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 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 and canned products in existing and new sales channels;
- Expand our fountain and food service 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 June 30,				Six months ended June 30,			
	2024	% of Revenue	2023	% of Revenue	2024	% of Revenue	2023	% of Revenue
Consolidated statements of operations data:	(Dollars in thousands, except per share data)				(Dollars in thousands, except per share data)			
Revenue	$ 7,157	100.0 %	$ 4,806	100.0 %	$ 12,156	100.0 %	$ 8,676	100.0%
Cost of goods sold	(4,596)	(64.2) %	(3,247)	(67.6) %	(7,703)	(63.4) %	(5,982)	(68.9)%
Gross profit	2,561	35.8 %	1,559	32.4 %	4,453	36.6 %	2,694	31.1%
Selling and marketing expenses	(1,928)	(26.9) %	(1,080)	(22.5) %	(3,420)	(28.1) %	(2,112)	(24.3)%
General and administrative expenses	(2,224)	(31.1) %	(1,508)	(31.4) %	(3,769)	(31.0) %	(2,964)	(34.2)%
Loss from operations	(1,591)	(22.2) %	(1,029)	(21.4) %	(2,736)	(22.5) %	(2,382)	(27.5)%
Interest income	2	0.0 %	18	0.4 %	11	0.1 %	18	0.2%
Interest expense	(7)	(0.1) %	-	0.0 %	(7)	(0.1) %	-	0.0%
Other income (expense), net	39	0.5 %	4	0.1 %	33	0.3 %	(1)	(0.0)%
Loss before income taxes	(1,557)	(21.8) %	(1,007)	(21.0) %	(2,699)	(22.2) %	(2,365)	(27.3)%
Income tax expense, net	(11)	(0.2) %	(17)	(0.4) %	(21)	(0.2) %	(22)	(0.3)%
Net loss	$ (1,568)	(21.9) %	$ (1,024)	(21.3) %	$ (2,720)	(22.4) %	$ (2,387)	(27.5)%
Basic and diluted net loss per share	$ (0.02)		$ (0.01)		$ (0.03)		$ (0.02)	

	As of	
	June 30, 2024	December 31, 2023
	(Dollars in thousands)	
Balance sheet data:		
Cash and cash equivalents and accounts receivable, net	$ 6,186	$ 5,985
Fixed assets, net	110	137
Total assets	12,439	9,906
Long-term liabilities	-	-
Working capital	5,242	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 June 30, 2024 Compared to Quarter Ended June 30, 2023

Revenue

For the quarter ended June 30, 2024, revenue increased by approximately $2.4 million, or 48.9%, to approximately $7.2 million compared to approximately $4.8 million for the quarter ended June 30, 2023. The increase in sales revenue was primarily the result of an increase in sales volume of the Mary Jones branded products, increase in our Nuka Cola sales online, in addition to an increase in revenue related to core Jones Soda sales in Canada.

For the quarter ended June 30, 2024, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately $1.2 million, an increase of approximately $764,000, or 193.3%, compared to approximately $394,000 for the quarter ended June 30, 2023, primarily due to promotional and pricing programs related to Mary Jones products and core Jones Soda sales in Canada.

Gross Profit

For the quarter ended June 30, 2024, gross profit increased by approximately $1.0 million, or 64.3% to approximately $2.6 million compared to approximately $1.6 million for the quarter ended June 30, 2023. For the quarter ended June 30, 2024, gross margin increased to 35.8% from 32.4% for the quarter ended June 30, 2023. This increase was primarily driven by proactive pricing adjustments and supply chain optimization especially in Canada where the Company has moved to DOT Foods as its primary distributor, as well as increased sales of our Mary Jones branded products which generally have higher margins than our other products.

Selling and Marketing Expenses

Selling and marketing expenses for the third quarter ended June 30, 2024 were approximately $1.9 million, an increase of approximately $848,000 or 78.5% compared to approximately $1.1 million for the quarter-ended June 30, 2023. This increase was primarily a result expenses related to the launch of new products introduced in 2024 and rebranding costs, most of which we believe to be one-time expenses. We also incurred an increase in online marketing spend for both the Jones Soda and Mary Jones brands. Additionally, we increased our marketing initiatives with companies involved with action sports, including a partnership with Thrill One Sports & Entertainment, in the second quarter of 2024 that did not occur in the second quarter of 2023. Selling and marketing expenses as a percentage of revenue increased to 26.9% in the second quarter ended June 30, 2024 from 22.5% 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 June 30, 2024 and 2023, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $38,000 and $28,000, respectively.

General and Administrative Expenses

General and administrative expenses for the second quarter ended June 30, 2024 were approximately $2.2 million, an increase of approximately $730,000, or 48.4%, compared to approximately $1.5 million for the quarter ended June 30, 2023. This increase was primarily a result of increased legal expenditures related to our Mary Jones business, in addition to increased travel expenditures in connection with the Company's growth plan that includes new supply chain and sponsorship partners. General and administrative expenses as a percentage of revenue decreased slightly to 31.3% in the second quarter ended June 30, 2024 from 31.4% 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 June 30, 2024 and 2023, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $435,000 and $268,000, respectively. The increase in non-cash expenses included in general and administrative expenses in the second quarter of 2024 was primarily due to the restricted stock units granted to members of the Company's Board of Directors in the current quarter ended June 30, 2024 resulting in a higher expense than the expense associated with the stock options granted to members of the Company's Board of Directors in the same quarter of 2023.

Interest Expense

We incurred $7,000 in interest expense for the quarter ended June 30, 2024 due to our current line of credit balance, compared to nil for the quarter ended June 30, 2023.

