pre-tax income in the recent years, management may contemplate an adjustment of the valuation allowance in the future.

The Company’s effective tax rate for both the 13 and 26 week periods ended July 1, 2014 was 3.4%. The effective tax rates were affected by pretax income, a change in the valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes.

The Company’s effective tax rates for the 13 and 26 week periods ended July 2, 2013 were 3.6% and 1.8%, respectively. The effective tax rates were affected by pretax income, a change in the valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes. They were also affected by a reduction of the federal income tax liability related to the net operating loss deduction for alternative minimum tax purposes.

As of July 1, 2014, there have been no material changes to the Company’s uncertain tax positions disclosed in Note 13 in the Notes to the Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

7. OTHER OPERATING, NET

For the 13 and 26 week periods ended July 1, 2014 and July 2, 2013, the components of other operating, net were as follows (in thousands):

	13 Week Period Ended July 1, 2014	13 Week Period Ended July 2, 2013	26 Week Period Ended July 1, 2014	26 Week Period Ended July 2, 2013
Jambacard card breakage income	$ (803)	$ (842)	$ (1,327)	$ (1,462)
Jambacard expense	220	197	366	428
Franchise expense	436	272	788	271
CPG and JambaGO® direct expense	762	789	1,311	1,345
(Gain) Loss on disposal of fixed assets	(979)	(843)	(1,046)	(623)
Other	470	547	617	919
	$ 106	$ 120	$ 709	$ 878

8. SALE OF NONCONTROLLING INTEREST

On June 5, 2014, the Company sold a 12% noncontrolling interest in a group of Company Stores in Southern California. The gain on the sale of $0.7 million was recorded in additional paid in capital on the consolidated balance sheet.

9. OTHER COMMITMENTS AND CONTINGENCIES

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our financial statements and related notes included elsewhere in this report. Except for historical information, the discussion in this report contains certain forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and assumptions about future events. In some cases, you can identify forward-looking statements by terminology, such as "may," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," "forecast" and similar expressions (or the negative of such expressions). Forward-looking statements include, but are not limited to, statements concerning projected new store openings, revenue growth rates, and capital expenditures. Forward-looking statements are based on our beliefs as well as assumptions based on information currently available to us, including financial and operational information, the volatility of our stock price, and current competitive conditions. As a result, these statements are subject to various risks and uncertainties. For a discussion of material risks and uncertainties that the Company faces, see the discussion titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

JAMBA, INC. OVERVIEW

Jamba, Inc., a Delaware corporation (the "Company"), and its wholly-owned subsidiary, Jamba Juice Company, is a healthy, active lifestyle brand with a global business driven by a portfolio of company-owned and franchised Jamba Juice® stores, innovative product platforms that utilize our JambaGO® and Jamba Smoothie Station™ formats, and Jamba-branded consumer packaged goods ("CPG"). As a leading "better-for-you," specialty food and beverage brand, Jamba offers great tasting, whole fruit smoothies, fresh-squeezed juices and juice blends, hot teas, and a variety of food items including, hot oatmeal, breakfast wraps, sandwiches, Artisan Flatbreads™, baked goods and snacks in our stores. Jamba Juice Company has expanded the Jamba brand by direct selling of CPG products and licensing its trademarks.

EXECUTIVE OVERVIEW

Key Overall Strategies

Our BLEND Plan, launched in 2009, continues to guide the Company's strategic plan to transform Jamba into a globally recognized healthy, active lifestyle brand. Since the introduction of the BLEND Plan, we have accelerated our growth as a healthy, active lifestyle brand. Our BLEND Plan 3.0, launched in fiscal 2013, provides continuity and is the blueprint for focusing our resources on initiatives that strengthen our total brand value. The BLEND Plan guides the Company in building Jamba into a global lifestyle brand with $1 billion in total retail sales from all businesses by the end of fiscal 2015, to be reached by offering consumers differentiated products and experiences at Jamba Juice® stores and through other retail distribution channels.

The important drivers for fiscal 2014 are our growth initiatives including expansion of our whole food nutrition and juice platforms, rapid global store growth, primarily through franchisee development agreements, leveraging our JambaGO® opportunities and the pursuit of system-wide cost savings in order to continue to improve profitability. Our focus for 2014 is the continued expansion of our "Whole Food Nutrition" platform which encompasses blending juices, whole fruits and vegetables into convenient and nutritious beverages. The juicing category is rapidly growing as consumers are increasingly turning to juicing and whole food blending as a way to incorporate more fruits and vegetables into their diets. Our made-to-order, freshly squeezed juices provide a convenient, affordable and great-tasting way for them to enjoy juicing without the time and effort involved in juicing at home. To ensure our customers continue to enjoy their in-store experience, we intend to launch integrated programs that deliver outstanding customer service and that provide our team members with superior product knowledge.

2014 Second Quarter Financial Highlights

- Company Store comparable sales increased 2.5% for the 13 weeks ended July 1, 2014.

- System-wide comparable store sales increased by 2.2% for the 13 weeks ended July 1, 2014 and Franchise Stores comparable sales increased 2.0% for the 13 weeks ended July 1, 2014. System-wide and Franchise Store comparable store sales are non-GAAP financial measures representing the change in year-over-year sales for all Company Stores and Franchise Stores (system-wide) and for all Franchise Stores, respectively, opened for at least one full fiscal year.

- Net income was $6.4 million for the 13 weeks ended July 1, 2014, flat compared to net income for the 13 weeks ended July 2, 2013.

- Diluted earnings per share was $0.36 for the 13 weeks ended July 1, 2014, flat compared to earnings per share for the 13 weeks ended July 2, 2013.

- Total revenue decreased 5.4% to $64.2 million for the 13 weeks ended July 1, 2014, compared to $67.8 million for the 13 weeks ended July 2, 2013. The change in total revenue was primarily caused by the decrease in the number of Company Stores due to the Company's refranchising initiatives.

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- Income from operations was $6.6 million for 13 weeks ended July 1, 2014, flat compared to the 13 week period ended July 2, 2013. Operating margin improved by 60 basis points to 10.3% for the 13 weeks ended July 1, 2014 compared to the prior year period.

- General and administrative expenses decreased 6.4% to $9.6 million for the 13 weeks ended July 1, 2014, compared to $10.2 million for the 13 weeks ended July 2, 2013.

- Franchisees opened 19 new Jamba Juice stores, globally; 13 new Franchise Stores, which included one Smoothie Station, in the United States and six new International Stores. At July 1, 2014, there were 857 stores globally; 258 Company Stores, 551 Franchise Stores and 48 International Stores.

2014 Second Quarter Business Highlights

Brand Activation and Leadership

Leverage Innovative In-Store Experience

During the 13 week period ended July 1, 2014, as a complement to our traditional blended smoothies, we accelerated the launch of our fresh-squeezed juice platform to over 300 store locations, nationally, bringing the total number of stores offering the platform to over 500. Our squeezed-to-order, fresh juice offerings make it easy and convenient for our customers to get more fruits and vegetables like apple, pineapple, orange, kale, carrots and beets, in their diets. In addition to squeezed-to-order fresh juices, we offer a menu of a variety of fresh hand-crafted juice offerings from which our customers can choose.

We kicked off a nationwide marketing campaign that promotes our expanded juice offerings, which became available in stores effective June 2, 2014, through various media channels, including radio, print and extensive social media. Our ‘Blend in the Good’ campaign focuses on the benefits of the fresh, whole food ingredients we blend into our juices and smoothies, informing consumers that when you put truly good ingredients into your body, you make a better you, and a better you makes a better world.

Prior to the national launch of our expanded fresh juice platform, we implemented an advanced training course, the Jamba “Master of Blending Arts” (MBA) course to provide team members with a high level of knowledge related to the nutritional value and health benefits of our product ingredients, juices, blends, and daily nutritional requirements. Our goal is to ensure that each store has at least one “Master Blender,” to enhance our customers’ in-store experience. Our “Master Blenders” have been answering customer questions about our products and generally assisting customers in making fresh-squeezed juice choices.

In order to support customer demand for the freshest ingredients, we have developed a fresh produce supply and distribution model to ensure delivery of fresh local whole foods to each store. Our supply chain system was enhanced to provide a greater focus on regional whole food ingredients. Typically, the produce used in our beverages will have gone from the ground to cup in just days.

In February 2014, we introduced our Jamba Insider Rewards program, where loyal customers are rewarded based on number of points earned on their purchases. The program has been extremely popular and our millionth customer signed up on July 17, 2014. During November 2013, Jamba and ISIS launched a joint promotion in which ISIS was to purchase up to one million smoothies or juices for customers who use their "tap to pay" Mobile Wallet™ technology to redeem their free smoothie offer. This promotion was known as "the million smoothie or juice giveaway." Jamba served the one millionth free smoothie or juice in mid-July 2014.

Expand Retail Footprint

New Products, Partners, Channels and Market

Our growth initiatives encompass the multiple portfolio opportunities we have to expand our restaurant business on a global basis, including traditional and non-traditional stores, smaller footprint smoothie stations and the JambaGO® format. As of July 1, 2014, we had 857 Jamba Juice® stores globally, represented by 258 Company Stores and 551 Franchise Stores, which includes 34 smoothie stations in the United States, and 48 International Stores. The system is comprised of approximately 70% Franchise and International Store locations and 30% Company Store locations.

During the 13 week period ended July 1, 2014, 13 Franchise Stores and six International Stores were opened. All International Stores are operated by our master franchise partners. We expect to open 60 to 80 store locations on a global basis by the end of fiscal 2014, primarily through franchisees. The actual number of openings may differ from our expectations due to various factors, including franchisee access to capital and economic conditions.

We are continuing the system-wide refresh and remodel program, which started in 2013, to support the roll out of our whole foods blending and juice platforms. During the quarter, we completed the refresh of approximately 376 store locations system-wide which included 120 Company Stores, to include the whole food blending and juice offerings and to complete a contemporary re-imaging of each location.

