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 brand 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 June 30,				Six months ended June 30,			
	2023	% of Revenue	2022	% of Revenue	2023	% of Revenue	2022	% of Revenue
Consolidated statements of operations data:	(Dollars in thousands, except per share data)				(Dollars in thousands, except per share data)			
Revenue	$ 4,806	100.0%	$ 6,015	100.0%	$ 8,676	100.0%	$ 10,538	100.0%
Cost of goods sold	(3,247)	(67.6)%	(4,328)	(72.0)%	(5,982)	(68.9)%	(7,614)	(72.3)%
Gross profit	1,559	32.4%	1,687	28.0%	2,694	31.1%	2,924	27.7%
Selling and marketing expenses	(1,080)	(22.5)%	(1,076)	(17.9)%	(2,112)	(24.3)%	(2,219)	(21.1)%
General and administrative expenses	(1,508)	(31.4)%	(1,882)	(31.3)%	(2,964)	(34.2)%	(3,404)	(32.3)%
Loss from operations	(1,029)	(21.4)%	(1,271)	(21.1)%	(2,382)	(27.5)%	(2,699)	(25.6)%
Interest income	18	0.4%	2	0.0%	18	0.2%	4	0.0%
Interest expense	-	0.0%	(146)	(2.4)%	-	0.0%	(377)	(3.6)%
Other income (expense), net	4	0.1%	(11)	(0.2)%	(1)	(0.0)%	(11)	(0.1)%
Loss before income taxes	(1,007)	(21.0)%	(1,426)	(23.7)%	(2,365)	(27.3)%	(3,083)	(29.3)%
Income tax expense, net	(17)	(0.4)%	(9)	(0.1)%	(22)	(0.3)%	(16)	(0.2)%
Net loss	$ (1,024)	(21.3)%	$ (1,435)	(23.9)%	$ (2,387)	(27.5)%	$ (3,099)	(29.4)%
Basic and diluted net loss per share	$ (0.01)		$ (0.02)		$ (0.02)		$ (0.04)	

	As of	
	June 30, 2023	December 31, 2022
Balance sheet data:	(Dollars in thousands)	
Cash and cash equivalents and accounts receivable, net	$ 8,608	$ 11,141
Fixed assets, net	121	127
Total assets	12,657	15,102
Long-term liabilities	-	-
Working capital	9,735	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 June 30, 2023 Compared to Quarter Ended June 30, 2022

Revenue

For the quarter ended June 30, 2023, revenue decreased by approximately $1.2 million, or 20.1%, to approximately $4.8 million compared to approximately $6.0 million for the quarter ended June 30, 2022. The decrease in sales revenue in the second quarter of 2023 compared to the second quarter of 2022 was primarily the result of approximately $1 million in revenues from core bottle soda sales from a one-time inventory stocking event with one of our largest customers in 2022 that was not repeated in 2023.

For the quarter ended June 30, 2023, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately $394,000, a decrease of approximately $57,000, or 12.6%, compared to approximately $451,000 for the quarter ended June 30, 2022, primarily due to the timing of incentive and retailer programs.

Gross Profit

For the quarter ended June 30, 2023, gross profit decreased by approximately $128,000, or 7.6%, to approximately $1.6 million compared to approximately $1.7 million for the quarter ended June 30, 2022 as a result of lower sales revenue in the current quarter. For the quarter ended June 30, 2023, gross margin increased to 32.4% from 28.0% for the quarter ended June 30, 2022. This increase was primarily driven by proactive pricing adjustments in 2023 and continued supply chain management to lower raw material and freight costs.

Selling and Marketing Expenses

Selling and marketing expenses for the second quarter ended June 30, 2023 remained flat at approximately $1.1 million in comparison to the quarter-ended June 30, 2022. Our sales expenses increased by approximately $100,000 in the current quarter primarily due to increased sales team headcount which was offset by approximately $100,000 in reduced marketing spend for the current quarter. We continue to invest in marketing, however, due to timing of specific programs in 2022 versus 2023, we experienced lower marketing expenses in the second quarter of 2023 in comparison to the second quarter of 2022. Selling and marketing expenses as a percentage of revenue increased to 22.5% in the second quarter ended June 30, 2023 from 17.9% in the same period in 2022. We intend to continue to balance selling and marketing expenses with our working capital resources. For the three months ended June 30, 2023 and 2022, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $28,000 and $30,000, respectively.

General and Administrative Expenses

General and administrative expenses for the second quarter ended June 30, 2023 were approximately $1.5 million, a decrease of approximately $374,000, or 19.9%, compared to approximately $1.9 million for the first quarter ended June 30, 2022. This decrease was primarily a result of fewer general business start-up costs associated with the development of our Mary Jones Brand in the second quarter of 2023 compared to the same quarter of 2022. General and administrative expenses as a percentage of revenue decreased slightly to 31.4% in the second quarter ended June 30, 2023 from 34.3% in the same quarter in 2022. We intend to continue to carefully manage general and administrative expenses with our working capital resources. For the three months ended June 30, 2023 and 2022, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $268,000 and $103,000, respectively. The increase in non-cash expenses included in general and administrative expenses in the second quarter of 2023 was primarily due to increased stock options granted to the Company's officers and members of the Company's Board of Directors in the current quarter ended June 30, 2023 compared to the quarter ended June 30, 2022.

