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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number: 000-28820

JONES SODA CO.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of
incorporation or organization)

52-2336602

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

4786 1st Avenue South, Suite 103
Seattle, Washington

(Address of principal executive offices)

98134

(Zip Code)

(206) 624-3357

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Indicate by checkmark 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 checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer
Non-accelerated Filer
Emerging Growth Company

Accelerated Filer
Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 5, 2023, there were 101,258,135 shares of the registrant's common stock issued and outstanding.

JONES SODA CO.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2023
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EXPLANATORY NOTE

Unless otherwise indicated or the context otherwise requires, all references in this Quarterly Report on Form 10-Q (this “Report”) to “we,” “us,” “our,” “Jones,” “Jones Soda,” and the “Company” are to Jones Soda Co., a Washington corporation, and our wholly-owned subsidiaries.

In addition, unless otherwise indicated or the context otherwise requires, all references in this Report to “Jones Soda” refer to our premium beverages, including Jones® Soda and Lemoncocco® sold under the trademarked brand name “Jones Soda Co.®”

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

We desire to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. This Report contains a number of forward-looking statements that reflect management’s current views and expectations with respect to our business, strategies, products, future results and events, and financial performance. All statements made in this Report other than statements of historical fact, including statements that address operating performance, the economy, events or developments that management expects or anticipates will or may occur in the future, including statements related to case sales, revenues, profitability, distributor channels, new products or markets, adequacy of funds from operations, cash flows and financing, potential strategic transactions, statements regarding future operating results and non-historical information, are forward-looking statements. In particular, the words such as “believe,” “expect,” “intend,” “anticipate,” “estimate,” “may,” “will,” “can,” “plan,” “predict,” “could,” “future,” “continue,” variations of such words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking.

Readers should not place undue reliance on these forward-looking statements, which are based on management’s current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions and apply only as of the date of this Report. Our actual results, performance or achievements could differ materially from historical results as well as from the results expressed in, anticipated or implied by these forward-looking statements. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In particular, our business, including our financial condition and results of operations may be impacted by a number of factors, including, but not limited to, the following:

- Our ability to successfully execute on our growth strategy and operating plans;
- Our ability to continue to effectively utilize the proceeds from our financings completed during the first half of 2022;
- Our ability to execute our plans to continue to develop and market THC/CBD-infused and/or cannabis-infused beverages and edibles, and comply with the laws and regulations governing cannabis, hemp or related products, and the timing and costs of the development of this new product line;
- Our ability to manage our operating expenses and generate cash flow from operations, along with our ability to secure additional financing if our sales goals take longer to achieve than anticipated;
- Our ability to create and maintain brand name recognition and acceptance of our products, which is critical to our success in our competitive, brand-conscious industry;
- Our ability to compete successfully against much larger, well-funded, established companies currently operating in the beverage industry generally, including in the fountain business, particularly from other major beverage companies;
- Entrance into and increased focus on the craft beverage segment by other major beverage companies;

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- Our ability to respond to changes in the consumer beverage marketplace, including potential reduced consumer demand due to health concerns (including obesity) and legislative initiatives against sweetened beverages (including the imposition of taxes);
- Our ability to successfully develop and launch new products that match consumer beverage trends, and to manage consumer response to such new products and new initiatives;
- Our ability to maintain brand image and product quality and avoid risks from product issues such as product recalls;
- Our ability to establish, maintain and expand distribution arrangements with independent distributors, retailers, brokers and national retail accounts, most of whom sell and distribute competing products, and upon whom we rely to employ sufficient efforts in managing and selling our products, including re-stocking the retail shelves with our products;
- Our ability to manage our inventory levels and to predict the timing and amount of our sales;
- Our reliance on third-party contract manufacturers of our products and the geographic locations of their facilities, which could make management of our distribution efforts inefficient or unprofitable;
- Our ability to secure a continuous supply and availability of raw materials, as well as our ability to effectively respond to factors that may adversely affect our supply chain, including increases in raw material costs, and the potential shortages of glass;
- Our ability to source our flavors on acceptable terms from our key flavor suppliers;
- Our ability to attract and retain key personnel, the loss of whom would directly affect our efficiency and operations and could materially impair our ability to execute our growth strategy;
- Our ability to protect our trademarks and trade secrets, the failure of which may prevent us from successfully marketing our products and competing effectively;
- Litigation or legal proceedings, which could expose us to significant liabilities and damage our reputation;
- Our ability to comply with the many regulations to which our business is subject;
- Our ability to maintain an effective information technology infrastructure;
- Failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business;
- Fluctuations in fuel and freight costs;
- Fluctuations in currency exchange rates, particularly between the United States and Canadian dollars;
- Regional, national or global economic, political, social and other conditions that may adversely impact our business and results of operations;
- Our ability to maintain effective disclosure controls and procedures and internal control over financial reporting;
- Dilutive and other adverse effects on our existing shareholders and our stock price arising from future securities issuances; and
- Our ability to access the capital markets for any future equity financing, and any actual or perceived limitations to our common stock by being traded on the OTCQB Marketplace and the Canadian Stock Exchange, including the level of trading activity, volatility or market liquidity.

For a discussion of some of the factors that may affect our business, results and prospects, see “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission (“SEC”) on March 29, 2023 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. Readers are also urged to carefully review and consider the various disclosures made by us in this Report and in our other reports we file with the SEC, including our periodic reports on Forms 10-Q and current reports on Form 8-K, and those described from time to time in our press releases and other communications, which attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

JONES SODA CO.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,221	\$ 7,971
Accounts receivable, net of allowance of \$150 and \$110, respectively	2,858	3,170
Inventory	2,648	2,621
Prefunded insurance premiums from financing	-	612
Prepaid expenses and other current assets	1,109	601
Total current assets	11,836	14,975
Fixed assets, net of accumulated depreciation of \$349 and \$309, respectively	154	127
Total assets	<u>\$ 11,990</u>	<u>\$ 15,102</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,039	\$ 1,070
Accrued expenses	1,988	1,643
Insurance premium financing	-	612
Taxes payable	3	10
Total current liabilities	3,030	3,335
Total liabilities	3,030	3,335
Shareholders' equity:		
Common stock, no par value:		
Authorized — 800,000,000 issued and outstanding shares — 101,258,135 shares and 100,263,135 shares, respectively	90,187	89,680
Accumulated other comprehensive income	294	287
Accumulated deficit	(81,521)	(78,200)
Total shareholders' equity	8,960	11,767
Total liabilities and shareholders' equity	<u>\$ 11,990</u>	<u>\$ 15,102</u>

See accompanying notes to condensed consolidated financial statements.