Our international franchise partners opened six stores during the quarter. We currently have international master development agreements with partners in South Korea, the Philippines, Canada, Mexico and the countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) (“GCC”). We continue to engage in discussions with other potential partners about expansion into international markets. Our master developer in Mexico opened one store in April 2014, and we expect our master developer in the GCC countries to open their first store in the latter part of 2014.

<u>New Ventures</u>

Our New Ventures focus is on the development and optimization of our JambaGO® and CPG platforms, including Talbott Teas®. Our JambaGO® concept which targets venues servicing captive audiences like retail stores and schools was located in over 1,800 locations across the nation as of July 1, 2014. We plan to increase the number of JambaGO locations by up to 1,000 units by the end of 2014. Jamba-branded CPG products are available in 18 SKUs as of July 1, 2014 and have a presence in all 50 states. We continue to seek to develop new partnerships to extend the Jamba brand into relevant categories that leverage our core brand strength.

Design an Effective and Efficient Organization

As a result of implementing steps to reduce costs and improve productivity, we identified opportunities that we believe will result in significant improvement in our operating margin. We anticipate these improvements will be realized in the latter part of the year. In addition, our accelerated fresh juice expansion is supported by new, integrated programs which drive efficiency and value in the supply chain. We have developed a fresh produce supply and distribution model to ensure delivery of fresh local whole foods to each store thereby contributing to efficiencies and optimizing cost, which will support our fresh juice platform.

We also continue to focus attention on techniques to refine our labor deployment and service tools to ensure efficient service to our customers. In addition to our loyalty program, Jamba Insider Rewards, we further leverage technology to enhance customer engagement in ways that include use of digital mobile services and activities, which contribute to improved speed of service. As of July 1, 2014, our stores were able to process mobile payments from customers using mobile wallets from Google, PayPal and ISIS.

We continue to actively pursue cost savings and productivity initiatives as we continuously look for ways to reduce our general and administrative expenses while leveraging our existing infrastructure to support our growth strategy. Our general and administrative expenses decreased 6.4% to $9.6 million for the 13 week period ended July 1, 2014.

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RESULTS OF OPERATIONS — 13 WEEK PERIOD ENDED JULY 1, 2014 AS COMPARED TO 13 WEEK PERIOD ENDED JULY 2, 2013 (UNAUDITED)

(In thousands)	13 Week Period Ended July 1, 2014	% [(1)]	13 Week Period Ended July 2, 2013	% [(1)]
Revenue:				
Company Stores	$58,632	91.3 %	$63,365	93.4 %
Franchise and other revenue	5,566	8.7 %	4,469	6.6 %
Total revenue	64,198	100.0%	67,834	100.0%
Costs and operating expenses:				
Cost of sales	13,587	23.2 %	14,858	23.4 %
Labor	16,243	27.7 %	16,849	26.6 %
Occupancy	6,899	11.8 %	7,319	11.6 %
Store operating	8,495	14.5 %	9,040	14.3 %
Depreciation and amortization	2,680	4.2 %	2,768	4.1 %
General and administrative	9,582	14.9 %	10,237	15.1 %
Other operating, net	106	0.2 %	120	0.2 %
Total costs and operating expenses	57,592	89.7 %	61,191	90.2 %
Income from operations	6,606	10.3 %	6,643	9.8 %
Other income (expense), net:				
Interest income	18	0.0 %	—	0.0 %
Interest expense	(48)	(0.1)%	(59)	(0.1)%
Total other expense, net	(30)	(0.0)%	(59)	(0.1)%
Income before income taxes	6,576	10.2 %	6,584	9.7 %
Income tax expense	(223)	(0.3)%	(234)	(0.3)%
Net income	6,353	9.9 %	6,350	9.4 %
Preferred stock dividends and deemed dividends	—	(0.0)%	(104)	(0.2)%
Less: Net income attributable to noncontrolling interest	(17)	0.0 %	—	0.0 %
Net income attributable to Jamba, Inc.	$6,336	9.9 %	$6,246	9.2 %

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

Revenue

(in 000’s)

	13 Week Period Ended July 1, 2014	% of Total Revenue		13 Week Period Ended July 2, 2013	% of Total Revenue	
Revenue:						
Company stores	$ 58,632	91.3	%	$ 63,365	93.4	%
Franchise and other revenue	5,566	8.7	%	4,469	6.6	%
Total revenue	$ 64,198	100.0	%	$ 67,834	100.0	%

Total revenue is comprised of revenue from Company Stores, royalties and fees from Franchise Stores and International Stores, and revenue from CPG licensing and direct selling.

Total revenue for the 13 week period ended July 1, 2014 was $64.2 million, a decrease of $3.6 million or 5.4%, compared to $67.8 million for the 13 week period ended July 2, 2013 primarily due to the decreased number of Company Stores as a result of our refranchising strategy, partially offset by the 2.5% increase in Company Store comparable sales.

Company Store revenue

Company Store revenue for the 13 week period ended July 1, 2014 was $58.6 million, a decrease of $4.7 million, or 7.5%, compared to Company Store revenue of $63.4 million for the 13 week period ended July 2, 2013. The decrease was primarily due to the decreased number of Company Stores, partially offset by Company Store comparable sales improvement as illustrated by the following table:

	Company Store Decrease in Revenue (in 000’s) Second quarter 2014 vs. Second quarter 2013	
Company Store comparable sales increase	$ 1,387	
Reduction in the number of Company Stores, net	(6,120	)
Total change in Company Store revenue	$ (4,733	)

Company Store comparable sales increased by $1.4 million for the 13 week period ended July 1, 2014, or 2.5%, attributable to an increase of 4.1% in average check partially offset by a decrease in transaction count of 1.6% as compared to the same period in the prior year. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least a full fiscal year. As of July 1, 2014, approximately 99% of our Company Stores had been open for at least one full fiscal year.

Franchise and other revenue

Franchise and other revenue was $5.6 million, an increase of $1.1 million or 24.6% for the 13 week period ended July 1, 2014 compared to $4.5 million for the 13 week period ended July 2, 2013. The increase was primarily due to the increase in royalties associated with the net increase in the number of Franchise and International Stores (approximately $0.7 million) and an increase in JambaGO® and CPG revenue (approximately $0.4 million).

The number of Franchise and International Stores as of July 1, 2014 and July 2, 2013 was 599 and 534, respectively.

Cost of sales

Cost of sales is mostly comprised of fruit, dairy, and other products used to make smoothies and juices, paper products, costs related to managing our procurement program and vendor rebates. As a percentage of Company Store revenue, cost of sales decreased to 23.2% for the 13 week period ended July 1, 2014, compared to 23.4% for the 13 week period ended July 2, 2013. The decrease of cost of sales as a percentage of Company Store revenue was primarily due to a decrease in commodity costs (approximately 0.5%), partially offset by a shift in product mix related to the expanded whole food blending and fresh-squeezed juice offerings (approximately 0.3%). Cost of sales for the 13 week period ended July 1, 2014 was $13.6 million, a decrease of $1.3 million, or 8.6%, compared to $14.9 million for the 13 week period ended July 2, 2013.

Labor

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. As a percentage of Company Store revenue, labor costs were 27.7% for the 13 week period ended July 1, 2014 compared to 26.6% for the 13 week period ended July 2, 2013. The increase of labor as a percentage of Company Store revenue was primarily due to an increase in fringe costs, primarily related to workers compensation claims (approximately 0.9%). Labor costs for the 13 week period ended July 1, 2014 were $16.2 million, a decrease of $0.6 million, or 3.6%, compared to $16.8 million for the 13 week period ended July 2, 2013, which decrease is primarily due to the reduction in the number of Company Stores as a result of the Company's refranchising strategy.

Occupancy

Occupancy costs include both fixed and variable portions of rent, common area maintenance charges, property taxes, licenses and property insurance for all Company Store locations. As a percentage of Company Store revenue, occupancy costs increased to 11.8% for the 13 week period ended July 1, 2014, compared to 11.6% for the 13 week period ended July 2, 2013. Occupancy costs for the 13 week period ended July 1, 2014 were $6.9 million compared to $7.3 million for the 13 week period ended July 2, 2013, a decrease of $0.4 million or 5.7%, which decrease is primarily due to the reduction in the number of Company Stores as a result of the Company's refranchising strategy.

Store operating

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. As a percentage of Company Store revenue, store operating costs increased to 14.5% for the 13 week period ended July 1, 2014, compared to 14.3% for the 13 week period ended July 2, 2013. The increase of store operating expense as a percentage of Company Store revenue was primarily due to an increase in utilities (approximately 0.4%) and an increase in costs for updating equipment and for hardware and software (approximately 0.2%), partially offset by a reduction in marketing expenses (approximately 0.4%). Total store operating expenses were $8.5 million and $9.0 million for the 13 week period ended July 1, 2014 and July 2, 2013, respectively, a decrease of $0.5 million or 6%, which decrease is primarily due to the reduction in the number of Company Stores as a result of the Company's refranchising strategy.

Depreciation and amortization

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. As a percentage of total revenue, depreciation and amortization increased to 4.2% for the 13 week period ended July 1, 2014, compared to 4.1% for the 13 week period ended July 2, 2013. The increase in depreciation and amortization as a percentage of total revenue was primarily due to the additional capital expenditures for improved information technology infrastructure, store refreshes for stores to launch our fresh-squeezed juice platform. Depreciation and amortization for the 13 week period ended July 1, 2014 was $2.7 million, a decrease of $0.1 million, or 3.2%, compared to $2.8 million for the 13 week period ended July 2, 2013, which decrease is primarily due to the reduction in the number of Company Stores as a result of the Company's refranchising strategy.

