

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 2022 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 29, 2023.

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 such words, and 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, and in our other reports we file with the SEC, including our periodic reports on Form 10-Q and current reports on Form 8-K. 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 that 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 in grocery stores, convenience and gas stores, on fountain in restaurants, "up and down the street" in independent accounts such as delicatessens, sandwich shops and burger restaurants, 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: Sales Growth

Our focus is sales growth through execution of the following key initiatives:

- Expand the Jones Soda glass bottle business in existing and new sales channels;
- Expand our fountain program in the United States and Canada;
- Grow the new product line of Tetrahydrocannabinol (THC) and cannabidiol (CBD)-infused beverages, edibles, and other related products; and,
- Increase distribution of Lemoncocco in the United States and Canada.

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 our condensed consolidated financial statements.

	Three months ended March 31,			
	2023	% of Revenue	2022	% of Revenue
Consolidated statements of operations data:				
(Dollars in thousands, except per share data)				
Revenue	\$ 3,870	100.0%	\$ 4,523	100.0%
Cost of goods sold	(2,735)	(70.7)%	(3,286)	(72.7)%
Gross profit	1,135	29.3%	1,237	27.3%
Selling and marketing expenses	(1,032)	(26.7)	(1,143)	(25.3)
General and administrative expenses	(1,456)	(37.6)%	(1,522)	(33.7)%
Loss from operations	(1,353)	(35.0)%	(1,428)	(31.6)%
Interest income	-	0.0%	2	0.0%
Interest expense	-	0.0%	(231)	(5.1)%
Other income, net	(5)	(0.1)%	-	0.0
Loss before income taxes	(1,358)	(35.1)%	(1,657)	(36.6)%
Income tax expense, net	(5)	(0.1)%	(7)	(0.2)%
Net loss	\$ (1,363)	(35.2)%	\$ (1,664)	(36.8)%
Basic and diluted net loss per share	\$ (0.01)		\$ (0.03)	

	As of	
	March 31, 2023	December 31, 2022
(Dollars in thousands)		
Balance sheet data:		
Cash and cash equivalents and accounts receivable, net	\$ 9,696	\$ 11,141
Fixed assets, net	125	127
Total assets	14,108	15,102
Working capital	10,486	11,640

Seasonality and Other Fluctuations

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. Sales may fluctuate materially on a quarter to quarter basis or an annual basis when we launch a new product or fill the “pipeline” of a new distribution partner or a large retail partner. Sales results may also fluctuate based on the number of stock keeping units or "SKUs" selected or removed by our distributors and retail partners through the normal course of serving consumers in the dynamic, trend-oriented beverage industry. 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.

Quarter Ended March 31, 2023 Compared to Quarter Ended March 31, 2022

Revenue

For the quarter ended March 31, 2023, revenue decreased by approximately \$653,000, or 14.4%, to approximately \$3.9 million compared to approximately \$4.5 million for the quarter ended March 31, 2022. The decrease in sales revenue in the first quarter of 2023 compared to the first quarter of 2022 was primarily the result of lower DSD and DTR core bottled soda sales in the United States and Canada in the current quarter compared to the same quarter of 2022. Core bottle soda sales in the first quarter of 2023 were lower than the first quarter of 2022 mostly as a result of a one-time inventory stocking event with one of our largest customers in 2022 resulting in higher sales revenues in that quarter.

For the quarter ended March 31, 2023, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately \$305,000, a decrease of approximately \$3,000, or 1.0%, compared to approximately \$308,000 for the quarter ended March 31, 2022, primarily due to the timing of incentive and retailer programs.

Gross Profit

For the quarter ended March 31, 2023, gross profit decreased by approximately \$102,000, or 8.2%, to approximately \$1.1 million compared to approximately \$1.2 million for the quarter ended March 31, 2022 as a result of lower sales revenue in the current quarter. For the quarter ended March 31, 2023, gross margin increased to 29.3% from 27.3% for the quarter ended March 31, 2022. This increase was primarily driven by proactive pricing adjustments and lower freight costs during the current quarter.