JONES SODA CO.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	(In thousands, except share data)		(In thousands, except share data)	
Revenue	\$ 4,497	\$ 4,806	\$ 13,173	\$ 15,344
Cost of goods sold	3,017	3,515	8,999	11,129
Gross profit	1,480	1,291	4,174	4,215
Operating expenses:				
Selling and marketing	1,154	1,508	3,266	3,727
General and administrative	1,270	1,476	4,234	4,880
Total operating expenses	2,424	2,984	7,500	8,607
Loss from operations	(944)	(1,693)	(3,326)	(4,392)
Interest income	20	1	38	5
Interest expense	-	-	-	(377)
Other income (expense), net	(2)	22	(3)	11
Loss before income taxes	(926)	(1,670)	(3,291)	(4,753)
Income tax expense, net	(8)	(8)	(30)	(24)
Net loss	\$ (934)	\$ (1,678)	\$ (3,321)	\$ (4,777)
Net loss per share - basic and diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)
Weighted average common shares outstanding - basic and diluted	101,090,744	99,913,135	100,809,838	91,709,456

See accompanying notes to condensed consolidated financial statements.

JONES SODA CO.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
	(In thousands)		(In thousands)	
Net loss	\$ (934)	\$ (1,678)	\$ (3,321)	\$ (4,777)
Other comprehensive loss:				
Foreign currency translation adjustment	(39)	(107)	7	(128)
Total comprehensive loss	<u>\$ (973)</u>	<u>\$ (1,785)</u>	<u>\$ (3,314)</u>	<u>\$ (4,905)</u>

See accompanying notes to condensed consolidated financial statements.

JONES SODA CO.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

	<u>Common Stock</u>		<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Equity</u>
	<u>Number</u>	<u>Amount</u>			
(In thousands, except share data)					
Three months ended September 30, 2022					
Balance as of June 30, 2022	98,393,135	\$ 88,703	\$ 375	\$ (74,895)	\$ 14,183
Stock-based compensation	3,040,000	674	-	-	674
Net loss	-	-	-	(1,678)	(1,678)
Other comprehensive loss	-	-	(107)	-	(107)
Balance as of September 30, 2022	<u>101,433,135</u>	<u>\$ 89,377</u>	<u>\$ 268</u>	<u>\$ (76,573)</u>	<u>\$ 13,072</u>
Three months ended September 30, 2023					
Balance as of June 30, 2023	101,058,135	\$ 90,110	\$ 333	\$ (80,587)	\$ 9,856
Stock-based compensation	-	68	-	-	68
Exercise of Pinestar Warrants	200,000	9	-	-	9
Net loss	-	-	-	(934)	(934)
Other comprehensive loss	-	-	(39)	-	(39)
Balance as of September 30, 2023	<u>101,258,135</u>	<u>\$ 90,187</u>	<u>\$ 294</u>	<u>\$ (81,521)</u>	<u>\$ 8,960</u>
Nine months ended September 30, 2022					
Balance as of December 31, 2021	67,840,941	\$ 76,017	\$ 396	\$ (71,796)	\$ 4,617
Stock-based compensation	3,120,000	1,060	-	-	1,060
Common stock issued upon conversion of notes payable	10,472,146	5,148	-	-	5,148
Common stock and warrants issued, net of closing costs of \$848	20,000,048	7,152	-	-	7,152
Net loss	-	-	-	(4,777)	(4,777)
Other comprehensive loss	-	-	(128)	-	(128)
Balance as of September 30, 2022	<u>101,433,135</u>	<u>\$ 89,377</u>	<u>\$ 268</u>	<u>\$ (76,573)</u>	<u>\$ 13,072</u>
Nine months ended September 30, 2023					
Balance as of December 31, 2022	100,263,135	\$ 89,680	\$ 287	\$ (78,200)	\$ 11,767
Stock-based compensation	1,275,000	608	-	-	608
Shares withheld for taxes upon RSU vesting	(480,000)	(110)	-	-	(110)
Exercise of Pinestar Warrants	200,000	9	-	-	9
Net loss	-	-	-	(3,321)	(3,321)
Other comprehensive gain	-	-	7	-	7
Balance as of September 30, 2023	<u>101,258,135</u>	<u>\$ 90,187</u>	<u>\$ 294</u>	<u>\$ (81,521)</u>	<u>\$ 8,960</u>

See accompanying notes to condensed consolidated financial statements.

JONES SODA CO.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Nine months ended September 30,</u>	
	<u>2023</u>	<u>2022</u>
(In thousands)		
OPERATING ACTIVITIES:		
Net loss	\$ (3,321)	\$ (4,777)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	45	399
Stock-based compensation	608	1,060
Change in allowance for credit losses	40	(6)
Gain on insurance claim	-	(23)
Changes in operating assets and liabilities:		
Accounts receivable	277	(1,314)
Inventory	(27)	(633)
Prefunded insurance premiums from financing	612	920
Prepaid expenses and other current assets	(506)	(428)
Other assets	-	25
Accounts payable	(30)	(152)
Accrued expenses	237	(66)
Taxes payable	(7)	4
Other liabilities	-	(10)
Net cash used in operating activities	<u>(2,072)</u>	<u>(5,001)</u>
INVESTING ACTIVITIES:		
Proceeds from insurance claim on property damage	-	31
Purchase of fixed assets	(73)	(29)
Net cash provided by (used in) investing activities	<u>(73)</u>	<u>2</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of convertible notes, net	-	2,354
Proceeds from issuance of common stock and warrants, net	-	7,152
Proceeds from the exercise of Pinestar Warrants	9	-
Repayments on insurance financing	(612)	(920)
Net cash provided by (used in) financing activities	<u>(603)</u>	<u>8,586</u>
Net change in cash and cash equivalents	(2,748)	3,587
Effect of exchange rate changes on cash	(2)	(52)
Cash and cash equivalents, beginning of period	7,971	4,667
Cash and cash equivalents, end of period	<u>\$ 5,221</u>	<u>\$ 8,202</u>
Supplemental disclosure:		
Cash paid during period for:		
Interest	\$ -	47
Income taxes	28	\$ 16
Supplemental disclosure of non-cash transactions:		
Conversion of notes payable	\$ -	\$ 5,147