General and administrative

General and administrative ("G&A") expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, outside and contract services, accounting and legal fees, travel and travel-related expenses, share-based compensation and other. As a percentage of total revenue, total G&A expenses increased to 14.9% for the 13 week period ended July 1, 2014 compared to 15.1% for the 13 week period ended July 2, 2013. Total G&A expenses for the 13 week period ended July 1, 2014 were $9.6 million, a decrease of $0.7 million, or 6.4%, compared to $10.2 million for the 13 week period ended July 2, 2013. The decrease of total G&A expenses was primarily due to reduction in headcount (approximately $0.6 million), a decrease in professional fees (approximately $0.4 million), partially offset by an increase in employee bonuses related to company and employee performance (approximately $0.4 million).

Other operating, net

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, impairment charge, closure costs, jambacard-related fees, pre-opening expense and expenses related to our franchise, consumer packaged goods and JambaGO® activities. For the 13 week period ended July 1, 2014, other operating, net was $0.1 million, flat compared to other operating expense for the 13 week period ended July 2, 2013. Changes in the components of other operating, net include an increase in net gain on disposal of fixed assets (approximately $0.1 million) and in pre-opening charges (approximately $0.1 million) mainly from activities pursuant to our refranchising strategy as well as an increase in franchise expenses (approximately $0.2 million) partially offset by a reduction in impairment charge, store closure costs and sales tax audit expense (approximately $0.1 million).

Income tax expense

We have recorded income tax expenses for both the 13 week periods ended July 1, 2014 and July 2, 2013, respectively. Our effective income tax rates were 3.4% and 3.6% for the 13 week periods ended July 1, 2014 and July 2, 2013, respectively. For the 13 week period ended July 1, 2014, the effective tax rate was primarily affected by pretax income, a change in the valuation allowance related to deductible temporary differences originating during the current year, the foreign withholding and the U.S. alternative minimum taxes of the respective periods. For the 13 week period ended July 2, 2013, the effective tax rate was primarily affected by pretax income, a change in the valuation allowance related to deductible temporary differences originating during the current year, the foreign withholding and the U.S. alternative minimum taxes, and a reduction of the federal income tax liability related to the net operating loss deduction for alternative minimum tax purposes.

RESULTS OF OPERATIONS — 26 WEEK PERIOD ENDED JULY 1, 2014 AS COMPARED TO 26 WEEK PERIOD ENDED JULY 2, 2013 (UNAUDITED)

(In thousands)	26 Week Period Ended July 1, 2014	% (1)	26 Week Period Ended July 2, 2013	% (1)
Revenue:				
Company Stores	$105,904	91.4 %	$115,134	93.2 %
Franchise and other revenue	9,927	8.6 %	8,385	6.8 %
Total revenue	115,831	100.0%	123,519	100.0%
Costs and operating expenses:				
Cost of sales	25,169	23.8 %	27,262	23.7 %
Labor	30,573	28.9 %	32,604	28.3 %
Occupancy	13,866	13.1 %	14,695	12.8 %
Store operating	15,897	15.0 %	17,808	15.5 %
Depreciation and amortization	5,298	4.6 %	5,540	4.5 %
General and administrative	17,932	15.5 %	19,390	15.7 %
Other operating, net	709	0.6 %	878	0.7 %
Total costs and operating expenses	109,444	94.5 %	118,177	95.7 %
Income from operations	6,387	5.5 %	5,342	4.3 %
Other income (expense), net:				
Interest income	34	0.0 %	—	0.0 %
Interest expense	(94)	(0.1)%	(137)	(0.1)%
Total other expense, net	(60)	(0.1)%	(137)	(0.1)%
Income before income taxes	6,327	5.4 %	5,205	4.2 %
Income tax expense	(218)	(0.1)%	(95)	(0.1)%
Net income	6,109	5.3 %	5,110	4.1 %
Preferred stock dividends and deemed dividends	—	0.0 %	(588)	(0.5)%
Net income attributable to noncontrolling interest	(17)	0.0 %	—	0.0 %
Net income attributable to Jamba, Inc.	$6,092	5.3 %	$4,522	3.7 %

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

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Revenue

(in 000's)

	26 Week Period Ended July 1, 2014	% of Total Revenue		26 Week Period Ended July 2, 2013	% of Total Revenue	
Revenue:						
Company stores	$ 105,904	91.4	%	$ 115,134	93.2	%
Franchise and other revenue	9,927	8.6	%	8,385	6.8	%
Total revenue	$ 115,831	100.0	%	$ 123,519	100.0	%

Total revenue for the 26 week period ended July 1, 2014 was $115.8 million, a decrease of $7.7 million or 6.2% compared to $123.5 million for the 26 week period ended July 2, 2013, primarily due to the decreased number of Company Stores as a result of our refranchising strategy, partially offset by the 1.6% increase in Company Stores comparable sales.

Company Store revenue

Company Store revenue for the 26 week period ended July 1, 2014 was $105.9 million, a decrease of $9.2 million or 8.0% compared to $115.1 million for the prior year period. The decrease in Company Store revenue was due primarily to the decreased number of Company Stores partially offset by Company Store comparable sales improvement, as illustrated by the following table:

	Company Store Decrease in Revenue (in 000's) **Year-to-date Q2 2014 vs. Year-to-date Q2 2013**	
Company Store comparable sales increase	$1,666	
Reduction in number of Company Stores, net	(10,896	)
Total change in Company Store revenue	$(9,230	)

Company Store comparable sales increased $1.7 million for the 26 week period ended July 1, 2014, or 1.6%, attributable to an increase of 5.2% in average check, reflecting a price increase, partially offset by a decrease in transaction count of 3.6%. Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least one full fiscal year. As of July 1, 2014, approximately 99% of our Company Stores had been open for at least one full fiscal year.

Franchise and other revenue

Franchise and other revenue for the 26 week period ended July 1, 2014 was $9.9 million, an increase of $1.5 million, or 18.4% compared to franchise and other revenue of $8.4 million for the 26 week period ended July 2, 2013. The increase was primarily due to the net increase in the number of Franchise and International Stores (approximately $1.2 million) and revenue generated by our JambaGO® and CPG business (approximately $0.4 million).

Cost of sales

Cost of sales is mostly comprised of fruit, dairy, and other products used to make smoothies and juices, paper products, costs related to managing our procurement program and vendor rebates. As a percentage of Company Store revenue, cost of sales increased to 23.8% for the 26 week period ended July 1, 2014 compared to 23.7% for the 26 week period ended July 2, 2013. Cost of sales for the 26 week period ended July 1, 2014 was $25.2 million, a decrease of $2.1 million, or 7.7%, compared to $27.3 million for the 26 week period ended July 2, 2013. Our refranchising strategy has resulted in a decrease in the number of Company Stores and the related costs and expenses for sales associated with these refranchised Company Stores, which was partially offset by Company Store comparable sales increase of 1.6% for the 26 week period ended July 1, 2014.

Labor

Labor costs are comprised of store management salaries and bonuses, hourly team member payroll, training costs and other associated fringe benefits. As a percentage of Company Store revenue, labor costs increased to 28.9% for the 26 week period ended July 1, 2014, compared to 28.3% for the 26 week period ended July 2, 2013. The increase of labor as a percentage of Company Store revenue was primarily due to an increase in fringe costs, primarily related to workers compensation claims (approximately 0.4%). Labor costs for the 26 week period ended July 1, 2014 was $30.6 million, a decrease of $2.0 million, or 6.2%, compared to $32.6 million for the 26 week period ended July 2, 2013. Our refranchising strategy has resulted in a decrease in the number of Company Stores and the related labor costs and expenses to operate, manage, and support these refranchised Company Stores, which was partially offset by the increased labor costs to support the improved comparable sales.

Occupancy

Occupancy costs include both fixed and variable portions of rent, common area maintenance charges, property taxes, licenses and property insurance for all Company Store locations. As a percentage of Company Store revenue, occupancy costs increased to 13.1% for the 26 week period ended July 1, 2014, compared to 12.8% for the 26 week period ended July 2, 2013. The increase in occupancy costs as a percentage of Company store revenue was primarily due to the refranchised stores having lower occupancy rates than the Company owned stores (approximately 0.3%). Occupancy costs for the 26 week period ended July 1, 2014 was $13.9 million, a decrease of $0.8 million or 5.6%, compared to $14.7 million for the 26 week period ended July 2, 2013. Our refranchising strategy has resulted in a decrease in the number of Company Stores and the related occupancy costs and expenses to operate, manage, and support these refranchised Company Stores, which was partially offset by increased occupancy costs to support the increased sales and increased common area maintenance charges.

Store operating

Store operating expenses consist primarily of various store-level costs such as utilities, marketing, repairs and maintenance, credit card fees and other store operating expenses. As a percentage of Company Store revenue, total store operating expenses decreased to 15.0% for the 26 week period ended July 1, 2014, compared to 15.5% for the 26 week period ended July 2, 2013. The decrease in total store operating expenses as a percentage of Company Store revenue was primarily due to a decrease in marketing expense (approximately 0.6%). Total store operating expenses for the 26 week period ended July 1, 2014 was $15.9 million, a decrease of $1.9 million or 10.7%, compared to $17.8 million for the 26 week period ended July 2, 2013. Our refranchising strategy resulted in a decrease in the number of Company Stores and the related costs and expenses to operate, manage, and support these refranchised Company Stores, which is partially offset by the increased store operating costs to support the increased sales.

Depreciation and amortization

Depreciation and amortization expenses include the depreciation of fixed assets and the amortization of intangible assets. As a percentage of total revenue, depreciation and amortization increased to 4.6% for the 26 week period ended July 1, 2014, compared to 4.5% for the 26 week period ended July 2, 2013. Depreciation and amortization for the 26 week period ended July 1, 2014 was $5.3 million, a decrease of $0.2 million, or 4.4%, compared to $5.5 million for the 13 week period ended July 2, 2013. Although our refranchising strategy resulted in a decrease in the number of Company Stores and related assets, resulting in a reduction in the carrying value of Company Store fixed assets, our remodel and refresh program resulting from our acceleration of our fresh juice launch, has resulted in additions to the existing asset base.

