

**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, the negative of these terms 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 Quarterly 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 currently 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 September 30,				Nine months ended September 30,			
	2024	% of Revenue	2023	% of Revenue	2024	% of Revenue	2023	% of Revenue
	(Dollars in thousands, except per share data)				(Dollars in thousands, except per share data)			
<b>Consolidated statements of operations data:</b>								
Revenue	\$ 4,211	100.0%	\$ 4,497	100.0%	\$ 16,367	100.0%	\$ 13,173	100.0%
Cost of goods sold	(3,317)	(78.8)%	(3,017)	(67.1)%	(11,020)	(67.3)%	(8,999)	(68.3)%
Gross profit	894	21.2%	1,480	32.9%	5,347	32.7%	4,174	31.7%
Selling and marketing expenses	(1,644)	(39.0)%	(1,154)	(25.7)%	(5,064)	(30.9)%	(3,266)	(24.8)%
General and administrative expenses	(1,867)	(44.3)%	(1,270)	(28.2)%	(5,636)	(34.4)%	(4,234)	(32.1)%
Loss from operations	(2,617)	(62.1)%	(944)	(21.0)%	(5,353)	(32.7)%	(3,326)	(25.2)%
Interest income	7	0.2%	20	0.4%	18	0.1%	38	0.3%
Interest expense	(10)	(0.2)%	-	0.0%	(17)	(0.1)%	-	0.0%
Other income (expense), net	(3)	(0.1)%	(2)	(0.0)%	30	0.2%	(3)	(0.0)%
Loss before income taxes	(2,623)	(62.3)%	(926)	(20.6)%	(5,322)	(32.5)%	(3,291)	(25.0)%
Income tax expense, net	(5)	(0.1)%	(8)	(0.2)%	(26)	(0.2)%	(30)	(0.2)%
Net loss	\$ (2,628)	(62.4)%	\$ (934)	(20.8)%	\$ (5,348)	(32.7)%	\$ (3,321)	(25.2)%
Basic and diluted net loss per share	\$ (0.02)		\$ (0.01)		\$ (0.05)		\$ (0.03)	

	As of	
	September 30, 2024	December 31, 2023
	(Dollars in thousands)	
<b>Balance sheet data:</b>		
Cash and cash equivalents and accounts receivable, net	\$ 5,536	\$ 5,985
Fixed assets, net	122	137
Total assets	11,868	9,906
Long-term liabilities	-	-
Working capital	6,584	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 September 30, 2024 Compared to Quarter Ended September 30, 2023***

*Revenue*

For the quarter ended September 30, 2024, revenue decreased by approximately \$286,000, or 6.36%, to approximately \$4.2 million compared to approximately \$4.4 million for the quarter ended September 30, 2023. The decrease in sales revenue was primarily the result of increased trade spend and promotion allowances during the current quarter, being partially offset by increased Mary Jones sales and increased Food Service revenue as well.

For the quarter ended September 30, 2024, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately \$1.5 million, an increase of approximately \$941,000, or 174.9%, compared to approximately \$538,000 for the quarter ended September 30, 2023, primarily due to promotional and pricing programs related to our Mary Jones products and core Jones Soda sales in Canada due to a transition to a new distributor.

*Gross Profit*

For the quarter ended September 30, 2024, gross profit decreased by approximately \$586,000, or 39.6% to approximately \$894,000 compared to approximately \$1.5 million for the quarter ended September 30, 2023. For the quarter ended September 30, 2024, gross margin decreased to 21.2% from 32.9% for the quarter ended September 30, 2023. This decrease was primarily driven by increased trade spend and allowances, especially in Canada, combined with increased cost of goods sold in the current quarter compared to the previous quarter mostly as a result of increased warehousing costs.

*Selling and Marketing Expenses*

Selling and marketing expenses for the quarter ended September 30, 2024 were approximately \$1.6 million, an increase of approximately \$490,000 or 42.5% compared to approximately \$1.2 million for the quarter ended September 30, 2023. This increase was primarily a result of 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 quarter ended September 30, 2024 that did not occur in the quarter ended September 30, 2023. Selling and marketing expenses as a percentage of revenue increased to 39.0% in the third quarter ended September 30, 2024 from 25.7% 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 September 30, 2024 and 2023, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately \$37,000 and (\$13,000), respectively.

*General and Administrative Expenses*

General and administrative expenses for the third quarter ended September 30, 2024 were approximately \$1.9 million, an increase of approximately \$597,000, or 47.0%, compared to approximately \$1.3 million for the quarter ended September 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 increased to 44.3% in the third quarter ended September 30, 2024 from 28.2% 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 September 30, 2024 and 2023, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$345,000 and \$96,000, respectively. The increase in non-cash expenses included in general and administrative expenses in the third quarter of 2024 was primarily due to the restricted stock units granted to members of the Company's Board of Directors in the second quarter of 2024 resulting in a higher expense in the third quarter of 2024 than the expense associated with the stock options granted to members of the Company's Board of Directors in 2023.

