

SOURCEFIRE INC  
Form 10-Q  
August 06, 2007

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

**Form 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2007**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file no. 1-33350**

**SOURCEFIRE, INC.**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**52-2289365**

*(I.R.S. Employer  
Identification No.)*

**9770 Patuxent Woods Drive  
Columbia, Maryland**

*(Address of Principal Executive Offices)*

**21046**

*(Zip Code)*

**Registrant's telephone number including area code: 410-290-1616**

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 such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated filer

Accelerated filer

Non-accelerated filer

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

As of August 2, 2007 there were 24,020,593 shares of the registrant's common stock outstanding.

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SOURCEFIRE, INC.****CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands, except share and per share data)

	<b>June 30 2007 (Unaudited)</b>	<b>December 31 2006</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 50,326	\$ 13,029
Held-to-maturity investments	57,053	12,385
Accounts receivable, net of allowance for doubtful accounts of \$165 in 2007 and \$166 in 2006	10,750	16,507
Inventory	3,434	2,099
Prepaid expenses and other current assets	2,514	919
Total current assets	124,077	44,939
Property and equipment, net	3,536	2,546
Held-to-maturity investments, less current portion	2,285	908
Other assets	347	1,559
Total assets	\$ 130,245	\$ 49,952
<b>Liabilities, convertible preferred stock and stockholders equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 1,609	\$ 3,081
Accrued compensation and related expenses	1,595	1,783
Other accrued expenses	1,591	1,312
Current portion of deferred revenue	12,841	11,735
Current portion of long-term debt		675
Other current liabilities	685	501
Total current liabilities	18,321	19,087
Deferred revenue, less current portion	2,529	2,380
Long-term debt, less current portion		637
Other long-term liabilities	81	
Total liabilities	20,931	22,104
Series A convertible preferred stock, \$0.001 par value; 2,495,410 shares authorized at December 31, 2006, 2,475,410 shares issued and outstanding at December 31,		10,308

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2006; aggregate liquidation preference of \$14,093 at December 31, 2006; no shares authorized, issued or outstanding at June 30, 2007			
Warrants to purchase Series A convertible preferred stock			25
Series B convertible preferred stock, \$0.001 par value; 7,132,205 shares authorized, issued and outstanding at December 31, 2006; aggregate liquidation preference of \$19,947 at December 31, 2006; no shares authorized, issued or outstanding at June 30, 2007			14,265
Series C convertible preferred stock, \$0.001 par value; 5,404,043 shares authorized, issued and outstanding at December 31, 2006; aggregate liquidation preference of \$26,050 at December 31, 2006; no shares authorized, issued or outstanding at June 30, 2007			18,270
Series D convertible preferred stock, \$0.001 par value; 3,264,449 shares authorized, issued and outstanding at December 31, 2006; aggregate liquidation preference of \$29,847 at December 31, 2006; no shares authorized, issued or outstanding at June 30, 2007			23,879
Total convertible preferred stock			66,747
Commitments and contingent liabilities			
Stockholders' equity (deficit):			
Preferred stock, \$0.001 par value; 20,000,000 shares authorized at June 30, 2007; no shares issued and outstanding at June 30, 2007			
Common stock, \$0.001 par value; 240,000,000 shares authorized; 24,020,593 and 3,491,764 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively		24	3
Additional paid-in capital		151,777	
Accumulated deficit		(42,487)	(38,902)
Total stockholders' equity (deficit)		109,314	(38,899)
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	\$	130,245	\$ 49,952

See accompanying notes to consolidated financial statements.

**SOURCEFIRE, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Amounts in thousands, except share and per share data)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
Revenue:				
Products	\$ 6,050	\$ 6,040	\$ 11,700	\$ 11,463
Technical support and professional services	5,210	3,495	10,015	6,604
Total revenue	11,260	9,535	21,715	18,067
Cost of revenue:				
Products	1,588	1,721	3,144	3,118
Technical support and professional services	749	681	1,477	1,291
Total cost of revenue	2,337	2,402	4,621	4,409
Gross profit	8,923	7,133	17,094	13,658
Operating expenses:				
Research and development	2,680	2,170	5,181	4,252
Sales and marketing	5,870	4,773	11,817	9,583
General and administrative	2,420	1,225	4,748	2,484
Depreciation and amortization	388	317	750	606
Total operating expenses	11,358	8,485	22,496	16,925
Loss from operations	(2,435)	(1,352)	(5,402)	(3,267)
Other income (expense):				
Interest and investment income	1,396	134	1,934	153
Interest expense		(19)	(35)	(41)
Other income (expense)		41	(12)	34
Total other income (expense)	1,396	156	1,887	146
Loss before income taxes	(1,039)	(1,196)	(3,515)	(3,121)
Income tax expense	(58)		(70)	
Net loss	(1,097)	(1,196)	(3,585)	(3,121)
Accretion of preferred stock		(841)	(870)	(1,556)
Net loss attributable to common stockholders	\$ (1,097)	\$ (2,037)	\$ (4,455)	\$ (4,677)

