

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 our audited consolidated financial statements and notes thereto for the year ended December 31, 2023 included in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission ("SEC") on April 1, 2024.

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 North America through our network of independent distributors and directly to our national and regional retail accounts. We also sell premium soda beverage products in select international markets and license cannabis infused beverages and syrups in California, Washington and Canada. Our premium soda beverage products are sold primarily 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 any of our premium soda beverage products, but instead outsource the manufacturing process to third-party contract manufacturers. We also sell various premium beverage soda 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. In addition, we currently market and license several cannabis infused beverages and syrups in California, Canada, and Washington through third party manufacturers and distributors. We plan to expand our cannabis product offerings (including the development of hemp-derived Delta-9 THC products) and the states in which we offer such products.

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 March 31,			
	2024	% of Revenue	2023	% of Revenue
Consolidated statements of operations data:				
	(Dollars in thousands, except per share data)			
Revenue	\$ 4,999	100.0%	\$ 3,870	100.0%
Cost of goods sold	(3,107)	(62.2)%	(2,735)	(70.7)%
Gross profit	1,892	37.8%	1,135	29.3%
Selling and marketing expenses	(1,492)	(29.8)%	(1,032)	(26.7)%
General and administrative expenses	(1,545)	(30.9)%	(1,456)	(37.6)%
Loss from operations	(1,145)	(22.9)%	(1,353)	(35.0)%
Interest income	9	0.2%	-	0.0%
Other income (expense), net	(6)	(0.1)%	(5)	(0.1)%
Loss before income taxes	(1,142)	(22.8)%	(1,358)	(35.1)%
Income tax expense, net	(10)	(0.2)%	(5)	(0.1)%
Net loss	\$ (1,152)	(23.0)%	\$ (1,363)	(35.2)%
Basic and diluted net loss per share	\$ (0.01)		\$ (0.01)	

	As of	
	March 31, 2024	December 31, 2023
(Dollars in thousands)		
Balance sheet data:		
Cash and cash equivalents and accounts receivable, net	\$ 6,085	\$ 5,985
Fixed assets, net	121	137
Total assets	11,187	9,906
Long-term liabilities	-	-
Working capital	6,283	7,239

Seasonality and Other Fluctuations

Our sales are seasonal and we experience fluctuations in quarterly results as a result of many factors. We historically have generated a greater percentage of our revenues during the warm weather months of April through September. Sales may fluctuate materially on a quarter-to-quarter basis or an annual basis when we launch a new product or fill the "pipeline" of a new distribution partner or a large retail partner. Sales results may also fluctuate based on the number of stock keeping units or "SKUs" selected or removed by our distributors and retail partners through the normal course of serving consumers in the dynamic, trend-oriented beverage industry. As a result, management believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance or results expected for the fiscal year.

Quarter Ended March 31, 2024 Compared to Quarter Ended March 31, 2023

Revenue

For the quarter ended March 31, 2024, revenue increased by approximately \$1.1 million, or 29.2%, to approximately \$5.0 million compared to approximately \$3.9 million for the quarter ended March 31, 2023. The increase in sales revenue was primarily the result increased sales in Canada through our new DSD customer, Dot Foods Canada, an increase in sales in the Food Service channel, and an increase in Mary Jones branded sales.

For the quarter ended March 31, 2024, trade spend and promotional allowances, which reduced the amount of revenue for the sales of our product, totaled approximately \$442,000, an increase of approximately \$137,000, or 44.9%, compared to approximately \$305,000 for the quarter ended March 31, 2023, primarily due to the increased sales volume and timing of incentive and retailer programs.

Gross Profit

For the quarter ended March 31, 2024, gross profit increased by approximately \$757,000, or 66.7%, to approximately \$1.9 million compared to approximately \$1.1 million for the quarter ended March 31, 2023 as a result of higher sales revenue in the current quarter. For the quarter ended March 31, 2024, gross margin increased to 37.8% from 29.3% for the quarter ended March 31, 2023. This increase was primarily driven by proactive pricing adjustments, supply chain optimization, and increased sales of our food service beverage channel and our Mary Jones brand revenue which generally have higher margins than our other channels.