General and administrative

General and administrative ("G&A") expenses include costs associated with our corporate headquarters in Emeryville, CA, field supervision, bonuses, outside and contract services, accounting and legal fees, travel and travel-related expenses, share-based compensation and other. As a percentage of total revenue, total G&A expenses decreased to 15.5% for the 26 week period ended July 1, 2014 compared to 15.7% for the 26 week period ended July 2, 2013. Total G&A expenses for the 26 week period ended July 1, 2014 was $17.9 million, a decrease of $1.5 million, or 7.5%, compared to $19.4 million for the 26 week period ended July 2, 2013. The decrease of total G&A expenses was primarily due to reduction in headcount (approximately $1.2 million), a decrease in professional fees (approximately $0.6 million), partially offset by an increase in employee bonuses related to company and employee performance and share based compensation (approximately $0.9 million).

Other operating, net

Other operating, net consists primarily of gain or loss on disposals, income from jambacard breakage, closure costs, pre-opening costs and expenses related to franchise and consumer packaged goods activities. For the 26 week period ended July 1, 2014, other operating, net was $0.7 million of expense, compared to expense of $0.9 million for the 26 week period ended July 2, 2013. The $0.2 million decrease in expense is primarily due to an increase in gain on disposal of fixed assets (approximately $0.4 million), decreases in impairment charge and the estimate for sales tax audit expense (approximately $0.2 million); partially offset by franchise expense increase (approximately $0.5 million).

Income tax expense

We have recorded a tax expense of 3.4% for the 26 week period ended July 1, 2014. The tax expense was primarily due to the pretax income, a full valuation allowance related to deductible temporary differences originating during the current year, the alternative minimum taxes and foreign withholding taxes.

We have also recorded a tax expense of 1.8% for the 26 week period ended July 2, 2013. The tax expense was primarily due to the pretax income, a full valuation allowance related to deductible temporary differences originating during the current year, the U.S. alternative minimum and foreign withholding taxes. It was also due to a reduction of the federal income tax liability related to the net operating loss deduction for alternative minimum tax purposes.

KEY FINANCIAL METRICS AND NON-GAAP MEASURES

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

Company Store comparable sales represents the change in year-over-year sales for all Company Stores opened for at least one full year. Franchise Store comparable sales, a non-GAAP financial measure, represents the change in year-over-year sales for all Franchise Stores opened for at least one full year, as reported by franchisees and excludes International Stores. System-wide comparable store sales, a non-GAAP financial measure, represents the change in year-over-year sales for all Company and Franchise Stores opened for at least one full year and is based on sales by both company-owned and domestic franchise-operated stores, as reported by franchisees, which are in the store base. System-wide comparable store sales do not include International Stores and JambaGO® units.

Company Stores sold in refranchising transactions are included in the store base for each accounting period of the fiscal quarter in which the store was sold to the extent the sale is consummated at least three days prior to the end of such accounting period, but only for the days such stores have been company-owned. Thereafter, such stores are excluded from the store base until such stores have been franchise-operated for at least one full fiscal period at which point such stores are included in the store base and compared to sales in the comparable period of the prior year. Comparable store sales exclude closed locations.

Management reviews the increase or decrease in Company Store comparable sales, Franchise Store comparable sales and system-wide comparable sales compared with the same period in the prior year to assess business trends and make certain business decisions. The Company believes that Franchise Store comparable sales and system-wide comparable sales data, non-GAAP financial measures, are useful in assessing the overall performance of the Jamba brand and, ultimately, the performance of the Company.

The following table sets forth operating data that do not otherwise appear in our consolidated financial statements as of and for the 13 and 26 week periods ended July 1, 2014 and for the 13 and 26 week periods ended July 2, 2013, respectively:

	13 Week Period Ended July 1, 2014		13 Week Period Ended July 2, 2013		26 Week Period Ended July 1, 2014		26 Week Period Ended July 2, 2013	
Percentage change in Company Store comparable sales [1]	2.5	%	2.2	%	1.6	%	2.8	%
Percentage change in Franchise Store comparable sales [2]	2.0	%	1.2	%	1.2	%	0.2	%
Percentage change in system-wide comparable sales [2]	2.2	%	1.7	%	1.4	%	1.5	%
Total Company Stores	258		295		258		295	
Total Franchise Stores	551		492		551		492	
Total International Stores	48		42		48		42	

(1) Percentage change in Company Store comparable sales compares the sales of Company Stores during a 13 and 26 week period in 2014 to the sales from the same Company Stores for the equivalent period in the prior year. A Company Store is included in this calculation after one full year of operations. Sales from Franchise Stores are not included in Company Store comparable sales.

(2) Percentage change in system-wide comparable sales compares the combined sales of Company and Franchise Stores during a 13 and 26 week period in 2014 to the combined sales from the same Company and Franchise Stores for the equivalent 13 and 26 week period in the prior year. A Company or Franchise Store is included in this calculation after one full year of operations.

The following table sets forth certain data relating to Company Stores, Franchise and International Stores for the periods indicated:

	26 Week Period Ended July 1, 2014		26 Week Period Ended July 2, 2013	
	Domestic	International	Domestic	International
Company Stores:				

Beginning of Period	268	—	301	—
Company Stores opened	—	—&n		

Name and Principal Position(s)	Year	Salary	Bonus (1)	Stock Awards (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
Mary Agnes Wilderotter	2014	$ 1,110,417	$ 500,000	$ 5,874,031	$ 1,672,646	$ 1,813	$ 9,158,907
Executive Chairman and	2013	$ 1,020,833		$ 4,001,911	$ 1,537,116	$ 44,972	$ 6,604,832
former Chairman of	2012	$ 1,000,000		$ 3,909,507	$ 1,241,460	$ 2,685	$ 6,153,652
the Board of Directors							
and Chief Executive							
Officer (5)							
Daniel J. McCarthy	2014	$ 658,333	$ 250,000	$ 2,394,276	$ 667,575	$ 9,055	$ 3,979,239
President and Chief	2013	$ 566,667		$ 1,461,247	$ 574,856	$ 8,955	$ 2,611,725
Executive Officer and	2012	$ 503,125		$ 1,243,662	$ 482,790	$ 9,197	$ 2,238,774
former President and							
Chief Operating							
Officer (5)							
John M. Jureller	2014	$ 531,250	$ 200,000	$ 1,714,896	$ 506,863	$ 8,855	$ 2,961,864
Executive Vice President	2013	$ 492,424		$ 772,815	$ 485,925	$ 8,829	$ 1,759,993
and Chief Financial							
Officer (6)							
Lois Hedg-peth	2014	$ 520,000		$ 1,285,900	$ 480,700	$ 9,240	$ 2,295,840
Executive Vice President,	2013	$ 506,250		$ 499,155	$ 480,235	$ 9,251	$ 1,494,891
Strategy (6)							
Cecilia K. McKenney	2014	$ 370,833	$ 175,000	$ 1,174,090	$ 370,875	$ 8,855	$ 2,099,653
Executive Vice President,	2013	$ 345,834		$ 730,624	$ 349,913	$ 8,855	$ 1,435,226
Frontier Secure and	2012	$ 325,000		$ 688,552	$ 298,870	$ 8,819	$ 1,321,241
Administration							

(1) Amounts in this column represent special one-time bonuses granted in February 2015 in connection with the closing of the AT&T Transaction in October 2014. See Compensation Discussion and Analysis-February 2015 Named Executive Officer Compensation Actions.

(2) The stock awards referred to in this column consist of the following: grants of restricted stock, grants of performance shares under the LTIP and, for Ms. Hedg-peth, a grant of 50,000 shares of common stock in July 2014 in accordance with her employment letter agreement. The amounts shown in this column represent the grant date fair value, pursuant to Topic 718, of the stock awards granted in the applicable year or, with respect to multi-year performance share awards where performance conditions are set at the beginning of each year, the fair value of the shares subject to the performance conditions for the applicable year. In the latter case, accounting standards provide that each annual establishment of performance conditions during a multi-year vesting period constitutes a separate grant date. As a result, the grant date fair value of the performance share awards granted in 2014 is calculated using only the first tranche of the grant for the 2014-2016 Measurement Period; the second and third tranches of the 2014-2016 Measurement Period are not included because the performance conditions for those tranches had not been set in 2014. With respect to the grant for the 2013-2015 Measurement Period, the grant date fair value is calculated using the second tranche, as the grant date fair value for the first tranche was reported last year and the performance conditions for the third tranche were not set in 2014. With respect to the grant for the 2012-2014 Measurement Period, the grant date fair value is calculated using the third tranche, as the grant date fair values for the first two tranches were reported in prior years. Further, in calculating the grant date fair value of such performance shares in the table, the target number of shares was used. The Company uses Monte Carlo simulations to value LTIP awards. The value of such performance shares assuming that the highest level of operating cash flow and TSR performance will be achieved (again, using only the first tranche of the grant for the 2014-2016 Measurement Period, the second tranche of the 2013-2015 Measurement Period and the third tranche of the 2012- 2014 Measurement Period) would be as follows: Wilderotter: $2,483,900; McCarthy: $1,066,134; Jureller: $611,792; Hedg-peth: $485,260; and McKenney: $495,611. For a discussion of valuation assumptions, see Note 10 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended

December 31, 2014. For additional details regarding the stock awards, see the Grants of Plan-Based Awards table below and the accompanying narrative.

(3) The amounts shown in this column represent cash awards made under the Frontier Bonus Plan. Awards for each year are generally paid in March of the following year.

(4) The All Other Compensation column includes premiums for life insurance coverage paid for by the Company and a 401(k) match. The SEC requires us to identify and quantify any individual item of compensation exceeding $10,000, except as discussed below under Perquisites and Other Personal Benefits.