See accompanying notes to condensed consolidated financial statements.

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 the United States and Canada through its network of independent distributors and directly to its national and regional retail accounts.

In addition, following the closing of the Plan of Arrangement (See note 4(d)), we have expanded our business to the production of cannabis-containing beverages and related products.

We are a Washington corporation and have six subsidiaries, Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., Jones Soda Cannabis Inc., Mary Jones California, LLC, Mary Jones Michigan, LLC, and Pinestar Gold Inc. (Subsidiaries).

Basis of presentation, consolidation and use of estimates

The accompanying condensed consolidated balance sheet as of December 31, 2022, which has been derived from our audited consolidated financial statements, and unaudited interim condensed consolidated financial statements as of September 30, 2023, have 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 the accounts of our 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 and 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. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. 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. 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, 2022.

Liquidity

As of September 30, 2023 and December 31, 2022, we had cash and cash-equivalents of approximately \$5.2 million and \$8.0 million, respectively, and working capital of approximately \$8.8 million and \$11.6 million, respectively. Net cash used in operations during the nine months ended September 30, 2023 and 2022 totaled approximately \$2.1 million and \$5.0 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 nine months ended September 30, 2023.

We did not receive any cash from the exercise of stock options as of September 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 and 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.

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 (“SKU”) 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.

Revenue recognition

Our contracts have a single performance obligation which is satisfied at the point in time when the customer has title and the significant risks and rewards of ownership of the product. Title and the significant risk and rewards of ownership are deemed to transfer when products are loaded onto a truck for shipment or Free on Board (“FOB”) shipping point. We primarily receive fixed consideration for sales of product, subject to adjustment as described below. Shipping and handling amounts paid by customers are primarily for online orders, and are included in revenue, and totaled \$38,000 and \$34,000 for the three months ended September 30, 2023 and 2022, respectively, and \$124,000 and \$120,000 for the nine months ended September 30, 2023 and 2022, respectively. Sales tax and other similar taxes are excluded from revenue.

See Note 1, on our most recently filed Form 10-K filed on March 29, 2023 for our revenue recognition policy.

Revenue is recorded net of provisions for discounts, slotting fees payable by us to retailers to stock our products and promotional allowances. Discounts, slotting fees and promotional allowances vary the consideration we are entitled to in exchange for the sale of products to distributors. We estimate these discounts, slotting fees and promotional allowances in the same period that the revenue is recognized for product sales to customers. These estimates are based on contract terms and our historical experience with similar programs and require management judgement with respect to estimating customer participation and performance levels. Differences between estimated expense and actual costs are normally insignificant and are recognized in earnings in the period such differences are determined. The amount of revenue recognized represents the amount that will not be subject to a significant future reversal of revenue. The liability for promotional allowances is included in accrued expenses on the consolidated balance sheets. Amounts paid for slotting fees are recorded as prepaid expenses on the consolidated balance sheets and amortized over the corresponding term. For the quarters ended September 30, 2023 and 2022, our revenue was reduced by \$538,000 and \$397,000, respectively, and for the nine months ended September 30, 2023 and 2022, by \$1.2 million each period, in each case for slotting fees and promotion allowances.

All sales to distributors and customers are generally final. In limited instances we may accept returned product due to quality issues or distributor terminations, and in such situations we would have variable consideration. To date, returns have not been material. Our customers generally pay within 30 days from the receipt of a valid invoice. We offer prompt pay discounts of up to 2% to certain customers typically for payments made within 15 days. Prompt pay discounts are estimated in the period of sale based on experience with sales to eligible customers. Early pay discounts are recorded as a deduction to the accounts receivable balance presented on the condensed consolidated balance sheets.

The accounts receivable balance primarily includes balances from trades sales to distributors and retail customers. The allowance for doubtful accounts is the best estimate of the amount of probable credit losses in existing accounts receivable. We determine the allowance for doubtful accounts based primarily on historical write-off experience. Account balances that are deemed uncollectible are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Allowances for doubtful accounts of \$150,000 and \$110,000 as of September 30, 2023 and December 31, 2022, respectively, were netted against accounts receivable. No impairment losses were recognized for the three or nine months ended September 30, 2023 and for the year ended December 31, 2022. Changes in accounts receivable are primarily due to the timing and magnitude of orders for products, the timing of when control of products is transferred to distributors and the timing of cash collections.

As of September 30, 2023, none of our independent customers made up a significant amount of our outstanding accounts receivable. As of December 31, 2022, two customers made up 22% of our outstanding accounts receivable.

Net loss per share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the periods. Diluted earnings per share is computed by adjusting the weighted average number of common shares by the effective net exercise or conversion of all dilutive securities. Due to the net loss during the three and nine months ended September 30, 2023 and 2022, outstanding stock options amounting to 11,567,147 and 3,236,832 shares were anti-dilutive. Additionally, outstanding warrants of 27,521,945 and 27,721,945 for the periods ended September 30, 2023 and 2022, respectively were also anti-dilutive.