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Net loss attributable to common stockholders  
per share:

Basic and diluted	\$	(0.05)	\$	(0.61)	\$	(0.27)	\$	(1.40)
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Weighted average shares outstanding used in  
computing per share amounts:

Basic and diluted	24,008,512	3,348,869	16,358,746	3,343,617
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See accompanying notes to consolidated financial statements.



**SOURCEFIRE, INC.**

**CONSOLIDATED STATEMENT OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND  
STOCKHOLDERS EQUITY (DEFICIT)  
(Amounts in thousands, except share data)  
(unaudited)**

Series C Convertible Preferred Stock		Series D Convertible Preferred Stock		Common Stock	
Shares	Amount	Shares	Amount	Shares	Amount
5,404,043	\$ 18,270	3,264,449	\$ 23,879	3,491,764	\$
				41,273	
				6,185,500	
	237		307		
(5,404,043)	(18,507)	(3,264,449)	(24,186)	14,302,056	53,650

See accompanying notes to condensed consolidated financial statements.

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JONES SODA CO.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands, except share data)			
Revenue	\$ 4,262	\$ 3,879	\$ 7,155	\$ 6,769
Cost of goods sold	3,209	3,007	5,360	5,204
Gross profit	1,053	872	1,795	1,565
Operating expenses:				
Selling and marketing	542	591	974	1,089
General and administrative	603	683	1,142	1,388
	1,145	1,274	2,116	2,477
Loss from operations	(92)	(402)	(321)	(912)
Other (expense) income, net	(14)	3	(57)	(8)
Loss before income taxes	(106)	(399)	(378)	(920)
Income tax expense, net	(10)	(30)	(16)	(48)
Net loss	\$ (116)	\$ (429)	\$ (394)	\$ (968)
Net loss per share - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average basic and diluted common shares outstanding	41,075,505	39,078,592	41,023,950	38,894,504

See accompanying notes to condensed consolidated financial statements.

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JONES SODA CO.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	(In thousands)			
Net loss	\$ (116)	\$ (429)	\$ (394)	\$ (968)
Other comprehensive loss:				
Foreign currency translation adjustment	(21)	89	27	60
Total comprehensive loss	\$ (137)	\$ (340)	\$ (367)	\$ (908)

See accompanying notes to condensed consolidated financial statements.

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JONES SODA CO.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30,	
	2015	2014
	(In thousands)	
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (394)	\$ (968)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14	105
Stock-based compensation	130	187
Change in allowance for doubtful accounts	(5)	6
Changes in operating assets and liabilities:		
Accounts receivable	(1,344)	(1,582)
Inventory	(902)	(1,102)
Prepaid expenses and other current assets	(17)	226
Other assets	10	22
Accounts payable	1,671	2,163
Accrued expenses	(118)	(119)
Taxes payable	(14)	(19)
Other liabilities	(15)	(17)
Net cash used in operating activities	(984)	(1,098)
<b>INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(14)	—
Sale of fixed assets	—	1
Net cash (used in) provided by investing activities	(14)	1
<b>FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	114	136
Payment of capital lease obligations	(7)	(6)
Net proceeds from line of credit	729	—
Net cash provided by financing activities	836	130
Net decrease in cash and cash equivalents	(162)	(967)
Effect of exchange rate changes on cash	(28)	22
Cash and cash equivalents, beginning of period	857	1,464
Cash and cash equivalents, end of period	\$ 667	\$ 519
<b>Supplemental disclosure:</b>		
Cash paid during period for:		
Interest	\$ 23	\$ (1)
Income taxes	30	—

See accompanying notes to condensed consolidated financial statements.

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JONES SODA CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Jones Soda Co. develops, produces, markets and distributes premium beverages which it sells and distributes primarily in United States and Canada through its network of independent distributors and directly to its national and regional retail accounts.

We are a Washington corporation and have two operating subsidiaries, Jones Soda Co. (USA) Inc. and Jones Soda (Canada) Inc. (“Subsidiaries”).