Perquisites and Other Personal Benefits. Disclosure of perquisites and other personal benefits is omitted for a named executive officer if they aggregate less than $10,000 in the fiscal year. Accordingly, no perquisites or other personal benefits are included in this column for 2014.

(5) On April 3, 2015, Mrs. Wilderotter stepped down as Chief Executive Officer and Mr. McCarthy assumed that role. All references to CEO in the compensation tables and accompanying narrative refer to Mrs. Wilderotter for 2014.

(6) Information for Mr. Jureller and Ms. Hedg-peth is not provided for 2012 because they were not named executive officers for 2012. Ms. Hedg-peth resigned her position with the Company effective January 2, 2015.

Grants of Plan-Based Awards

The following table sets forth information concerning cash awards under our non-equity incentive compensation plan (the Frontier Bonus Plan) for 2014 and grants of stock made during 2014 to the named executive officers.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock	Grant Date Fair Value of Stock Awards (1)
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	**($)**
Mary Agnes Wilderotter									
Cash bonus award	2/18/14	$ 1,183,875	$ 1,691,250	$ 2,198,625					
LTIP award (2014-2016)	2/18/14				55,792	106,270	172,689		$ 553,231
LTIP award (2013-2015)	2/18/14				53,419	101,750	165,344		$ 548,790
LTIP award (2012-2014)	2/18/14				41,518	79,083	128,509		$ 426,532
Restricted stock award	2/18/14							926,541	$ 4,345,477
Daniel J. McCarthy									
Cash bonus award	2/18/14	$ 472,500	$ 675,000	$ 877,500					
LTIP award (2014-2016)	2/18/14				27,896	53,135	86,344		$ 276,616
LTIP award (2013-2015)	2/18/14				21,368	40,700	66,138		$ 219,517
LTIP award (2012-2014)	2/18/14				15,569	29,656	48,191		$ 159,950
Restricted stock award	2/18/14							370,617	$ 1,738,194
John M. Jureller									
Cash bonus award	2/18/14	$ 376,250	$ 537,500	$ 698,750					
LTIP award (2014-2016)	2/18/14				18,597	35,423	57,563		$ 184,410

LTIP award (2013-2015)	2/18/14				18,697	35,613	57,871		$ 192,077
Restricted stock award	2/18/14							285,375	$ 1,338,409
Lois Hedg-peth									
Cash bonus award	2/18/14	$ 365,750	$ 522,500	$ 679,250					
LTIP award (2014-2016)	2/18/14				9,299	17,712	28,781		$ 92,205
LTIP award (2013-2015)	2/18/14				10,684	20,350	33,069		$ 109,760
LTIP award (2012-2014)	2/18/14				9,409	17,921	29,122		$ 96,657
Restricted stock award	2/18/14							148,247	$ 695,278
Common stock award	7/1/14							50,000	$ 292,000
Cecilia K. McKenney									
Cash bonus award	2/18/14	$ 262,500	$ 375,000	$ 487,500					
LTIP award (2014-2016)	2/18/14				11,623	22,140	35,977		$ 115,257
LTIP award (2013-2015)	2/18/14				10,684	20,350	33,069		$ 109,760
LTIP award (2012-2014)	2/18/14				7,785	14,828	24,096		$ 79,975
Restricted stock award	2/18/14							185,309	$ 869,099

(1) See footnote (1) to the Summary Compensation Table for a description of the methods used to determine the grant date fair value of stock awards.

Cash awards under the Frontier Bonus Plan for 2014 shown under the Estimated Possible Payouts Under Non-Equity Incentive Plan Awards columns were paid in March 2015 based on performance metrics set for 2014 and achievement of individual goals, as described above under Compensation Discussion and Analysis Components of the Executive Compensation Program Cash Compensation Annual Bonus. Target awards under the Frontier Bonus Plan are set as a percentage of base salary. Targets for 2014 were set at 100% of base salary for each of the named executive officers other than Mrs. Wilderotter. In accordance with her employment agreement in effect for 2014, Mrs. Wilderotter s target award was set at 150% of base salary for 2014. Payouts can be 0%, for below-threshold performance, up to 70%, for threshold performance, and up to 130%, for outstanding performance, of the target. The actual amounts of these awards for 2014 for the named executive officers are reported above in the Summary Compensation Table in the column entitled Non-Equity Incentive Plan Compensation.

The awards shown under the Estimated Future Payouts Under Equity Incentive Plan Awards columns are performance shares under the LTIP deemed to have been granted in 2014 in accordance with Topic 718 (i.e., the first tranche of the 2014-2016 Measurement Period, the second tranche of the

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2013-2015 Measurement Period and the third tranche of the 2012-2014 Measurement Period). See footnote (1) to the Summary Compensation Table. The amounts shown represent the range of shares that may be released at the end of the applicable Measurement Period for such grants assuming achievement of threshold, target or maximum performance. If our operating cash flow performance is, on average, below threshold for the three-year Measurement Period, no shares will be released at the end of the period. Dividends on performance shares will be accrued and paid out at the end of the three-year Measurement Period only with respect to shares that are earned and released. See the discussion of LTIP awards under Compensation Discussion and Analysis Components of the Executive Compensation Program Equity Compensation Long-Term Incentive Plan Awards.

Except as noted below, the stock awards shown under the All Other Stock Awards column in the above table are grants of restricted stock. The grants represent annual restricted stock awards and vest in three equal annual installments commencing one year after the date of approval by the Compensation Committee, February 18, 2014. All such grants of restricted stock were made under our 2013 Equity Incentive Plan in 2014. Each of the named executive officers is entitled to receive dividends on shares of restricted stock at the same rate and at the same time we pay dividends on shares of our common stock. The annual common stock dividend rate for 2014 was $0.40 per share, paid quarterly. No above-market or preferential dividends were paid with respect to any restricted shares. For Ms. Hedg-peth, the July 1, 2014 common stock award was in accordance with her employment letter agreement. See Employment Arrangements; Potential Payments upon Termination or Change-in-Control-Lois Hedg-peth.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding outstanding equity awards held by the named executive officers at year-end.

	Stock Awards			
Name	**Number of Shares of Stock That Have Not Vested (1) (#)**	**Market Value of Shares of Stock That Have Not Vested (2) ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares That Have Not Vested (3) (#)**	**Equity Incentive Plan Awards: Market Value of Unearned Shares That Have Not Vested (2) ($)**
Mary Agnes Wilderotter	1,974,861	$ 13,172,323	624,061	$ 4,162,487
Daniel J. McCarthy	712,701	$ 4,753,716	281,506	$ 1,877,645
John J. Jureller	385,375	$ 2,570,451	213,108	$ 1,421,430
Lois Hedg-peth	251,972	$ 1,680,653	114,186	$ 761,621
Cecilia K. McKenney	369,135	$ 2,462,130	127,470	$ 850,225

(1) The amounts shown in this column represent shares of restricted stock held by the named executive officers as of December 31, 2014. The shares of restricted stock vest as follows:

Mrs. Wilderotter: 119,758 restricted shares vest on February 17, 2015; 412,811 restricted shares vest in two equal annual installments commencing February 15, 2015; 515,751 restricted shares vest in two equal annual installments commencing February 27, 2015; and 926,541 restricted shares vest in three equal annual installments commencing

February 18, 2015.

Mr. McCarthy: 27,733 restricted shares vest on February 17, 2015; 129,003 restricted shares vest in two equal annual installments commencing on February 15, 2015; 185,348 restricted shares vest in two equal annual installments commencing February 27, 2015; and 370,617 restricted shares vest in three equal annual installments commencing February 18, 2015.

Mr. Jureller: 100,000 restricted shares vest in two equal annual installments commencing January 7, 2015; and 285,375 restricted shares vest in three equal annual installments commencing February 18, 2015.

Ms. Hedg-peth: 50,000 restricted shares vest in two equal annual installments commencing July 1, 2015; 53,725 restricted shares vest in two equal annual installments commencing February 27, 2015; and 148,247 restricted shares vest in three equal annual installments commencing February 18, 2015.

Ms. McKenney: 18,910 restricted shares vest on February 17, 2015; 72,242 restricted shares vest in two equal annual installments commencing February 15, 2015; 92,674 restricted shares vest in two equal annual installments commencing February 27, 2015; and 185,309 restricted shares vest in three equal annual installments commencing February 18, 2015.

(2) The market value of shares of common stock reflected in the table is based upon the closing price of the common stock on December 31, 2014, which was $6.67 per share.

(3) The amounts shown in this column represent the number of performance shares under the LTIP that may be earned by the named executive officers, as follows, in each case assuming achievement of target performance, in accordance with SEC regulations. Assuming they are earned, the performance shares would be earned as follows:

Mrs. Wilderotter: 305,251 performance shares on December 31, 2015 and 318,810 performance shares on December 31, 2016.

Mr. McCarthy: 122,101 performance shares on December 31, 2015 and 159,405 performance shares on December 31, 2016.

Mr. Jureller: 106,838 performance shares on December 31, 2015 and 106,270 performance shares on December 31, 2016.

Ms. Hedg-peth: 61,051 performance shares on December 31, 2015 and 53,135 performance shares on December 31, 2016.

Ms. McKenney: 61,051 performance shares on December 31, 2015 and 66,419 performance shares on December 31, 2016.

Option Exercises and Stock Vested

The following table sets forth information regarding the shares of restricted stock and performance shares that vested for each of the named executive officers in 2014. For Ms. Hedg-peth, the table also includes a grant of 50,000 shares of common stock in July 2014 in accordance with her employment letter agreement. No named executive officer acquired any shares upon the exercise of stock options in 2014. The value of restricted stock realized upon vesting is based on the closing price of the shares on the applicable vesting dates and the value of performance shares earned is based on the closing price of the shares on December 31, 2014, the last day of the three-year Measurement Period.