Recent accounting pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Credit Losses (“ASU 2016-13”), which changes the impairment model for most financial instruments, including trade receivables from an incurred loss method to a new forward-looking approach, based on expected losses. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU was effective for us in the first quarter of 2023, however the impact on on the consolidated financial statements are immaterial, thus no material changes were made to the condensed consolidated financial statements as of September 30, 2023.

2. Inventory

Inventory consisted of the following (in thousands):

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Finished goods	\$ 1,448	\$ 1,234
Raw materials	1,200	1,387
	<u>\$ 2,648</u>	<u>\$ 2,621</u>

Finished goods primarily include product ready for shipment, as well as promotional merchandise held for sale. Raw materials primarily include ingredients, concentrate and packaging. For the three months ended September 30, 2023 and 2022, we recorded obsolete inventory expenses of \$12,000 and \$16,000, respectively. For the nine months ended September 30, 2023 and 2022, we recorded obsolete inventory expenses of \$32,000 and \$37,000, respectively.

3. Convertible Debentures

2018 Convertible Subordinated Note Payable

On March 23, 2018, and April 18, 2018, we issued and sold an aggregate principal amount of \$2,920,000 of convertible subordinated promissory notes (the “2018 Convertible Notes”) to institutional investors, our management team, and other individual investors.

The 2018 Convertible Notes had a four-year term from the date of issuance and bore interest at 6% per annum. The 2018 Convertible Notes matured in two tranches on March 23, 2022, and April 18, 2022. The holders had the option to convert the 2018 Convertible Notes at any time prior to maturity into the number of shares of our common stock equal to the quotient obtained by dividing (i) the amount of the unpaid principal and interest on such 2018 Convertible Note by (ii) \$0.32 (the “Conversion Price”). The Conversion Price was subject to anti-dilution adjustment on a broad-based, weighted average basis if we issued shares or equity-linked instruments at a conversion price below \$0.32 per share. No payments of principal or interest were due until the maturity.

The 2018 Convertible Notes were subordinated in right of payment to the prior payment in full of all of our Senior Indebtedness, which was defined as amounts due in connection with our indebtedness for borrowed money to banks, commercial finance lenders, or other lending institutions regularly engaged in the business of lending money, with certain restrictions.

The fair value of our common stock on the March 23, 2018, closing date for the issuance of the first tranche of the 2018 Convertible Notes was \$0.36 per share, therefore, the 2018 Convertible Notes issued on that date contained a beneficial conversion feature with an aggregate intrinsic value of \$350,000. The fair value of our common stock on the April 18, 2018, the closing date for the issuance of the second tranche of the 2018 Convertible Notes, was \$0.30 per share, which did not result in an additional beneficial conversion feature. The resulting debt discount for the 2018 Convertible Notes issued on March 23, 2018 was presented as a direct deduction from the carrying value of the 2018 Convertible Notes and was recorded with an increase to additional paid-in capital. The discount along with the related closing costs amounting to \$137,000 were amortized through interest expense over the term of the 2018 Convertible Notes. On April 18, 2022, the last remaining outstanding 2018 Convertible notes matured and no 2018 Convertible Notes remain outstanding.

2021 Unsecured Convertible Debenture

On July 14, 2021, we issued a \$2,000,000 5.00% unsecured convertible debenture due July 14, 2023 (the “2021 Debenture”) to SOL Verano Blocker 1 LLC that was convertible into units of the Company (each a “Jones Unit”) at a conversion price of \$0.50 per Jones Unit, with each Jones Unit consisting of one share of our common stock and one share purchase special warrant of Jones (each a “Jones Special Warrant”). Each Jones Special Warrant was exercisable into one share of our common stock at a price of \$0.625 per share for a period of 24 months from the date of issuance, conditional upon us increasing our authorized capital to an amount to cover our shares of common stock issuable pursuant to all of the outstanding Jones Special Warrants as well as the other shares of our common stock issuable pursuant to our then-outstanding convertible/exercisable securities.

The closing of the statutory plan of arrangement under the Business Corporations Act (British Columbia) (the “Plan of Arrangement”) with Pinestar Gold Inc. (“Pinestar”) in February 2022 resulted in the automatic conversion of the 2021 Debenture into an aggregate of 4,025,035 shares of our common stock and 4,025,035 Jones Special Warrants at a conversion price of \$0.50 per share of common stock and Jones Special Warrant. As a result, the carrying amount of the converted principal amount of such 2021 Debenture, in an aggregate amount of \$2,000,000, was credited to common stock.

2022 Unsecured Convertible Debenture

On February 9, 2022, we issued \$3,000,000 in aggregate principal amount of 3.00% unsecured convertible debentures due February 9, 2023 (the “Contingent Convertible Debentures”), which were converted into Jones Units at a conversion price of \$0.50 per Jones Unit on May 16, 2022. The Contingent Convertible Debentures were automatically convertible into Jones Units upon Jones Soda increasing its authorized capital to an amount to cover our shares of common stock issuable pursuant to all of the outstanding Contingent Convertible Debentures as well as all of the other then outstanding convertible/exercisable securities of Jones (a “Conversion Event”). The Contingent Convertible Debentures were only convertible into Jones Units upon the occurrence of a Conversion Event. The Contingent Convertible Debentures were set to mature on February 9, 2023 (the “Convertible Debenture Maturity Date”) and began accruing interest at a rate of 3.00% commencing on April 1, 2022. Under the terms of the Contingent Convertible Debentures, the Company covenanted to the holders of the Contingent Convertible Debentures that the Company will use their commercially reasonable efforts to cause the Conversion Event to occur as soon as practicable after the closing of the Plan of Arrangement. The related closing costs amounting to \$108,000 were amortized through interest expense over the term of the Contingent Convertible Debentures. On May 16, 2022 all Contingent Convertible Debentures were converted into Jones Units, and the remaining unamortized capitalized closing costs were expensed.