Basis of presentation and consolidation

The accompanying condensed consolidated balance sheet as of December 31, 2014, which has been derived from our audited consolidated financial statements, and unaudited interim condensed consolidated financial statements as of June 30, 2015, has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the Securities and Exchange Commission (SEC) rules and regulations applicable to interim financial reporting. The condensed consolidated financial statements include our accounts and accounts of our wholly owned subsidiaries. All intercompany transactions between us and our subsidiaries have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all material adjustments, consisting only of those of a normal recurring nature, considered necessary for a fair presentation of our financial position, results of operations and cash flows at the dates and for the periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standard Board, or FASB, issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09), which will supersede nearly all existing revenue recognition guidance under generally accepted accounting principles in the United States (GAAP). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five steps process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 will be effective for the fiscal

and interim reporting periods beginning after December 15, 2017 using either of two methods: (i) retrospective to each prior reporting period presented within the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09. We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

#### Use of estimates

The preparation of the condensed consolidated financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, inventory valuation, depreciable lives and valuation of capital assets, valuation allowances for receivables, trade promotion liabilities, stock-based compensation expense, valuation allowance for deferred income tax assets, contingencies, and forecasts supporting the going concern assumption and related disclosures. Actual results could differ from those estimates.

#### Liquidity

As of June 30, 2015, we had cash and cash-equivalents of approximately \$667,000 and working capital of \$2.5 million. Cash used in operations during the six months ended June 30, 2015 totaled \$984,000 compared to \$1.1 million for the same period a year ago. The decrease in cash used in operations compared to the same period a year ago is primarily due to the tighter management of inventory related to the increase in case sale volume. We incurred a net loss of \$116,000 for the three months ended June 30, 2015.



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As of the date of this Report, we believe that our current cash and cash equivalents will be sufficient to meet our anticipated cash needs through December 31, 2015. Additionally, our Loan Facility (described below), is available for our working capital needs.

We have a revolving secured credit facility (the “Loan Facility”) with CapitalSource Business Finance Group (previously known as BFI Business Finance). The Loan Facility allows us to borrow a maximum aggregate amount of up to \$2.0 million based on eligible accounts receivable and inventory. As of June 30, 2015, our eligible borrowing base was approximately \$1.0 million, of which we had drawn down \$729,000 as of that date. We may use the Loan Facility for our working capital needs. The Loan Facility is available for future borrowing, as discussed further in Note 3.

During the second quarter ended June 30, 2015, we received \$114,000 in cash from the exercise of stock options, which included \$102,000 from the exercise of stock options by our CEO for 300,000 shares of common stock. We may receive additional cash through the exercise of stock options or warrants in the future; however, we cannot predict the timing or amount of cash proceeds we may receive from exercise, if at all, of stock options or warrants.

We may require additional financing to support our working capital needs in the future. The amount of additional capital we may require, the timing of our capital needs and the availability of financing to fund those needs will depend on a number of factors, including our strategic initiatives and operating plans, the performance of our business and the market conditions for debt or equity financing. Additionally, the amount of capital required will depend on our ability to meet our case sales goals and otherwise successfully execute our operating plan. We believe it is imperative to meet these sales objectives in order to lessen our reliance on external financing in the future. We intend to continually monitor and adjust our business plan as necessary to respond to developments in our business, our markets and the broader economy. Although we believe various debt and equity financing alternatives will be available to us to support our working capital needs, financing arrangements on acceptable terms may not be available to us when needed. Additionally, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. Any such financing alternatives may not provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions that we consider to be in the best interest of the Company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, a rights offering, and other strategic alternatives; however, these options may not ultimately be available or feasible.

The uncertainties relating to our ability to successfully execute on our business plan and finance our operations continue to raise substantial doubt about our ability to continue as a going concern. Our financial statements for the periods presented were prepared assuming we would continue as a going concern, which contemplates that we will continue in operation for the foreseeable future and will be able to realize assets and settle liabilities and commitments in the normal course of business. These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should we be unable to continue as a going concern.

## Seasonality

Our sales are seasonal and we experience fluctuations in quarterly results as a result of many factors. We historically have generated a greater percentage of our revenues during the warm weather months of April through September. Timing of customer purchases will vary each year and sales can be expected to shift from one quarter to another. As a result, management believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance or results expected for the fiscal year.

## 2. Inventory

Inventory consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Finished goods	\$ 2,741	\$ 2,096
Raw materials	734	507
	\$ 3,475	\$ 2,603

Finished goods primarily include product ready for shipment, as well as promotional merchandise held for sale. Raw materials primarily include ingredients, concentrate and packaging.

## 3. Line of Credit

We have a revolving secured Loan Facility with CapitalSource Business Finance Group (previously known as BFI Business Finance) (“CapitalSource”), pursuant to which we, through our Subsidiaries, may borrow a maximum aggregate amount of up to \$2.0 million, subject to satisfaction of certain conditions. We originally entered into this Loan Facility on December 27, 2013, and amended and renewed it for an additional year as of December 27, 2014.