	Stock Awards	
Name	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
Mary Agnes Wilderotter	960,754	$ 5,092,303
Daniel J. McCarthy	302,473	$ 1,637,820
John M. Jureller	50,000	$ 249,500
Lois Hedg-peth	160,626	$ 963,997
Cecilia K. McKenney	162,995	$ 873,943

Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Mary Agnes Wilderotter				
Daniel J. McCarthy	Frontier Pension Plan	10.0	$174,719	
John M. Jureller				
Lois Hedg-peth				
Cecilia K. McKenney				

We have a noncontributory, qualified retirement plan, the Frontier Pension Plan, covering certain of our employees. The plan provides benefits that, in most cases, are based on formulas related to base salary and years of service. The plan was amended to provide that, effective February 1, 2003, no further benefits will be accrued under the plan by most non-union participants (including all executive officers), and is referred to as frozen. Mr. McCarthy is the only named executive officer with vested benefits under the plan. The estimated annual pension benefits (assumed to be paid in the normal form of an annuity) for Mr. McCarthy is $22,641. This amount is calculated under the plan based on his 10 years of service credit at the time the plan was frozen and the compensation limits established in accordance with federal tax law in the computation of retirement benefits under qualified plans. Benefits are not subject to reduction for Social Security payments or other offset amounts. For a discussion of valuation assumptions, see Note 16 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Employment Arrangements; Potential Payments Upon Termination or Change-in-Control

Mary Agnes Wilderotter

We are party to an employment agreement, originally dated as of November 1, 2004, with Mary Agnes Wilderotter, our Chairman of the Board and Chief Executive Officer. The agreement was amended in December 2008 in connection with the deferred compensation rules imposed by Section 409A of the Internal Revenue Code (Section 409A), amended and restated in March 2010 (the 2010 Amendment) and again amended and restated in March 2013 (the 2013 Amendment). The employment agreement had an initial term of five years, which expired in November of 2009, and the 2010 Amendment had a three-year term, which was scheduled to expire in April 2013. The 2013 Amendment extended the term of the employment agreement for an additional two years to March 2015. Under the terms of the 2013 Amendment, Mrs. Wilderotter s base salary initially was $1,025,000, which amount can be and has been increased by the Compensation Committee from time to time. Mrs. Wilderotter is also eligible to earn a target bonus equal to at least 150% of her base salary. Mrs. Wilderotter is eligible to participate in the Company s equity incentive plans and receive awards at the discretion of the Compensation Committee.

In February 2015, the agreement was again amended (the 2015 Amendment) to provide that effective April 3, 2015, Mrs. Wilderotter will step down from her role as Chief Executive Officer and become the Company s Executive Chairman of the Board through March 31, 2016. Under the terms of the 2015 Amendment, commencing on April 3, 2015, Mrs. Wilderotter s base salary will be $1,000,000 and she will be eligible to earn a target bonus equal to at least 200% of her base salary. In addition, Mrs. Wilderotter was granted 899,249 restricted stock units for 2014 performance, which will vest in three equal annual installments commencing one year after the date of grant. Mrs. Wilderotter will not be eligible for any equity grants for 2015 or 2016.

If Mrs. Wilderotter s employment is terminated without cause or by Mrs. Wilderotter with good reason (each as defined in the employment agreement), we would be required to pay Mrs. Wilderotter an amount equal to her base salary through the date of termination and any bonus earned but unpaid as of the date of termination for any previously completed fiscal year, the sum of three times her base salary and two times her target bonus (generally payable in equal installments over 36 months, but with installments payable by March of the following year accelerated and paid as a lump sum) and one times her bonus for the year of termination (payable based on actual performance in a lump sum within 2-1/2 months following the end of the calendar year of termination). In addition, all of her restricted stock will vest, and all performance shares granted to her under the LTIP or other performance incentive plan pursuant to a performance-based vesting schedule will be vested with respect to any service requirement, but the number of shares earned will be based on actual performance against the pre-established goals. Mrs. Wilderotter is also entitled to receive reimbursement for any unreimbursed business expenses, any accrued but unpaid vacation and to elect and pay the cost for continued medical, dental and other health benefits and extended life insurance until the end of the severance period (or if earlier, the date on which Mrs. Wilderotter becomes eligible to receive comparable benefits from any subsequent employer), for which we will provide a lump sum to her to offset the cost of these benefits.

The 2015 Amendment provides that if Mrs. Wilderotter is not re-nominated and elected to serve as a member of the Board, and if, as a result, she is unable to perform her duties as Executive Chairman of the Board, she will be deemed to have been terminated by the Company for purposes of the 2015 Amendment.

If Mrs. Wilderotter s employment is terminated at the end of the term of the 2015 Amendment, the vesting of restricted stock will be determined as if her service with the Company continued for an additional 12 months, and performance shares will vest pro rata and be paid at the conclusion of the performance period based on actual performance.

If Mrs. Wilderotter s employment is terminated due to her death or in connection with a disability, she or her estate will be entitled to payment of base salary for six months following the termination and a prorated portion of her bonus based on actual performance. In addition, all restricted stock will vest, and all performance shares will vest at the target level of shares granted.

In the event of a constructive termination following a change in control (each as defined in the employment agreement), Mrs. Wilderotter will be entitled to the amounts she would receive in connection with a termination by us without cause or by her with good reason, except that (a) the installments over 36 months will be converted to a lump sum if permissible under Section 409A, and (b) performance shares will vest at the target level of shares granted. In addition, if the successor following a change in control declines to assume Mrs. Wilderotter s equity awards (restricted stock and performance shares) and declines to replace them with equivalent awards, her equity awards will vest upon the change in control. To the extent Mrs. Wilderotter would be subject to any excise taxes under Section 280G of the Internal Revenue Code, the amounts she would be entitled to receive will be capped to avoid any excise tax unless the total payments to be received by her without regard to a cap would result in a higher after-tax benefit. Mrs. Wilderotter is responsible to pay any required excise tax.

The following table sets forth the severance amounts Mrs. Wilderotter would have been entitled to from us under the terms of her employment agreement (as then in effect) had her employment been terminated as of December 31, 2014.

Termination Event	Base Salary (1)	Bonus (1)	Value of Accelerated Restricted Stock (2)	Value of Accelerated Performance Shares (3)	Benefits (4)	Total
Without cause or for good reason	$ 3,382,500	$ 5,073,750	$ 13,172,323	$ 4,162,487	$ 51,312	$ 25,842,372
Death	$ 563,750	$ 1,691,250	$ 13,172,323	$ 4,162,487	$ 15,305	$ 19,605,115
Disability	$ 563,750	$ 1,691,250	$ 13,172,323	$ 4,162,487	$ 33,925	$ 19,623,735
Change-in-control	$ 3,382,500	$ 5,073,750	$ 13,172,323	$ 4,162,487	$ 51,312	$ 25,842,372
			$ 5,955,550	$ 2,066,170		$ 8,021,720

Non-renewal of agreement	
With cause or without good reason	

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(1) Base salary and two-thirds of the bonus amount payable in equal installments over 36 months. The remaining bonus amount payable in a lump sum within 2-1/2 months following the end of the calendar year of termination. Assumes bonus payout at target level with respect to termination upon death or in connection with a disability; payout may be more or less based on actual performance.
(2) For termination without cause or for good reason, upon death or in connection with a disability or upon a change-in-control, amounts represent the dollar value of 1,974,861 shares of restricted stock held by Mrs. Wilderotter on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014. For termination upon non-renewal of her employment agreement, amount represents the dollar value of 892,886 shares of restricted stock that would accelerate in such circumstance, based on the closing sales price of $6.67 per share of our common stock on December 31, 2014.
(3) For termination upon death or in connection with a disability or upon a change-in-control, amounts represent the dollar value of the 624,061 performance shares held by Mrs. Wilderotter on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014. For termination upon non-renewal of her employment agreement, amount represents the dollar value of 309,771 performance shares that would vest in such circumstance, based on the closing sales price of $6.67 per share of our common stock on December 31, 2014. The number of performance shares used for termination without cause, for good reason or upon non-renewal of employment agreement assumes payout equal to the target level of shares granted. Does not include the value of performance shares earned on December 31, 2014 upon completion of the 2012-2014 Measurement Period.
(4) Value of continued medical, dental, vision and life insurance benefits for Mrs. Wilderotter and her spouse, as applicable, under the terms of her employment agreement as described above.

Daniel J. McCarthy

In February 2015, the Company entered into a letter agreement with Daniel J. McCarthy, our President and Chief Operating Officer, pursuant to which, effective April 3, 2015, Mr. McCarthy became President and Chief Executive Officer of the Company. Under the terms of the new letter agreement, commencing on April 1, 2015, Mr. McCarthy s base salary will be $925,000 and he will be eligible to earn a target bonus equal to 125% of his base salary. In addition, Mr. McCarthy will be entitled to annual target equity grants of $4,250,000, payable in restricted stock awards and performance shares. Mr. McCarthy s letter agreement does not provide for a set term of employment in accordance with best practices.

Mr. McCarthy is entitled to severance arrangements under the Senior Leadership Team Severance Plan commencing April 3, 2015. The following table sets forth the severance amounts Mr. McCarthy would have been entitled to from us had his employment been terminated as of December 31, 2014 following a change in control. Mr. McCarthy would not have been entitled to any severance amounts upon termination for any other reason. In addition, Mr. McCarthy is also entitled to his pension benefit as set forth under Pension Benefits.

Termination Event	**Base Salary (1)**	**Bonus (1)**	**Value of Accelerated Restricted Stock (2)**	**Value of Accelerated Performance Shares (3)**	**Total**
Change in control	$ 1,350,000	$ 1,350,000	$ 4,753,716	$ 1,877,645	$ 9,331,361

(1) Payable in a lump sum upon termination.
(2)

Dollar value of 712,701 shares of restricted stock held by Mr. McCarthy on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014.

