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.