4. Shareholders' Equity

On May 16, 2022, our shareholders approved the adoption of the Jones Soda Co. 2022 Omnibus Equity Incentive Plan (the "2022 Plan"), which replaced the 2011 Plan (defined below) and provides for the granting incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to participants to acquire shares of Company common stock under the 2022 Plan. Under the terms of the 2022 Plan, the sum of (i) 10,000,000 shares of the Company's common stock, plus (ii) the number of shares of common stock reserved, but unissued under the 2011 Plan, plus (iii) the number of shares of common stock underlying forfeited awards under the 2011 Plan are initially available for issuance as awards under the 2022 Plan.

1,936,074 shares of common stock reserved under the terms of our 2011 Incentive Plan (the "2011 Plan") but unissued were transferred to the reserve for the 2022 Plan. Thus, the total number of shares of common stock authorized under the 2022 Plan was 11,936,074 shares.

Under the terms of the 2022 Plan, the Board may grant awards to employees, officers, directors, consultants, agents, advisors and independent contractors. Stock options are granted with an exercise price equal to the closing price of our stock on the date of grant, and generally have a ten-year term. As of September 30, 2023, there were 1,076,074 shares of unissued common stock authorized and available for future awards under the Plan.

(a) Stock options:

A summary of our stock option activity is as follows:

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price (Per Share)
Balance at January 1, 2023	3,369,332	\$ 0.41
Options granted	9,659,000	0.23
Options forfeited/expired	(1,461,185)	0.37
Balance at September 30, 2023	11,567,147	\$ 0.26
Exercisable, September 30, 2023	3,730,065	\$ 0.33
Vested and expected to vest	9,713,264	\$ 0.27

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price
Balance at January 1, 2022	3,405,511	\$ 0.38
Options granted	665,648	0.54
Options forfeited/expired	(834,327)	0.41
Balance at September 30, 2022	3,236,832	\$ 0.41
Exercisable, September 30, 2022	2,385,258	\$ 0.32
Vested and expected to vest	2,996,512	\$ 0.39

(b) Restricted stock awards:

Beginning on May 13, 2022, the Company's board of directors (the "Board") determined that it was in the best interests of the Company to periodically award restricted stock units as equity compensation for non-employee directors upon the recommendation of the Compensation and Governance Committee of the Board in lieu of stock options. Each restricted stock unit granted vests incrementally over the period in the specific award agreement, and certain restricted stock awards will immediately vest upon the occurrence of a "Change in Control" as defined in the 2022 Plan.

On December 30, 2022, the Company entered into rescission agreements (the "Rescission Agreements") with the certain non-employee directors on the Board who were awarded restricted stock units during 2022 as well as the Company's Chief Executive Officer and President who received restricted stock units during 2022 under the terms of his employment agreement with the Company. Under the terms of the Rescission Agreements, each of the Company and the applicable restricted stock unit grantee, agreed to rescind and cancel for no consideration all currently outstanding restricted stock units previously granted to each such grantee during 2022 as well as all shares of the Company's common stock previously issued to any such grantee as a result of the vesting of any restricted stock units in August 2022.

In May of 2023, the Board determined that it was in the best interests of the Company to revise the Board of Director compensation structure to consist of an annual grant of 300,000 stock options to each non-employee director each year for service on the Board and an additional 150,000 stock options as annual compensation for non-employee directors who serve as chair of a Board committee. All stock options granted to non-employee directors will vest incrementally in equal amounts over a three year period from the date of issuance.

A summary of our restricted stock activity for the nine months ended September 30, 2023 is as follows:

	Restricted Shares	Weighted-Average Grant Date Fair Value per share	Weighted-Average Contractual Life (years)
Non-vested restricted stock at January 1, 2023	-	\$ -	-
Granted	1,800,000	0.26	
Vested	(1,200,000)	0.26	
Cancelled/expired	-	-	
Non-vested restricted stock at September 30, 2023	600,000	\$ 0.26	9.4

We withheld a total of 480,000 shares as payment for withholding taxes due in connection with the vesting of restricted stock awards during the nine months ended September 30, 2023, and the price paid per share of \$0.26 reflects the market value per share of the shares withheld for tax purposes.

(c) Stock-based compensation expense:

Stock-based compensation expense is recognized using the straight-line attribution method over the employees' requisite service period, or the non-employee's service period based on the term of the contract. 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 attrition. 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 September 30, 2023, we had unrecognized compensation expense related to stock options of \$893,000 to be recognized over a weighted-average period of 2.5 years.

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Stock options	\$ 68	\$ 24	\$ 399	\$ 316
Common stock award	-	-	17	-
Restricted stock	-	650	192	744
	<u>\$ 68</u>	<u>\$ 674</u>	<u>\$ 608</u>	<u>\$ 1,060</u>
Income statement account:				
Selling and marketing	\$ (20)	\$ 534	\$ 25	\$ 643
General and administrative	88	140	583	417
	<u>\$ 68</u>	<u>\$ 674</u>	<u>\$ 608</u>	<u>\$ 1,060</u>

During the nine months ended September 30, 2023, the Company issued a common stock award of 75,000 shares under the 2022 Plan pursuant to a consulting agreement that resulted in \$17,000 of stock compensation expense as seen in the above table.

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:

	Nine months ended September 30,	
	2023	2022
Expected dividend yield	—	—
Expected stock price volatility	87.5%	78.4%
Risk-free interest rate	3.9%	1.7%
Expected term (in years)	5.8	5.9
Weighted-average grant date fair-value	\$ 0.17	\$ 0.36

The aggregate intrinsic value of stock options outstanding at September 30, 2023 was approximately \$14,000 and for options exercisable was also \$14,000. 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. There were no options exercised during the three or nine months ended September 30, 2023 and 2022.

(d) Closing of the Pinestar Gold Inc. - Plan of Arrangement:

On February 15, 2022, Jones issued an aggregate of 20,000,048 shares of our common stock in connection with the completion of the Plan of Arrangement whereby the outstanding common shares of Pinestar (“Pinestar Shares”) were exchanged for newly issued shares of our common stock on a one-for-one basis. The Plan of Arrangement had previously been approved by both Pinestar’s shareholders as well as by the Supreme Court of British Columbia after such court held a hearing on the fairness of the terms and conditions of the Plan of Arrangement at which all Pinestar shareholders had the right to appear.