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Under this Loan Facility, we may periodically request advances equal to the lesser of: (a) \$2.0 million, or (b) the Borrowing Base which is, in the following priority, the sum of: (i) 85% of eligible U.S. accounts receivable, plus (ii) 35% of finished goods inventory not to exceed \$300,000, plus (iii) 50% of eligible Canadian accounts receivable not to exceed \$300,000, subject to any reserve amount established by CapitalSource. As of June 30, 2015, our eligible borrowing base was approximately \$1.0 million, of which we had drawn down \$729,000. Advances under the Loan Facility bear interest at the prime rate plus 2%, where prime may not be less than 4%, and a loan fee of 0.15% on the daily loan balance is payable to CapitalSource on a monthly basis. The Loan Facility, as amended in December 2014, provides for a minimum cumulative amount of interest of \$30,000 per year to be paid to CapitalSource, regardless of whether or not we draw on the Loan Facility. The Loan Facility has a term of one year which automatically extends for successive one year terms unless either party gives at least 30 days' prior written notice of its intent to terminate the Loan Facility at the end of the then current term, with an annual fee of \$15,000. CapitalSource has the right to terminate the Loan Facility at any time upon 120 days' prior written notice. All present and future obligations of the Subsidiaries arising under the Loan Facility are guaranteed by us and are secured by a first priority security interest in all of our assets. The Loan Facility contains customary representations and warranties as well as affirmative and negative covenants. As of June 30, 2015, we were in compliance with all covenants under the Loan Facility.

We drew on our Loan Facility during the quarter with a balance of \$729,000 as of June 30, 2015. The draws on the Loan Facility were used to fulfill short-term working capital needs to avoid foreign exchange losses from transferring funds from our Canadian operations to the U.S. operations. We will continue to utilize the Loan Facility, as needed, for working capital needs in the future.

## 4. Warrants

In February 2012 as part of our registered offering, we sold and issued warrants for the purchase of up to 3,207,500 shares of common stock. Each warrant has an exercise price of \$0.70 per share, for total potential proceeds to us of up to \$2,245,250 if all of the warrants are exercised in full for cash. The warrants are exercisable for cash or, solely in the absence of an effective registration statement, by cashless exercise. The exercise price of the warrants is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions, and also upon any distributions to Company shareholders, business combinations, sale of substantially all assets and other fundamental transactions. The exercise of the warrants is subject to certain beneficial ownership limitations and other restrictions set forth in the warrant documents. The term of the warrants expires on August 6, 2017. Any remaining warrants that are outstanding on August 6, 2017, the expiration date, will automatically be exercised at that time by cashless exercise.

As of June 30, 2015, 3,057,500 of the warrants remain outstanding and warrants for 150,000 shares were previously exercised for cash in the quarter ended September 2013. No warrants were exercised during the six months ended June 30, 2015.

## 5. Shareholders' Equity

Under the terms of our 2011 Incentive Plan (the "Plan"), the number of shares authorized under the Plan may be increased each January 1st by an amount equal to the least of (a) 1,300,000 shares, (b) 4.0% of our outstanding common stock as of the end of our immediately preceding fiscal year, and (c) a lesser amount determined by the Board of Directors (the "Board"), provided that the number of shares that may be granted pursuant to awards in a single year may not exceed 10% of our outstanding shares of common stock on a fully diluted basis as of the end of the

immediately preceding fiscal year. Effective January 1, 2015, the total number of shares of common stock authorized under the Plan increased to 8,184,032 shares.

Under the terms of the Plan, the Board may grant awards to employees, officers, directors, consultants, agents, advisors and independent contractors. Awards may consist of stock options, stock appreciation rights, stock awards, restricted stock, stock units, performance awards or other stock or cash-based awards. Stock options are granted at the closing price of our stock on the date of grant, and generally have a ten-year term and vest over a period of 48 months with the first 25.0% cliff vesting one year from the grant date and monthly thereafter. As of June 30, 2015, there were 3,338,538 shares of unissued common stock authorized and available for future awards under the Plan.

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## (a) Stock options:

A summary of our stock option activity is as follows:

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price
Balance at January 1, 2015	2,576,987	\$ 0.58
Options granted	740,000	0.33
Options exercised	(342,500)	0.33
Options cancelled/expired	(341,667)	0.41
Balance at June 30, 2015	2,632,820	\$ 0.56
Exercisable, June 30, 2015	1,762,258	\$ 0.66
Vested and expected to vest	2,416,850	\$ 0.58

## (b) Stock-based compensation expense:

Stock-based compensation expense is recognized using the straight-line attribution method over the employees' requisite service period. We recognize compensation expense for only the portion of stock options or restricted stock expected to vest. Therefore, we apply estimated forfeiture rates that are derived from historical employee termination behavior. If the actual number of forfeitures differs from those estimated by management, additional adjustments to stock-based compensation expense may be required in future periods.