(3) Dollar value of the 281,506 performance shares held by Mr. McCarthy on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014. The number of performance shares used for this purpose is equal to the target level of shares

granted. Does not include the value of performance shares earned on December 31, 2014 upon completion of the 2012-2014 Measurement Period.

John M. Jureller

We are party to a letter agreement with John M. Jureller, our Executive Vice President and Chief Financial Officer, dated December 18, 2012. The letter agreement provides for a target annual incentive bonus of 100% of his base salary.

Mr. Jureller is entitled to severance arrangements under the Senior Leadership Team Severance Plan commencing April 3, 2015.

The following table sets forth the severance amounts Mr. Jureller would have been entitled to from us had his employment been terminated as of December 31, 2014 following a change in control. Mr. Jureller would not have been entitled to any severance amounts upon termination for any other reason.

Termination Event	Base Salary (1)	Bonus (1)	Value of Accelerated Restricted Stock (2)	Value of Accelerated Performance Shares (3)	Total
Change in control	$ 1,075,000	$ 1,075,000	$ 2,570,451	$ 1,421,430	$ 6,141,881

(1) Payable in a lump sum upon termination.
(2) Dollar value of 385,375 shares of restricted stock held by Mr. Jureller on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014.
(3) Dollar value of the 213,108 performance shares held by Mr. Jureller on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014. The number of performance shares used for this purpose is equal to the target level of shares granted.

Lois Hedg-peth

Lois Hedg-peth resigned as Executive Vice President, Strategy effective January 2, 2015. In recognition of Ms. Hedg-peth s contributions to the Company, the Company provided Ms. Hedg-peth with a Separation Agreement pursuant to which she received her earned 2014 bonus at the time when bonuses were paid to all other eligible employees in March 2015, the amount being based on her individual performance and the weighted 3P payout factor, as reported elsewhere in this proxy statement. She also received a payout of her earned 2012-2014 LTIP grant, based on the Company s performance for the three- year measurement period, in February 2015. Further, the restrictions on 49,416 shares of restricted stock held by Ms. Hedg-peth lapsed on February 18, 2015 and restrictions on 23,815 shares of restricted stock held by her lapsed on February 27, 2015. All other unvested restricted stock and unearned performance shares held by Ms. Hedg-peth as of her departure from the Company were cancelled and the Company has no further obligations to Ms. Hedg-peth under her employment arrangement.

Pursuant to a letter agreement with Ms. Hedg-peth dated April 10, 2012, Ms. Hedg-peth s target annual incentive bonus for 2014 was 100% of her base salary. Additionally, Ms. Hedg-peth was granted 50,000 shares of common stock on July 1, 2014.

Cecilia K. McKenney

We are party to a letter agreement with Cecilia K. McKenney, our Executive Vice President, Frontier Secure and Administration, dated January 13, 2006 and amended in December 2008 in connection with the deferred compensation rules imposed by Section 409A. The letter agreement provides for a target annual incentive bonus of 60% of her base salary, which was increased to 75% commencing in 2008 and to 100% commencing in 2010.

Ms. McKenney is entitled to severance arrangements under the Senior Leadership Team Severance Plan commencing April 3, 2015.

The following table sets forth the severance amounts Ms. McKenney would have been entitled to from us had her employment been terminated as of December 31, 2014 following a change in control. Ms. McKenney would not have been entitled to any severance amounts upon termination for any other reason.

Termination Event	Base Salary (1)	Bonus (1)	Value of Accelerated Restricted Stock (2)	Value of Accelerated Performance Shares (3)	Total
Change in control	$ 375,000	$ 375,000	$ 2,462,130	$ 850,225	$ 4,062,355

(1) Payable in a lump sum upon termination.
(2) Dollar value of 369,135 shares of restricted stock held by Ms. McKenney on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014.
(3) Dollar value of the 127,470 performance shares held by Ms. McKenney on December 31, 2014 based on the closing sales price of $6.67 per share of our common stock on December 31, 2014. The number of performance shares used for this purpose is equal to the target level of shares granted. Does not include the value of performance shares earned on December 31, 2014 upon completion of the 2012-2014 Measurement Period.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee currently consists of Ms. Reeve, as Chair, and Mr. Bynoe, Ms. Ruesterholz, Ms. Segil and Mr. Wick. None of our executive officers served as: (i) a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served on our Compensation Committee; (ii) a director of another entity, one of whose executive officers served on our Compensation Committee; or (iii) a member of the compensation committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of another entity, one of whose executive officers served as one of our directors.

Compensation Policy Risk Analysis

Management annually reviews our compensation policies and practices applicable to all of our employees, including the named executive officers, for the purpose of evaluating the risks to our company arising from such policies and practices. Each component of the Company s compensation program is evaluated for any risks to the Company associated with such compensation. Included in these evaluations is an analysis of the likelihood that such compensation components would influence behaviors or decision-making and impact the Company s risk profile. For 2014, risk controls, both entity-level and compensation-related, were identified and evaluated. These controls included:

Corporate governance and Enterprise Risk Management policies;
Oversight of the Company s compensation practices and policies by the Compensation Committee, including the ability to reduce incentive payouts based on factors such as quality of earnings and individual performance;
The Company s compensation program design, including the mix of cash and equity compensation, short- and long-term incentive compensation, fixed and variable compensation and company-wide and individual goals and targets, the use of multiple performance metrics based on the Company s 3P goals (People, Product and Profit), which include financial and other quantitative and qualitative measurements, the use of modest leverage multipliers, and maximum payout limits (in terms of dollars and percentages of base salary);

Performance goals that are set at levels that are sufficiently high to encourage strong performance and support the resulting compensation expense, but within reasonably attainable parameters to discourage pursuit of excessively risky business strategies; and

Meaningful risk mitigators, including substantial stock ownership guidelines, claw-back provisions, anti-hedging/pledging policies, independent Committee oversight and engagement of an independent consultant that does no other work for the Company or management.

In February 2015, management reviewed its findings with the Compensation Committee at a meeting at which the Compensation Committee and management engaged in an in-depth discussion of the findings. Based on its review of management s risk assessment of our company s compensation policies, practices and controls and the Compensation Committee s evaluation of management s assessment, the Compensation Committee determined that such policies and practices are not reasonably likely to have a material adverse effect on our company.

ADVISORY VOTE ON EXECUTIVE COMPENSATION
(Item 2 on the Proxy Card)

The Company and its board of directors are committed to excellence in governance and recognize the interests that our stockholders have expressed in our executive compensation program. As part of our commitment, in 2009, the board of directors voluntarily adopted a Corporate Governance Guideline, commonly known as Say-on-Pay, to annually provide stockholders with the opportunity to endorse or not endorse compensation paid to the Company s named executive officers through consideration of the following non-binding advisory resolution:

Resolved, that the compensation paid to the Company s named executive officers, as disclosed in this proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and accompanying narrative discussion, is hereby approved.

We believe that our executive compensation philosophy and programs reinforce our pay for performance culture and are strongly aligned with the long-term interests of our stockholders. The Compensation Committee, which oversees and approves the compensation philosophy and programs, engages in an extensive process to align executive pay, both short- and long-term, with the Company s performance and the interests of stockholders. The Compensation Discussion and Analysis section of this proxy statement provides a comprehensive review of the Company s executive compensation philosophy and programs and the rationale for executive compensation decisions, and the accompanying tables and narrative provide details on the compensation paid to the Company s named executive officers. We urge you to read this disclosure prior to voting on this proposal.

Our existing say on pay policy is consistent with Section 14A of the Securities Exchange Act of 1934 adopted in July 2010 as part of Title IX of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which now requires the proposal. Because your vote is advisory, it will not be binding upon the board. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements. Stockholders who want to communicate with our board or any specific director, including the Lead Director, any non-management director, the non- management directors as a group, any independent director or the independent directors as a group, on executive compensation or any other matter of stockholder concern, can do so by writing to such director or group of directors at: Frontier Communications Corporation, Three High Ridge Park, Stamford, Connecticut 06905. Any communication will be forwarded to the director or directors to whom it is addressed.

In accordance with the wishes of our stockholders and best practices, we will provide a say on pay vote annually and the next say on pay vote will be included in our 2016 proxy statement.

The board of directors recommends a vote **FOR** this proposal.

SECURITIES AUTHORIZED FOR ISSUANCE
UNDER EQUITY COMPENSATION PLANS

The following table provides information as of December 31, 2014 regarding compensation plans (including individual compensation arrangements, but not including qualified employee benefit plans and plans available to stockholders in a pro rata basis) under which our equity securities are authorized for issuance.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights (1)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (1)
Equity compensation plans approved by security holders	3,972,345	$ 7.53	14,253,934
Equity compensation plans not approved by security holders			
Total	3,972,345	$ 7.53	14,253,934

(1) Columns (a) and (c) reflect the number of performance shares under the LTIP that may be released at the end of the 2012-2014, 2013-2015 and 2014-2016 Measurement Periods assuming achievement of target performance. The weighted-average exercise price shown in column (b) does not take these performance shares into account.

AUDIT COMMITTEE REPORT

The Audit Committee is responsible, under its charter, for oversight of our independent registered public accounting firm, which reports directly to the Audit Committee. The Audit Committee has the authority to retain and terminate the independent registered public accounting firm, to review the scope and terms of the audit and to approve the fees to be charged. The Audit Committee monitors our system of internal control over financial reporting, and management s certifications as to disclosure controls and procedures and internal controls for financial reporting. Our management and independent registered public accounting firm, not the Audit Committee, are responsible for the planning and conduct of the audit of our consolidated financial statements and determining that the consolidated financial statements are complete and accurate and prepared in accordance with U.S. generally accepted accounting principles.