In connection with the Plan of Arrangement, Pinestar completed a subscription receipt offering for aggregate net proceeds of \$7,152,000, at a price per subscription receipt equal to \$0.50. As part of the closing of the Plan of Arrangement, each such subscription receipt automatically converted into one Pinestar Share and one new common share purchase warrant of Pinestar, which were then immediately exchanged for shares of our common stock and Jones Special Warrants, respectively, in accordance with a 1:1 exchange ratio.

The issuance of shares of our common stock to the holders of Pinestar Shares (including Pinestar Shares received upon the conversion of the subscription receipts issued in the Pinestar subscription receipt offering) in the Plan of Arrangement was exempt from the registration requirements under the United States Securities Act of 1933, as amended (the “Securities Act”) pursuant to Section 3(a)(10) of the Securities Act, which exempts from the registration requirements under the Securities Act any securities that are issued in exchange for one or more bona fide outstanding securities where the terms and conditions of such issuance and exchange are approved, after a hearing upon the fairness of such terms and conditions at which all persons to whom it is proposed to issue securities in such exchange shall have the right to appear, by any court expressly authorized by law to grant such approval.

The following table summarizes the Company's outstanding warrants as of September 30, 2023:

	Number Outstanding	Remaining Contractual Life (Years)	Exercise Price Per Share	Number Exercisable
Jones Special Warrants (1)	26,047,137	0.45	\$ 0.63USD	26,047,137
Pinestar Warrants (2)	1,474,808	0.50	0.06CAD	1,474,808
	<u>27,521,945</u>			<u>27,521,945</u>

(1) Upon conversion of the beforementioned 2021 Debenture, 4,025,035 Jones Special Warrants were issued. In connection with the beforementioned Plan of Arrangement, Pinestar completed an offering for subscription receipts for aggregate gross proceeds of \$8,000,000. Pursuant to the Plan of Arrangement, each subscription receipt automatically converted into 16,000,000 Jones Special Warrants. Lastly, Upon conversion of the beforementioned Contingent Convertible Debentures, 6,022,102 Jones Special Warrants were issued.

(2) In connection with the beforementioned Plan of Arrangement, 1,674,808 warrants to purchase Pinestar Shares at a price of \$0.06 CAD per share were assumed by the Company and became exercisable into shares of our common stock. An aggregate of 600,000 of such warrants were subsequently transferred to two members of our Board of Directors as consideration for services provided by such directors to the Company during 2022.

During the three months ended September 30, 2023, Pinestar Warrants in the amount of 200,000 were exercised at the exercise price of \$0.06 CAD, for total proceeds of \$9,000.

5. 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):

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenue:				
United States	\$ 3,464	\$ 3,746	\$ 10,507	\$ 12,187
Canada	1,033	1,021	2,626	3,055
Other countries	-	39	40	102
Total revenue	<u>\$ 4,497</u>	<u>\$ 4,806</u>	<u>\$ 13,173</u>	<u>\$ 15,344</u>

During the three months ended September 30, 2023 and 2022, one of our customers (Lassonde) represented an aggregate of approximately 19% and 24% of our revenue, respectively.

6. Insurance Premium Financing

Effective November 15, 2021, the Company entered into a one year financing agreement with IPFS Corporation to fund a portion of its insurance premiums in the amount of \$903,000. Repayments were made quarterly on January 15, 2022, April 15, 2022, and July 15, 2022, and the entirety of the financing was paid off in full on July 15, 2022. The interest rate was 4.75% and there were no covenants associated with this agreement.

Effective November 15, 2022, the Company entered into a one year financing agreement with IPFS Corporation to fund a portion of its insurance premiums in the amount of \$612,000. Repayments are made quarterly on January 15, 2023, April 15, 2023, and by July 15, 2023, the entirety of the financing was paid off in full. The interest rate is 6.99% and there are no covenants associated with this agreement.

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; and,
- Grow the Mary Jones brand, which includes Tetrahydrocannabinol (THC) and cannabidiol (CBD)-infused beverages, edibles, and other related products;

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 September 30,				Nine months ended September 30,			
	2023	% of Revenue	2022	% of Revenue	2023	% of Revenue	2022	% of Revenue
	(Dollars in thousands, except per share data)				(Dollars in thousands, except per share data)			
Consolidated statements of operations data:								
Revenue	\$ 4,497	100.0 %	\$ 4,806	100.0%	\$ 13,173	100.0%	\$ 15,344	100.0%
Cost of goods sold	(3,017)	(67.1)%	(3,515)	(73.1)%	(8,999)	(68.3)%	(11,129)	(72.5)%
Gross profit	1,480	32.9 %	1,291	26.9%	4,174	31.7%	4,215	27.5%
Selling and marketing expenses	(1,154)	(25.7)%	(1,508)	(31.4)%	(3,266)	(24.8)%	(3,727)	(24.3)%
General and administrative expenses	(1,270)	(28.2)%	(1,476)	(30.7)%	(4,234)	(32.1)%	(4,880)	(31.8)%
Loss from operations	(944)	(21.0)%	(1,693)	(35.2)%	(3,326)	(25.2)%	(4,392)	(28.6)%
Interest income	20	0.4 %	1	0.0%	38	0.3%	5	0.0%
Interest expense	-	0.0 %	-	0.0%	-	0.0%	(377)	(2.5)%
Other income (expense), net	(2)	(0.0)%	22	0.5%	(3)	(0.0)%	11	0.1%
Loss before income taxes	(926)	(20.6)%	(1,670)	(34.7)%	(3,291)	(25.0)%	(4,753)	(31.0)%
Income tax expense, net	(8)	(0.2)%	(8)	(0.2)%	(30)	(0.2)%	(24)	(0.2)%
Net loss	\$ (934)	(20.8)%	\$ (1,678)	(34.9)%	\$ (3,321)	(25.2)%	\$ (4,777)	(31.1)%
Basic and diluted net loss per share	\$ (0.01)		\$ (0.02)		\$ (0.03)		\$ (0.05)	