*Interest Expense*

We incurred \$10,000 in interest expense for the quarter ended September 30, 2024 compared to no interest expenses in the third quarter of 2023, due to the line of credit balance that was outstanding in July 2024 prior to paying off the entire outstanding balance so that as of September 30, 2024 we had no outstanding amounts under our line of credit.

*Income Tax Expense*

We incurred approximately \$5,000 and \$8,000 of income tax expense during the quarters ended September 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 September 30, 2024 was approximately \$2.6 million compared to net loss of approximately \$934,000 for the quarter ended September 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, in addition to the decrease in gross profit.

***Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023***

*Revenue*

For the nine months ended September 30, 2024, sales revenue increased by approximately \$3.2 million, or 24.2%, to approximately \$16.4 million compared to approximately \$13.2 million for the nine months ended September 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, being partially offset by increased trade spend and promotional allowances.

For the nine months ended September 30, 2024, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately \$3.1 million, an increase of approximately \$1.8 million, or 148.9%, compared to approximately \$1.2 million for the nine months ended September 30, 2023, primarily due to promotional and pricing programs related to Mary Jones products and core Jones Soda sales in Canada due to a transition to a new distributor.

*Gross Profit*

For the nine months ended September 30, 2024, gross profit increased by approximately \$1.2 million, or 28.1%, to approximately \$5.3 million compared to approximately \$4.2 million for the nine months ended September 30, 2023. For the nine months ended September 30, 2024, gross margin increased to 32.7% from 31.7% for the nine months ended September 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, being partially offset by increased trade spend and allowances, especially in Canada, as well as increased cost of goods sold in the current period compared to the same period last year mostly as a result of increased warehousing costs.

*Selling and Marketing Expenses*

Selling and marketing expenses for the nine months ended September 30, 2024 increased by approximately \$1.8 million to \$5.1 million in comparison to approximately \$3.3 million for the nine months ended September 30, 2023. This increase was primarily a result of 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 nine months ended September 30, 2024 that did not occur in the nine months ended September 30, 2023. Selling and marketing expenses as a percentage of revenue increased to 30.9% in the nine months ended September 30, 2024 from 24.8% in the same period in 2023. We intend to continue to balance selling and marketing expenses with our working capital resources. For the nine months ended September 30, 2024 and 2023, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately \$101,000 and \$42,000, respectively.

### *General and Administrative Expenses*

General and administrative expenses for the nine months ended September 30, 2024 were approximately \$5.6 million, an increase of approximately \$1.4 million, or 33.1%, compared to approximately \$4.2 million for the nine months ended September 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 increased to 34.4% in the nine month period ended September 30, 2024 from 32.1% in the same period in 2023. We will continue to carefully manage general and administrative expenses with our working capital resources. For the nine months ended September 30, 2024 and 2023, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$927,000 and \$611,000, respectively. The increase in non-cash expenses included in general and administrative expenses in 2024 was primarily due to restricted stock units granted to members of the Company's Board of Directors in 2024 which were not granted in 2023, 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 \$17,000 in interest expense for the nine months ended September 30, 2024 due to our current line of credit, compared to no interest expense for the nine months ended September 30, 2023.

### *Income Tax Expense*

We incurred approximately \$26,000 and \$30,000 of income tax expense during the nine months ended September 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 nine months ended September 30, 2024 was approximately \$5.3 million compared to net loss of approximately \$3.3 million for the nine months ended September 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.

## **Liquidity and Capital Resources**

As of September 30, 2024 and December 31, 2023, we had cash and cash equivalents of approximately \$2.7 million and \$3.9 million, respectively, and working capital of approximately \$6.6 million and \$7.2 million, respectively. Net cash used in operations during the nine months ended September 30, 2024 and 2023 totaled approximately \$4.4 million and \$2.1 million, respectively. We incurred a net loss of approximately \$5.3 million for the nine months ended September 30, 2024 compared to a net loss of approximately \$3.3 million for the nine months ended September 30, 2023. Our accumulated deficit increased to \$88.4 million as of September 30, 2024 compared to an accumulated deficit of \$83.1 million as of December 31, 2023.

For the nine months ended September 30, 2024, net cash provided by financing activities totaled approximately \$3.3 million, most significantly due to the proceeds from our issuance of common stock from the Private Placement (as defined below) described in Note 3 in Part I, Item 1 Financial Statements. For the nine months ended September 30, 2023, net cash used in financing activities totaled \$603,000 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. 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 in Part I, Item 1 Financial Statements, for additional information). Additionally, during the quarter ended September 30, 2024, the Company closed a private placement equity raise for net proceeds of \$3.7 million, after deducting placement agency fees and other offering expenses (the "Private Placement") (See Note 3 in Part I, Item 1 Financial Statements, for additional information).

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 Private Placement, and funds available from the 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 nine months ended September 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 September 30, 2024.