At June 30, 2015, we had unrecognized compensation expense related to stock options of \$167,000 to be recognized over a weighted-average period of 2.6 years.

The following table summarizes the stock-based compensation expense attributable to stock options (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Income statement account:				
Selling and marketing	\$ 11	\$ 8	\$ 24	\$ 18
General and administrative	79	92	106	169
	\$ 90	\$ 100	\$ 130	\$ 187

We employ the following key weighted-average assumptions in determining the fair value of stock options, using the Black-Scholes option pricing model and the simplified method to estimate the expected term of "plain vanilla" options:

Six months ended June 30,

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	2015	2014
Expected dividend yield	—	—
Expected stock price volatility	88.3 %	101.6 %
Risk-free interest rate	1.6 %	1.8 %
Expected term (in years)	5.4 years	5.5 years
Weighted-average grant date fair-value	\$ 0.24	\$ 0.34

During the six months ended June 30, 2015, no modifications were made to outstanding stock options.

The aggregate intrinsic value of stock options outstanding at June 30, 2015 and 2014 was \$21,000 and \$612,300 and for options exercisable was \$16,000 and \$260,000, respectively. Additionally, the aggregate intrinsic value of options exercised during the six months ended June 30, 2015 and 2014 was \$2,000 and \$51,000, respectively. The intrinsic value of outstanding and exercisable stock options is calculated as the quoted market price of the stock at the balance sheet date less the exercise price of the option.

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## 6. Segment Information

We have one operating segment with operations primarily in the United States and Canada. Sales are assigned to geographic locations based on the location of customers. Sales by geographic location are as follows (in thousands):

	Three months		Six months ended	
	ended June 30,		June 30,	
	2015	2014	2015	2014
Revenue:				
United States	\$ 2,730	\$ 2,494	\$ 4,846	\$ 4,693
Canada	1,461	1,382	2,137	1,974
Other countries	71	3	172	102
Total revenue	\$ 4,262	\$ 3,879	\$ 7,155	\$ 6,769

During the three months ended June 30, 2015 and 2014, three of our customers represented approximately 35% and 37%, respectively, of revenue. During the six months ended June 30, 2015 and 2014, three of our customers represented approximately 35% and 33%, respectively, of revenue.

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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 unaudited condensed consolidated financial statements and related notes included elsewhere in this Report and the 2014 audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on March 25, 2015.

This Report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “believe,” “expect,” “intend,” “anticipate,” “estimate,” “may,” “will,” “can,” “plan,” “predict,” “could,” “future,” “continue,” variations of similar expressions. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined at the beginning of this report under “Cautionary Notice Regarding Forward-Looking Statements” and in Item 1A of our most recent Annual Report on Form 10-K filed with the SEC. These factors may cause our actual results to differ materially from any forward-looking statements. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

We develop, produce, market and distribute premium beverages which we sell and distribute primarily in the United States and Canada through our network of independent distributors and directly to our national and regional retail accounts. We also sell products in select international markets. Our products are sold primarily in grocery stores, convenience and gas stores, “up and down the street” in independent accounts such as delicatessens and sandwich shops, as well as through our national accounts with several large retailers. We refer to our network of independent distributors as our direct store delivery (DSD) channel, and we refer to our national and regional accounts who receive shipments directly from us as our direct to retail (DTR) channel. We do not directly manufacture our products but instead outsource the manufacturing process to third-party contract manufacturers. We also sell various products online, including soda with customized labels, wearables, candy and other items, and we license our trademarks for use on products sold by other manufacturers.

Our Focus for Fiscal 2015: Sales Growth

Our focus for 2015 is on revenue, case sales growth and driving to profitability.

The following are key components of this focus for 2015:

- Utilize the strategic distribution improvements implemented across the United States and Canada to grow national and independent account sales of our core Jones Soda lines;
- Expand the distribution of Jones Stripped in the United States and Canada, which previously was launched in select regions in the United States;
- Increase the focus on international expansion;
- Expand our newly launched fountain program of our core product lines in the United States and Canadian marketplaces; and
- Build upon partnerships with major retail chains in innovative ways, while continuing to build our base of independent accounts.





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Results of Operations

The following selected financial and operating data are derived from our condensed consolidated financial statements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our condensed consolidated financial statements.