	As of	
	September 30, 2023	December 31, 2022
	(Dollars in thousands)	
Balance sheet data:		
Cash and cash equivalents and accounts receivable, net	\$ 8,079	\$ 11,141
Fixed assets, net	154	127
Total assets	11,990	15,102
Long-term liabilities	-	-
Working capital	8,806	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 September 30, 2023 Compared to Quarter Ended September 30, 2022

Revenue

For the quarter ended September 30, 2023, revenue decreased by approximately \$300,000, or 6.4%, to approximately \$4.5 million compared to approximately \$4.8 million for the quarter ended September 30, 2022. The decrease in sales revenue was primarily the result of a decrease in fountain and the food service channel and the decrease in grocery velocities. We are currently working to increase our sales revenues in these areas through the hiring of additional personnel and adding resources that concentrate on growth for the overall company, but with a strong emphasis on the fountain and food service channel.

For the quarter ended September 30, 2023, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately \$538,000, an increase of approximately \$141,000, or 35.5%, compared to approximately \$397,000 for the quarter ended September 30, 2022, primarily due to the increased spend on incentive and retailer programs.

Revenues from the licensing of our Mary Jones products for the quarter ended September 30, 2023 were \$219,000 compared to \$114,000 for the quarter ending September 30, 2022.

Gross Profit

For the quarter ended September 30, 2023, gross profit increased by approximately \$189,000, or 14.6%, to approximately \$1.5 million compared to approximately \$1.3 million for the quarter ended September 30, 2022 as a result of proactive pricing adjustments in 2023 and improved supply chain management regarding raw material and freight costs. For the quarter ended September 30, 2023, gross margin increased to 32.9% from 26.9% for the quarter ended September 30, 2022.

Selling and Marketing Expenses

Selling and marketing expenses for the quarter ended September 30, 2023 decreased approximately \$354,000, or 23.5%, in comparison to the quarter-ended September 30, 2022. We continue to invest in sales and marketing to increase awareness and excitement regarding our products and brand, however our marketing costs in the three months ended September 30, 2023 decreased compared to the same three month period of 2022 mostly due to timing of specific programs and the up-front marketing costs related to our Mary Jones brand that occurred during 2022 did not reoccur in 2023. Selling and marketing expenses as a percentage of revenue decreased to 25.7% in the quarter ended September 30, 2023 from 31.4% 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 September 30, 2023 and 2022, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately (\$13,000) and \$547,000, respectively. The significant decrease in non-cash sales and marketing expenses was due to far less stock compensation granted in 2023 compared to 2022.

General and Administrative Expenses

General and administrative expenses for the quarter ended September 30, 2023 were approximately \$1.3 million, a decrease of approximately \$206,000, or 14.0%, compared to approximately \$1.5 million for the quarter ended September 30, 2022. This decrease was primarily a result of less general business start-up costs associated with the development of our Mary Jones brand in the third quarter of 2023 compared to the same quarter of 2022. General and administrative expenses as a percentage of revenue decreased to 28.2% in the quarter ended September 30, 2023 from 30.7% 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 September 30, 2023 and 2022, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$96,000 and \$145,000, respectively.

Interest Income

We earned approximately \$20,000 of interest income for the quarter ended September 30, 2023, compared to \$1,000 for the quarter ended September 30, 2022. This increase was primarily due to the increase in interest rates.

Interest Expense

We incurred no interest expense for the quarters ended September 30, 2023 and 2022. All of our outstanding convertible notes have been converted, thus no interest expense has been incurred since the second quarter of 2022.

Income Tax Expense

We incurred approximately \$8,000 of income tax expense during each of the quarters ended September 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 September 30, 2023 was approximately \$934,000 compared to net loss of approximately \$1.7 million for the quarter ended September 30, 2022. This decrease in net loss was primarily due to the decreased General and Administrative costs and the increase in gross profit in the third quarter of 2023 compared to the third quarter of 2022.

Nine months Ended September 30, 2023 Compared to nine months Ended September 30, 2022

Revenue

For the nine months ended September 30, 2023, revenue decreased by approximately \$2.2 million, or 14.1%, to approximately \$13.2 million compared to approximately \$15.3 million for the nine months ended September 30, 2022. We incurred a decrease in sales revenue in the first and second quarters of 2023 compared to the first and second quarters of 2022 that 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. Additionally, the decrease in sales revenue was also a result of a decrease in in fountain sales and sales related to the food services during the third quarter of 2023 compared to the same quarter of 2022, as discussed above.

For the nine months ended September 30, 2023, trade spend and promotional allowances, which reduced the amount of revenue for the sales of our product, totaled approximately \$1.2 million, a slight increase of approximately \$81,000, or 7.0%, compared to approximately \$1.16 million for the nine months ended September 30, 2022, primarily due to the timing of incentive and retailer programs.

Revenues from the licensing of our Mary Jones products for the nine months ended September 30, 2023 were \$817,000 compared to \$114,000 for the nine months ending September 30, 2022.

Gross Profit

For the nine months ended September 30, 2023, gross profit remained flat at approximately \$4.2 million compared to the nine month period ended September 30, 2022. Even though we experienced a decrease in revenue, due to improved supply chain management in 2023 and proactive pricing adjustments, gross profit remained mostly unchanged in the first nine months of 2023 compared to the same period in 2022. For the nine months ended September 30, 2023, gross margin increased to 31.7% from 27.5% for the nine months ended September 30, 2022.

Selling and Marketing Expenses

Selling and marketing expenses for the nine months ended September 30, 2023 decreased by approximately \$461,000 to \$3.3 million compared to \$3.7 million for the nine months ended September 30, 2022. We continue to invest in marketing, but our marketing costs in the first nine months of 2023 decreased compared to the same nine month period of 2022 mostly due to timing of specific programs and the up-front marketing costs related to our Mary Jones brand that occurred during 2022 but did not reoccur in 2023. Selling and marketing expenses as a percentage of revenue increased to 24.8% in the nine months ended September 30, 2023 from 24.3% in the same period in 2022. We intend to continue to balance selling and marketing expenses with our working capital resources. For the nine months ended September 30, 2023 and 2022, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately \$42,000 and \$681,000, respectively. The significant decrease in non-cash sales and marketing expenses was due to far less stock compensation granted in 2023 compared to 2022.