Income Tax Expense

We incurred approximately $11,000 and $17,000 of income tax expense during the quarters ended June 30, 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 June 30, 2024 was approximately $1.6 million compared to net loss of approximately $1.0 million for the quarter ended June 30, 2023. This increase in net loss was primarily due to the increased sales and marketing and general and administrative costs associated with the development of new products and other operating expenses to support Company's growth plans being partially offset by increased revenues.

Six months Ended June 30, 2024 Compared to six months Ended June 30, 2023

Revenue

For the six months ended June 30, 2024, revenue increased by approximately $3.5 million, or 40.1%, to approximately $12.2 million compared to approximately $8.7 million for the six months ended June 30, 2023. The increase in sales revenue was primarily the result of an increase in sales volume of the Mary Jones branded products, an increase in our Nuka Cola sales online, and an increase in revenue related to core Jones Soda sales in Canada.

For the six months ended June 30, 2024, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately $1.6 million, an increase of approximately $901,000, or 128.9%, compared to approximately $699,000 for the six months ended June 30, 2023, primarily due to promotional and pricing programs related to Mary Jones products and core Jones Soda sales in Canada.

Gross Profit

For the six months ended June 30, 2024, gross profit increased by approximately $1.8 million, or 65.3%, to approximately $4.5 million compared to approximately $2.7 million for the six months ended June 30, 2023. For the six months ended June 30, 2024, gross margin increased to 36.6% from 31.1% for the six months ended June 30, 2023. This increase was primarily driven by proactive pricing adjustments, supply chain optimization, and increased sales of our Mary Jones branded products which generally have higher margins than our other products.

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended June 30, 2024 increased by approximately $1.3 million to $3.4 million in comparison to $2.1 million for the six months ended June 30, 2023. This increase was primarily a result of expenses related to the launch of new products introduced in 2024 and rebranding costs, most of which we believe to be one-time expenses. We also incurred an increase online marketing spend for both the Jones Soda and Mary Jones brands. Additionally, we increased our marketing initiatives with companies involved with action sports in the first half of 2024 that did not occur in the first half of 2023. Selling and marketing expenses as a percentage of revenue increased to 28.1% in the six months ended June 30, 2024 from 24.3% in the same period in 2023. We intend to continue to balance selling and marketing expenses with our working capital resources. For the six months ended June 30, 2024 and 2023, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $65,000 and $55,000, respectively.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2024 were approximately $3.8 million, an increase of approximately $819,000, or 27.6%, compared to approximately $3.0 million for the six months ended June 30, 2023. This increase was primarily a result of increased legal expenditures related to our Mary Jones business, in addition to increased travel expenditures in connection with the Company’s growth plan that includes new supply chain and sponsorship partners. General and administrative expenses as a percentage of revenue decreased to 31.1% in the six month period ended June 30, 2024 from 34.2% in the same period in 2023. We will continue to carefully manage general and administrative expenses with our working capital resources. For the six months ended June 30, 2024 and 2023, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $582,000 and $515,000, respectively. The increase in non-cash expenses included in general and administrative expenses in the first half of 2024 was primarily due to restricted stock units granted to members of the Company’s Board of Directors in first half of 2024 being partially offset by fewer stock options granted to officers and directors in this period compared to the same period in the prior year.

Interest Expense

We incurred $7,000 in interest expense for the six months ended June 30, 2024 due to our current line of credit balance, compared to nil for the six months ended June 30, 2023.

Income Tax Expense

We incurred approximately $21,000 and $22,000 of income tax expense during the six months ended June 30, 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 six months ended June 30, 2024 was approximately $2.7 million compared to net loss of approximately $2.4 million for the six months ended June 30, 2023. This increase in net loss was primarily due to the increased sales and marketing and general and administrative costs associated with the development of new products and other operating expenses to support the Company's growth plans being partially offset by increased revenues.

Liquidity and Capital Resources

As of June 30, 2024 and December 31, 2023, we had cash and cash-equivalents of approximately $1.5 million and $3.9 million, respectively, and working capital of approximately $5.2 million and $7.2 million, respectively. Net cash used in operations during the six months ended June 30, 2024 and 2023 totaled approximately $2.5 million for both June 30, 2024 and June 30, 2023. We incurred a net loss of approximately $2.7 million for the six months ended June 30, 2024 compared to a net loss of approximately $2.4 million for the six months ended June 30, 2023. Our accumulated deficit increased to $85.8 million as of June 30, 2024 compared to an accumulated deficit of $83.1 million as of December 31, 2023.

For the six months ended June 30, 2024, net cash provided by financing activities totaled approximately $97,000 most significantly due to the proceeds from our line of credit offset by the repayments on our insurance financing agreement. For the six months ended June 30, 2023, net cash used in financing activities totaled approximately $408,000 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 has increased gross margins in 2023 and in the six months ended June 30, 2024. In 2024, the Company is restructuring its customer distribution channels and has partnered with certain distributors. For the six months ended June 30, 2024, our current distributor network has resulted in more favorable margins and the trend should 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. Moving forward, we have put a strong emphasis on monitoring and reducing operating costs when and if possible. On May 17, 2024, the Company signed a financing agreement from a creditor to provide the Company with a $2 million revolving credit facility for working capital needs (See Note 7).

Additionally, subsequent to June 30, 2024 the Company closed two tranches of a private placement equity raise for an aggregate amount of $3.7 million of gross proceeds for the Company (the "Private Placement") (See Note 9).

Based on management's current operating plan, the Company believes its cash and cash equivalents on hand, projected cash generated from product sales, proceeds from the Private Placement, and funds available 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 alleviates the conditions that initially raised substantial doubt regarding the Company's ability to continue as a going concern.

During the six months ended June 30, 2024 and 2023, we received $37,000 and nil, respectively from the cash 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 June 30, 2024.