
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 June 30, 2024

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 August 5, 2024, there were 112,903,173 shares of the registrant's common stock issued and outstanding.

JONES SODA CO.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2024
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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," 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 subsequent to the quarter ended June 30, 2024;
- Our ability to execute our plans to continue to license 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 other factors that may adversely affect our supply chain, including increases in raw material costs, and the potential shortages of glass in the supply chain;
- 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;
- Our ability to comply with applicable regulatory requirements and effectively address investigations and administrative actions by government regulators with jurisdiction over our Mary Jones business;
- 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, 2023 filed with the Securities and Exchange Commission ("SEC") on April 1, 2024 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)

	June 30, 2024	December 31, 2023
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,456	\$ 3,867
Accounts receivable, net of allowance of \$42 and \$260, respectively	4,730	2,118
Inventory	4,357	2,392
Prefunded insurance premiums from financing	119	357
Prepaid expenses and other current assets	1,556	861
Total current assets	12,218	9,595
Other assets	111	174
Fixed assets, net of accumulated depreciation of \$393 and \$366, respectively	110	137
Total assets	\$ 12,439	\$ 9,906
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,198	\$ 716
Accrued expenses	2,401	1,283
Line of credit	254	-
Insurance premium financing	119	357
Taxes payable	4	-
Total current liabilities	6,976	2,356
Total liabilities	6,976	2,356
Shareholders' equity:		
Common stock, no par value:		
Authorized — 800,000,000 issued and outstanding shares — 103,768,173 shares and 101,258,135 shares, respectively	90,973	90,273
Accumulated other comprehensive income	264	331
Accumulated deficit	(85,774)	(83,054)
Total shareholders' equity	5,463	7,550
Total liabilities and shareholders' equity	\$ 12,439	\$ 9,906

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	<u>(In thousands, except share data)</u>		<u>(In thousands, except share data)</u>	
Revenue	\$ 7,157	\$ 4,806	\$ 12,156	\$ 8,676
Cost of goods sold	4,596	3,247	7,703	5,982
Gross profit	2,561	1,559	4,453	2,694
Operating expenses:				
Selling and marketing	1,928	1,080	3,420	2,112
General and administrative	2,224	1,508	3,769	2,964
Total operating expenses	4,152	2,588	7,189	5,076
Loss from operations	(1,591)	(1,029)	(2,736)	(2,382)
Interest income	2	18	11	18
Interest expense	(7)	-	(7)	-
Other income (expense), net	39	4	33	(1)
Loss before income taxes	(1,557)	(1,007)	(2,699)	(2,365)
Income tax expense, net	(11)	(17)	(21)	(22)
Net loss	\$ (1,568)	\$ (1,024)	\$ (2,720)	\$ (2,387)
Net loss per share - basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.02)
Weighted average common shares outstanding - basic and diluted	102,256,899	100,880,113	101,867,317	100,667,058

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
	(In thousands)		(In thousands)	
Net loss	\$ (1,568)	\$ (1,024)	\$ (2,720)	\$ (2,387)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(22)	43	(67)	46
Total comprehensive loss	<u>\$ (1,590)</u>	<u>\$ (981)</u>	<u>\$ (2,787)</u>	<u>\$ (2,341)</u>

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
	Number	Amount			
(In thousands, except share data)					
Three months ended June 30, 2023					
Balance as of March 31, 2023	100,698,135	\$ 89,884	\$ 290	\$ (79,563)	\$ 10,611
Stock-based compensation	600,000	274	-	-	274
Shares withheld for taxes upon RSU vesting	(240,000)	(48)	-	-	(48)
Net loss	-	-	-	(1,024)	(1,024)
Other comprehensive gain	-	-	43	-	43
Balance as of June 30, 2023	101,058,135	\$ 90,110	\$ 333	\$ (80,587)	\$ 9,856
Three months ended June 30, 2024					
Balance as of March 31, 2024	102,232,943	\$ 90,475	\$ 286	\$ (84,206)	\$ 6,555
Stock-based compensation	1,398,980	461	-	-	461
Exercise of Stock Options	136,250	37	-	-	37
Net loss	-	-	-	(1,568)	(1,568)
Other comprehensive loss	-	-	(22)	-	(22)
Balance as of June 30, 2024	103,768,173	\$ 90,973	\$ 264	\$ (85,774)	\$ 5,463
Six months ended June 30, 2023					
Balance as of December 31, 2022	100,263,135	\$ 89,680	\$ 287	\$ (78,200)	\$ 11,767
Stock-based compensation	1,275,000	540	-	-	540
Shares withheld for taxes upon RSU vesting	(480,000)	(110)	-	-	(110)
Net loss	-	-	-	(2,387)	(2,387)
Other comprehensive gain	-	-	46	-	46
Balance as of June 30, 2023	101,058,135	\$ 90,110	\$ 333	\$ (80,587)	\$ 9,856
Six months ended June 30, 2024					
Balance as of December 31, 2023	101,258,135	\$ 90,273	\$ 331	\$ (83,054)	\$ 7,550
Stock-based compensation	1,398,980	619	-	-	619
Exercise of Pinestar Warrants	974,808	44	-	-	44
Exercise of Stock Options	136,250	37	-	-	37
Net loss	-	-	-	(2,720)	(2,720)
Other comprehensive loss	-	-	(67)	-	(67)
Balance as of June 30, 2024	103,768,173	\$ 90,973	\$ 264	\$ (85,774)	\$ 5,463