General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2023 were approximately \$4.2 million, a decrease of approximately \$646,000, or 13.2%, compared to approximately \$4.9 million for the nine months ended September 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 three quarters of 2023 compared to the same period of 2022. General and administrative expenses as a percentage of revenue increased to 32.1% in the nine month period ended September 30, 2023 from 31.8% in the same period in 2022. We intend to continue to carefully manage general and administrative expenses with our working capital resources. For the nine months ended September 30, 2023 and 2022, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$611,000 and \$426,000, respectively.

Interest Income

We earned approximately \$38,000 of interest income for the nine months ended September 30, 2023, compared to \$5,000 for the nine months ended September 30, 2022. This increase is primarily due to the increase in interest rates.

Interest Expense

We incurred no interest expense for the nine months ended September 30, 2023, compared to approximately \$377,000 for the nine months ended September 30, 2022. The \$377,000 interest expense incurred during the first nine months of 2022 was primarily related to the conversions of both the Contingent Convertible Debentures and the remaining 2018 Convertible Notes (each as disclosed 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 nine months ended September 30, 2022 was non-cash.

Income Tax Expense

We incurred approximately \$30,000 and \$24,000 of income tax expense in the nine months ended September 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 nine months ended September 30, 2023 was approximately \$3.3 million compared to net loss of approximately \$4.8 million for the nine months ended September 30, 2022. This decrease in net loss was primarily due to the decreased Sales and Marketing and General and Administrative costs associated with the development of our Mary Jones brand in 2022 that did not reoccur in 2023.

Liquidity and Capital Resources

As of September 30, 2023 and December 31, 2022, we had cash and cash-equivalents of approximately \$5.2 million and \$8.0 million, respectively, and working capital of approximately \$8.8 million and \$11.6 million, respectively. Net cash used in operations during the nine months ended September 30, 2023 and 2022 totaled approximately \$2.1 million and \$5.0 million, respectively. Net cash used in operations decreased primarily due to the decrease in start-up expenses related to the launch of our Mary Jones brand of cannabis-containing beverages and related products for the nine month period ended September 30, 2023 compared to the same period in 2022. Additionally, we improved our collections on accounts receivable which also had an impact on the decrease in net cash used in operations.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures (as such terms are defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of September 30, 2023.

(b) Changes in internal controls over financial reporting

There were no other changes in our internal controls over financial reporting during the three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are or may be involved from time to time in various claims and legal actions arising in the ordinary course of business, including proceedings involving employee claims, contract disputes, product liability and other general liability claims, as well as trademark, copyright, and related claims and legal actions. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

ITEM 1A RISK FACTORS

There have been no material changes in the risk factors set forth in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, ISSUER PURCHASES OF EQUITY SECURITIES.

On September 15, 2023, the Company issued 200,000 shares of its common stock to Paul Norman, Chair of the Company’s Board of Directors, in connection with the exercise by Mr. Norman of a warrant with an exercise price of \$0.062 (Canadian) per share. The Company received US\$9,200 in aggregate proceeds from the issuance of the shares. Since Mr. Norman was the sole acquirer of the shares and currently serves as Chair of the Company’s Board of Directors, the shares were issued pursuant to the exemption from registration under the Securities Act of 1933, as amended (the “Securities Act”) provided by Section 4(a)(2) of the Securities Act.

ITEM 6. EXHIBITS

- 3.1 [Articles of Incorporation of Jones Soda Co. \(Previously filed as, and incorporated herein by reference to, Exhibit 3.1 to our annual report on Form 10-KSB for the fiscal year ended December 31, 2000, filed on March 30, 2001; File No. 333-75913\).](#)
 - 3.2 [Amended and Restated Bylaws of Jones Soda Co. \(Previously filed with, and incorporated herein by reference to, Exhibit 3.1 to our quarterly report on Form 10-Q, filed on November 8, 2013; File No. 000-28820\).](#)
 - 3.3 [Articles of Amendment to Articles of Incorporation of Jones Soda Co. dated May 16, 2022. \(Previously filed with, and incorporated herein by reference to, Exhibit 3.3 to our registration statement on Form S-1, filed on June 14, 2022; File No. 333-265598\).](#)
 - 31.1 [Certification of Chief Executive Officer, pursuant to Rules 13a-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
 - 31.2 [Certification of Chief Financial Officer, pursuant to Rules 13a-14\(a\), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
 - 32.1 [Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
 - 32.2 [Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 101.INS* Inline XBRL Instance Document.
101.SCH* Inline XBRL Taxonomy Extension Schema Document.
101.CAL* Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF* Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB* Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE* Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

SIGNATURES

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

November 14, 2023

JONES SODA CO.
(Registrant)

By: /s/ Joe Culp
Joe Culp
Interim Chief Financial Officer and Principal Financial Officer

**CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13(a)-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, David Knight, certify that:

1. I have reviewed this report on Form 10-Q of Jones Soda Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2023

/s/ David Knight

David Knight

President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULES 13(a)-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Joe Culp, certify that:

1. I have reviewed this report on Form 10-Q of Jones Soda Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2023

/s/ Joe Culp

Joe Culp

Interim Chief Financial Officer and Director of
Finance (Principal Financial Officer)

**CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Jones Soda Co. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, David Knight, President and Chief Executive Officer of the Company, hereby certify that, to my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2023

/s/ David Knight

David Knight
President and Chief Executive
Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Jones Soda Co. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Joe Culp, Principal Financial Officer of the Company, hereby certify that, to my knowledge, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2023

/s/ Joe Culp

Joe Culp
Interim Chief Financial Officer and
Director of Finance
(Principal Financial Officer)