The Audit Committee has met and held discussions with management, our senior internal auditor and our independent registered public accounting firm (with and without management and our senior internal auditor present) and has reviewed and discussed the audited consolidated financial statements and related internal control over financial reporting with management and our independent registered public accounting firm.

The Audit Committee has also discussed with our independent registered public accounting firm the matters required to be discussed by PCAOB Auditing Standard No. 16, Communications with Audit Committees.

Our independent registered public accounting firm also provided the Audit Committee with the written disclosures and the letter required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm s communications with the Audit Committee concerning independence, and the Audit Committee discussed with our independent registered public accounting firm that firm s independence.

Based upon the review and discussions referred to above, the Audit Committee recommended to the board of directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for filing with the SEC. The Audit Committee selected KPMG LLP as our independent registered public accounting firm for the fiscal year ended December 31, 2015, which is being presented to stockholders at the meeting for ratification.

Submitted by:

Edward Fraioli, Chair
Leroy T. Barnes, Jr.
Diana S. Ferguson
Howard L. Schrott

The information contained in the foregoing report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall the information be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference in a filing.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES

In accordance with the Sarbanes-Oxley Act of 2002, the rules of the SEC and the Audit Committee Charter, the Audit Committee pre-approves all auditing and permissible non-auditing services that will be provided by KPMG LLP, our independent registered public accounting firm.

The following table sets forth the fees for professional audit services paid by us to KPMG LLP, our independent registered public accounting firm:

	2014	2013
Audit Fees	$ 4,480,000	$ 3,700,000
Audit-Related Fees	240,000	165,000
Tax Fees	77,271	67,382
All Other Fees	181,682	641,129
Total	$ 4,978,953	$ 4,573,511

Audit Fees

Audit fees relate to professional services rendered in connection with the audit of our annual consolidated financial statements included on Form 10-K and internal control over financial reporting, the review of our quarterly financial statements included in our Quarterly Reports on Form 10-Q, and audit services provided in connection with other subsidiary audit reports. These fees were approved by the Audit Committee.

Audit-Related Fees

Audit-related fees for 2014 and 2013 relate to professional services rendered in connection with the Company s registered debt offerings during those years.

Tax Fees

Tax fees for 2014 and 2013 relate to professional services rendered in connection with the preparation of transactional tax filings.

All Other Fees

For 2014, fees are for professional services rendered in connection with certain compliance audits.

For 2013, fees are for professional services rendered in connection with the pending acquisition of the AT&T properties in Connecticut.

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Item 3 on the Proxy Card)

The board of directors recommends that the stockholders ratify the selection of KPMG LLP, registered public accounting firm, as the independent registered public accounting firm to audit our accounts and those of our subsidiaries for 2015. The Audit Committee approved the selection of KPMG LLP as our independent registered public accounting firm for 2015. KPMG LLP is currently our independent registered public accounting firm.

The board of directors recommends a vote **FOR** this proposal.

ANNUAL REPORT AND COMPANY INFORMATION

A copy of our 2014 Annual Report to Stockholders is being furnished to stockholders concurrently herewith. Stockholders may request another free copy of our 2014 Annual Report from:

Frontier Communications Corporation
Attn: Investor Relations Department
Three High Ridge Park
Stamford, Connecticut 06905
Telephone: (866) 491-5249
e-mail: *ir@ftr.com*

PROPOSALS BY STOCKHOLDERS

Proposals that stockholders wish to include in our proxy statement and form of proxy for presentation at our 2016 annual stockholders meeting must be received by us no later than December 4, 2015. Such proposals also must comply with SEC regulations under Rule 14a-8 of the Securities Exchange Act of 1934 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Secretary
Frontier Communications Corporation
Three High Ridge Park
Stamford, Connecticut 06905
Fax: (203) 614-4651

For a stockholder proposal that is not intended to be included in our 2016 proxy statement under Rule 14a-8, our bylaws require the stockholder s written proposal be submitted to our Secretary at the address above:

On or after the close of business on January 14, 2016; and
On or before the close of business on February 12, 2016.

In such a case, the notice of proposal must meet certain requirements set forth in our bylaws. Such proposals are not required to be included in our proxy materials.

If the date of the stockholder meeting is moved more than 30 days before or after the anniversary of our annual meeting for the prior year, then notice of a stockholder proposal that is not intended to be included in our proxy statement under Rule 14a-8 must be received not less than a reasonable time, as determined by our board, prior to the printing and mailing of proxy materials for the applicable annual meeting.

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Frontier Communications Corporation
Three High Ridge Park
Stamford, Connecticut 06905

2015 Annual Meeting of Stockholders
10:00 a.m., Eastern Daylight Savings Time, May 13, 2015
Three High Ridge Park
Stamford, Connecticut 06905

ADVANCE REGISTRATION

Attendance at the meeting is limited to our stockholders, or their authorized representatives, and our guests. If you plan to attend or send a representative to the meeting, please notify us by marking the Advance Registration box on your proxy.

You may view this proxy statement and our Annual Report at the following Internet web site: *www.proxyvote.com*. An advance registration form may be submitted (for registered stockholders only) by selecting the proxy statement, the advance registration form and then clicking on the submit button once you have completed the form.

FRONTIER COMMUNICATIONS CORPORATION

3 HIGH RIDGE PARK

STAMFORD, CT 06905

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Daylight Saving Time the day before the meeting date. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via email or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Daylight Saving Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M83950-P59662-Z64779

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

FRONTIER COMMUNICATIONS CORPORATION	**For All**	**Withhold All**	**For All Except**	To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.
The Board of Directors recommends that you vote FOR the following:				
1. Election of Directors	o	o	o	

Nominees:

01)	Leroy T. Barnes, Jr.	07)	Virginia P. Ruesterholz
02)	Peter C.B. Bynoe	08)	Howard L. Schrott
03)	Diana S. Ferguson	09)	Larraine D. Segil
04)	Edward Fraioli	10)	Mark Shapiro
05)	Daniel J. McCarthy	11)	Myron A. Wick, III
06)	Pamela D.A. Reeve	12)	Mary Agnes Wilderotter

The Board of Directors recommends you vote FOR the following proposal:	**For**	**Against**	**Abstain**
2. To consider and vote upon an advisory proposal on executive compensation.	o	o	o
The Board of Directors recommends you vote FOR the following proposal:			
3. To ratify the selection of KPMG LLP as our independent registered public accounting firm for 2015.	o	o	o

NOTE: The named proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof.

For address changes and/or comments, please check this box and write them on the back where indicated. o

Please indicate if you plan to attend this meeting.	o	o
	Yes	**No**

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

Information about Delivery of Stockholder Material

"Householding"

In an effort to minimize costs and the amount of duplicate material a household receives, we are sending one annual report and proxy statement to accounts sharing the same last name and address. If you would like another copy, and/or wish to receive financial reports for each account in your household in the future, please contact Frontier's investor relations department by phone at 1-866-491-5249; by mail at 3 High Ridge Park, Stamford, CT 06905; or by email at ir@ftr.com.

Vote Your Proxy Online

You can use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M., Eastern Daylight Saving Time, the day before the meeting date. Have your proxy card in hand when you access the website (www.proxyvote.com), and follow the instructions to obtain your records and to create an electronic voting instruction form. There is no charge to you for this service, but there may be costs associated with access to the Internet, such as usage charges for your Internet service provider and/or telephone companies.

Electronic Delivery of Future Proxy Material

After submitting your proxy vote online, you may elect to receive future proxy material (annual report, proxy statement, etc.) from Frontier electronically. Before exiting www.proxyvote.com, click the button for "Electronic Delivery" and enter your email address. Then click the button indicating your consent to receive future information in an electronic format. Next year, you will receive an email providing information about where to locate the annual report and proxy statement online and how to vote these shares.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Combined Document is available at www.proxyvote.com.

M83951-P59662-Z64779

FRONTIER COMMUNICATIONS CORPORATION

Proxy Solicited on Behalf of Board of Directors

The undersigned hereby appoints Leroy T. Barnes, Jr., Howard L. Schrott and Myron A. Wick, III or any of them with full power of substitution, proxies to vote at the Annual Meeting of Stockholders of Frontier Communications Corporation (the "Company") to be held on Wednesday, May 13, 2015, at 10:00 a.m. Eastern Daylight Saving Time, at our offices at 3 High Ridge Park, Stamford, CT 06905, and at any adjournments thereof, hereby revoking any proxies heretofore given, to vote all shares of common stock of the company held or owned by the undersigned as directed, and in their discretion upon such other matters as may come before the meeting or any adjournment thereof.

If the undersigned holds shares of Frontier common stock under the Frontier Communications 401(k) Savings Plan, the Frontier Communications Corporate Services Inc. Management 401(K) Plan, the Frontier Communications Corporate Services Inc. Savings and Security Plan for West Region Hourly Employees and/or the Frontier Communications Corporate Services Inc. Savings and Security Plan for Mid-Atlantic Associates, this proxy represents the number of shares allocable to the undersigned under the Plan(s) as well as other shares registered in the undersigned's name. The undersigned hereby authorizes and directs Fidelity Investments, as the Trustee under the Plans, to vote all shares of stock allocated to the undersigned under the provisions of the Plans and appoints Leroy T. Barnes, Jr., Howard L. Schrott and Myron A. Wick, III or any of them, with full power of substitution, proxies to vote at the Annual Meeting of Stockholders of the Company to be held on Wednesday, May 13, 2015, at 10:00 a.m. Eastern Daylight Saving Time, at our offices at 3 High Ridge Park, Stamford, CT 06905, and at any adjournments thereof. Said Trustee is authorized and directed to execute and deliver a written proxy appointing such individuals to act as proxies as directed, and, in their discretion, upon such other matters as may come before the meeting or any adjournment thereof.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in FAVOR of the election of all directors and the adoption of Proposal 2 and Proposal 3.

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side