Selling and Marketing Expenses

Selling and marketing expenses for the first quarter ended March 31, 2024 were approximately \$1.5 million, an increase of approximately \$460,000, or 44.6%, from approximately \$1.0 million for the first quarter ended March 31, 2023. This increase was primarily a result of increased online marketing spend for both the Jones Soda and Mary Jones brands in the first quarter of 2024 compared to the same quarter of 2023. Additionally, we increased our investments in action sports to market our brands during the first quarter of 2024, which contributed to the increase in selling and marketing expenses during the current quarter. Selling and marketing expenses as a percentage of revenue increased to 29.8% in the first quarter ended March 31, 2024 from 26.7% in the same period in 2023. We intend to continue to balance selling and marketing expenses with our working capital resources. For the three months ended March 31, 2024 and 2023, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately \$27,000 for both periods.

General and Administrative Expenses

General and administrative expenses for the first quarter ended March 31, 2024 remained flat at approximately \$1.5 million, compared to the first quarter ended March 31, 2023. General and administrative expenses as a percentage of revenue decreased to 30.9% in the first quarter ended March 31, 2024 from 37.6% in the same quarter in 2023. We intend to continue to carefully manage general and administrative expenses with our working capital resources. For the three months ended March 31, 2024 and 2023, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$147,000 and \$247,000, respectively.

Income Tax Expense

We incurred approximately \$10,000 and \$5,000 of income tax expense during the quarter ended March 31, 2024 and 2023, 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 March 31, 2024 was approximately \$1.2 million compared to net loss of approximately \$1.4 million for the quarter ended March 31, 2023. This decrease in net loss was primarily due to the increased revenue and gross profit being partially offset of increased selling and marketing expenses in the first quarter of 2024 compared to the first quarter of 2023.

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.

Liquidity and Capital Resources

As of March 31, 2024 and December 31, 2023, we had cash and cash-equivalents of approximately \$2.8 million and \$3.9 million, respectively, and working capital of approximately \$6.3 million and \$7.2 million, respectively. Net cash used in operations during the three months ended March 31, 2024 and 2023 totaled approximately \$958,000 and \$1.3 million, respectively. We incurred a net loss of approximately \$1.2 million for the three months ended March 31, 2024 compared to a net loss of approximately \$1.4 million for the three months ended March 31, 2023. Our accumulated deficit increased to \$84.2 million as of March 31, 2024 compared to an accumulated deficit of \$79.6 million as of March 31, 2023.

For the three months ended March 31, 2024, net cash used in financing activities totaled approximately \$75,000 due to the repayments on our insurance financing agreement being partially offset by proceeds received by the exercise of outstanding warrants. For the three months ended March 31, 2023, net cash used by financing activities totaled approximately \$204,000 due to repayments on our insurance financing agreement

We have experienced recurring losses from operations and negative cash flows from operating activities. These factors initially raised substantial doubt regarding the Company’s ability to continue as a going concern. The Company increased gross margins in 2023 and in the three months ended March 31, 2024. In 2024, the Company is restructuring its customer distribution channels and has partnered with certain distributors. For the three months ended March 31, 2024, our current distributor network has resulted in more favorable margins and we expect this trend to continue throughout 2024. Additionally, the Company is concentrating on product mix and customer channels that yield higher sales and margins (such as the food service channel), focused on the sales growth in the Mary Jones brand and monitoring and reducing operating costs when and if possible. On March 29, 2024, the Company received a commitment letter from a creditor to provide the Company with a \$2 million revolving credit facility for working capital needs. The maturity date will be three years from the date of initial funding.

Based on management's current operating plan, the Company believes its cash on hand, projected cash generated from product sales and funds received from the committed revolving credit facility are sufficient to fund the Company's operations for a period of at least 12 months subsequent to the issuance of the accompanying Condensed Consolidated Financial Statements and has alleviated the conditions that initially raised substantial doubt regarding the Company's ability to continue as a going concern.

During the three months ended March 31, 2024 and 2023, we received no cash from the exercise of stock options. 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.

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, 2023, filed with the SEC on April 1, 2024. There have been no material changes in our critical accounting policies during the three months ended March 31, 2024.