Selling and Marketing Expenses

Selling and marketing expenses for the first quarter ended March 31, 2023 were approximately \$1.0 million, a decrease of approximately \$111,000, or 9.7%, from approximately \$1.1 million for the first quarter ended March 31, 2022. This decrease was primarily a result of the decrease in marketing start-up costs associated with the launch of our cannabis products in 2022. We continue to invest in marketing our cannabis products, but our costs in the first quarter of 2023 are less than the same quarter of 2022 mostly due to the start-up costs associated with the launch of such products becoming no longer necessary in 2023. Selling and marketing expenses as a percentage of revenue increased to 26.7% in the first quarter ended March 31, 2023 from 25.3% in the same period in 2022. We will continue to balance selling and marketing expenses with our working capital resources. For the three months ended March 31, 2023 and 2022, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately \$27,000 and \$103,000, respectively.

General and Administrative Expenses

General and administrative expenses for the first quarter ended March 31, 2023 were approximately \$1.46 million, a decrease of approximately \$66,000, or 4.3%, compared to approximately \$1.52 for the first quarter ended March 31, 2022. This decrease was primarily a result of the decrease in general business start-up costs associated with the launch of our cannabis products in 2022. General and administrative expenses as a percentage of revenue increased to 37.6% in the first quarter ended March 31, 2023 from 33.7% in the same quarter in 2022. We will continue to carefully manage general and administrative expenses with our working capital resources. For the three months ended March 31, 2023 and 2022, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$247,000 and \$182,000, respectively.

Interest Expense

We incurred no interest expense for the quarter ended March 31, 2023, compared to approximately \$231,000 for the quarter ended March 31, 2022. This decrease was primarily related to the conversions of some of our outstanding convertible notes that occurred during the three months ended March 31, 2022 and that resulted in all capitalized costs associated with the issuance of these notes being fully expensed upon conversion. The interest expense incurred during the quarter ended March 31, 2022 was non-cash.

[Table of Contents](#)

Income Tax Expense

We incurred approximately \$5,000 and \$7,000 of income tax expense during each of the quarters ended March 31, 2023 and 2022, respectively, primarily related to the tax provision on income from our Canadian operations. We have not recorded any tax benefit for the loss in our U.S. operations as we have recorded a full valuation allowance on our U.S. net deferred tax assets. We expect to continue to record a full valuation allowance on our U.S. net deferred tax assets until we sustain an appropriate level of taxable income through improved U.S. operations. Our effective tax rate is based on recurring factors, including the forecasted mix of income before taxes in various jurisdictions, estimated permanent differences and the recording of a full valuation allowance on our U.S. net deferred tax assets.

Net loss

Net loss for the first quarter ended March 31, 2023 was approximately \$1.4 million compared to net loss of approximately \$1.7 million for the first quarter ended March 31, 2022. This decrease in net loss was primarily due to the decreased marketing and administrative costs associated with the launch of our cannabis products in 2022 and the decrease in interest expense being partially offset by reduced revenues in the first quarter of 2023 compared to the first quarter of 2022.

Liquidity and Capital Resources

As of March 31, 2023 and December 31 2022, we had cash and cash-equivalents of approximately \$6.4 million and \$8.0 million, respectively, and working capital of approximately \$10.5 million and \$11.6 million, respectively. Net cash used in operations during the three months ended March 31, 2023 and 2022 totaled approximately \$1.3 million and \$2.0 million, respectively. Net cash used in operations decreased in the first quarter of 2023 compared to the first quarter of 2022 primarily due to the decrease in cash used as start-up expenses related to the launch of the Company's cannabis-containing beverages and related products during the three months ended March 31, 2023.

We did not receive any cash from the exercise of stock options as of March 31, 2023 or 2022. From time to time, we may receive additional cash through the exercise of stock options or stock warrants. However, we cannot predict the timing or amount of cash proceeds we may receive from the exercise, if at all, of any of the outstanding stock options or warrants.

We intend to continually monitor and adjust our operating plan as necessary to respond to developments in our business, our markets and the broader economy.

As of the date of this Report, as a result of our cash on hand, we believe that our current cash and cash equivalents will be sufficient to meet the Company's funding requirements for one year after these condensed consolidated financial statements are issued.

Critical Accounting Policies

See the information concerning our critical accounting policies included under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on March 29, 2023. There have been no material changes in our critical accounting policies during the three months ended March 31, 2023.