Interest Income

We earned approximately $18,000 of interest income for the quarter ended June 30, 2023, compared to $2,000 for the quarter ended June 30, 2022. This increase is primarily due to the increase in interest rates.

Interest Expense

We incurred no interest expense for the quarter ended June 30, 2023, compared to approximately $146,000 for the quarter ended June 30, 2022. The $146,000 interest expense in the second quarter of 2022 was primarily related to the conversions of both the Contingent Convertible Debentures and the remaining Convertible Notes (each as defined in Note 4) that resulted in all capitalized costs associated with the issuance of these notes being fully expensed upon conversion. The interest expense incurred during the quarters ended June 30, 2022 was non-cash.

Income Tax Expense

We incurred approximately $17,000 and $9,000 of income tax expense during the quarters ended June 30, 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 quarter ended June 30, 2023 was approximately $1.0 million compared to net loss of approximately $1.4 million for the quarter ended June 30, 2022. This decrease in net loss was primarily due to the decreased General and Administrative costs associated with the development of our Mary Jones Brand in 2023 and the decrease in interest expense being partially offset by reduced revenues in the second quarter of 2023 compared to the second quarter of 2022.

Six months Ended June 30, 2023 Compared to six months Ended June 30, 2022

Revenue

For the six months ended June 30, 2023, revenue decreased by approximately $1.9 million, or 17.7%, to approximately $8.7 million compared to approximately $10.5 million for the six months ended June 30, 2022. The decrease in sales revenue in the first and second quarters of 2023 compared to the first and second quarters of 2022 was primarily the result of $1.5 million in revenues from core bottle soda sales from a one-time inventory stocking event with one of our largest customers in 2022 that was not repeated during the first half of 2023.

For the six months ended June 30, 2023, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately $699,000, an increase of approximately $60,000, or 7.9%, compared to approximately $759,000 for the six months ended June 30, 2022, primarily due to the timing of incentive and retailer programs.

Gross Profit

For the six months ended June 30, 2023, gross profit decreased by approximately $230,000, or 7.9%, to approximately $2.7 million compared to approximately $2.9 million for the six months ended June 30, 2022 as a result of lower sales revenue in the current six month period. For the six months ended June 30, 2023, gross margin increased to 31.1% from 27.7% for the six months ended June 30, 2022. This increase was primarily driven by proactive pricing adjustments and continued supply chain management to lower raw material and freight costs.

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended June 30, 2023 decreased by approximately $107,000 to $2.1 million in comparison to $2.2 million for the six months ended June 30, 2022. We continue to invest in marketing, but our marketing costs in the first six months of 2023 decreased compared to the same six month period of 2022 mostly due to timing of specific programs. Selling and marketing expenses as a percentage of revenue increased to 24.3% in the six months ended June 30, 2023 from 21.1% in the same period in 2022. We intend to continue to balance selling and marketing expenses with our working capital resources. For the six months ended June 30, 2023 and 2022, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $55,000 and $134,000, respectively.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2023 were approximately $3.0 million, a decrease of approximately $440,000, or 12.9%, compared to approximately $3.4 million for the six months ended June 30, 2022. This decrease was primarily a result of fewer general business start-up costs associated with the development of our Mary Jones Brand in the first half of 2023 compared to the same period of 2022. General and administrative expenses as a percentage of revenue increased to 34.2% in the six month period ended June 30, 2023 from 32.3% in the same period in 2022. We will continue to carefully manage general and administrative expenses with our working capital resources. For the six months ended June 30, 2023 and 2022, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $515,000 and $281,000, respectively. The increase in non-cash expenses included in general and administrative expenses is primarily due to increased stock options granted to the Company's officers and members of the Company's Board of Directors during the six months ended June 30, 2023 compared to the six months ended June 30, 2022.

Interest Income

We earned approximately $18,000 of interest income for the six months ended June 30, 2023, compared to $4,000 for the six months ended June 30, 2022. This increase is primarily due to the increase in interest rates.

Interest Expense

We incurred no interest expense for the quarter ended June 30, 2023, compared to approximately $377,000 for the quarter ended June 30, 2022. The $377,000 interest expense incurred during the six months of 2022 was primarily related to the conversions of both the Contingent Convertible Debentures and the remaining Convertible Notes (each as defined in Note 4) that resulted in all capitalized costs associated with the issuance of these notes being fully expensed upon conversion. The interest expense incurred during the six months ended June 30, 2022 was non-cash.

Liquidity and Capital Resources

As of June 30, 2023 and December 31 2022, we had cash and cash-equivalents of approximately $5.1 million and $8.0 million, respectively, and working capital of approximately $9.7 million and $11.6 million, respectively. Net cash used in operations during the six months ended June 30, 2023 and 2022 totaled approximately $2.5 million and $4.3 million, respectively. Net cash used in operations decreased primarily due to the decrease in start-up expenses related to the launch of the cannabis-containing beverages and related products for the six months ended June 30, 2023.

We did not receive any cash from the exercise of stock options as of June 30, 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 June 30, 2023.