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30,	
	2024	2023
	(In thousands)	
OPERATING ACTIVITIES:		
Net loss	\$ (2,720)	\$ (2,387)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	27	29
Stock-based compensation	619	540
Change in allowance for credit losses	(218)	35
Changes in operating assets and liabilities:		
Accounts receivable	(2,402)	(382)
Inventory	(1,976)	90
Prefunded insurance premiums from financing	238	408
Prepaid expenses and other current assets	(695)	(584)
Other assets	63	-
Accounts payable	3,482	(32)
Accrued expenses	1,107	(195)
Taxes payable	20	(8)
Net cash used in operating activities	(2,455)	(2,486)
INVESTING ACTIVITIES:		
Purchase of fixed assets	-	(25)
Net cash used in investing activities	-	(25)
FINANCING ACTIVITIES:		
Proceeds from the exercise of Pinestar Warrants	44	-
Proceeds from the exercise of stock options	37	-
Net proceeds from Line of Credit	254	-
Repayments on insurance financing	(238)	(408)
Net cash provided by (used in) financing activities	97	(408)
Net change in cash and cash equivalents	(2,358)	(2,919)
Effect of exchange rate changes on cash	(53)	24
Cash and cash equivalents, beginning of period	3,867	7,971
Cash and cash equivalents, end of period	\$ 1,456	\$ 5,076
Supplemental disclosure:		
Cash paid during period for:		
Income taxes	\$ 14	\$ 21

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 3(d)), we have expanded our business to the production of cannabis-containing beverages and related products.

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

Basis of presentation, consolidation and use of estimates

The accompanying condensed consolidated balance sheet as of December 31, 2023, which has been derived from our audited consolidated financial statements, and unaudited interim condensed consolidated financial statements as of June 30, 2024, 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, accounts receivable credit loss reserve, 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, 2023.

Liquidity

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 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 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.

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 \$44,000 and \$45,000 for the three months ended June 30, 2024 and 2023, respectively, and \$78,000 and \$86,000 in the six month periods ended June 30, 2024 and 2023, respectively. Sales tax and other similar taxes are excluded from revenue.

See Note 1, on our most recently filed Form 10-K filed on April 1, 2024 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 June 30, 2024 and 2023, our revenue was reduced by \$1.2 million and \$394,000, respectively, and for the six months ended June 30, 2024 and 2023, our revenue was reduced by \$1.6 million and \$699,000, respectively, 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. As of June 30, 2024 and 2023, prompt pay discounts to these customers were considered immaterial to the related accounts receivable balances 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 credit losses is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance for credit losses based primarily on current trends and estimates. The Company reserves a percentage of trade receivable balance based on collection history and current economic trends that the Company expects will impact the level of credit losses over the life of the receivables. These reserves are re-evaluated on a regular basis and adjusted as needed. 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 credit losses of \$42,000 and \$260,000 as of June 30, 2024 and December 31, 2023, respectively, were netted against accounts receivable. No impairment losses were recognized for the three or six months ended June 30, 2024 and for the year ended December 31, 2023. 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 June 30, 2024, one of our independent customers made up 11% of our outstanding accounts receivable. As of December 31, 2023, there were no customers that made up a material concentration amount of our 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 six months ended June 30, 2024 and 2023, outstanding stock options amounting to 13,037,772 and 12,154,480 shares, outstanding warrants of 0 and 27,721,945 shares, and outstanding restricted stock units of 1,998,979 and 600,000 shares, respectively, were 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 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 the consolidated financial statements is immaterial, thus no material changes were made to the consolidated financial statements as of June 30, 2024 and December 31, 2023.

2. Inventory

Inventory consisted of the following (in thousands):

	June 30, 2024	December 31, 2023
Finished goods	\$ 3,028	\$ 1,380
Raw materials	1,329	1,012
	<u>\$ 4,357</u>	<u>\$ 2,392</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 June 30, 2024 and 2023, we recorded obsolete inventory expenses of \$11,000 and \$13,000, respectively. For the six months ended June 30, 2024 and 2023, we recorded obsolete inventory expenses of \$50,000 and \$19,000, respectively.

3. 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. The 2022 Plan is subject to an annual increase on the first day of each calendar year beginning with the first January 1 following the effective date of the 2022 Plan and ending with the last January 1 during the initial ten-year term of the 2022 Plan, equal to the lesser of (A) four percent (4%) of the shares of the Company's common stock outstanding (which shall include shares issuable upon the exercise or conversion of all outstanding securities or rights convertible into or exercisable for shares, including without limitation, preferred stock, warrants and employee options to purchase any shares) on the final day of the immediately preceding calendar year and (B) such lesser number of shares of common stock as determined by our Board of Directors.

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 June 30, 2024, there were 7,120,555 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, 2024	11,407,772	\$ 0.26
Options granted	2,200,000	0.24
Options exercised	(136,250)	0.27
Options forfeited/expired	(433,750)	0.42
Balance at June 30, 2024	13,037,772	\$ 0.25
Exercisable, June 30, 2024	5,676,126	\$ 0.27
Vested and expected to vest	11,392,535	\$ 0.25

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price
Balance at January 1, 2023	3,369,332	\$ 0.41
Options granted	9,659,000	0.23
Options forfeited/expired	(873,852)	0.27
Balance at June 30, 2023	12,154,480	\$ 0.27
Exercisable, June 30, 2023	3,745,895	\$ 0.33
Vested and expected to vest	10,142,892	\$ 0.28

(b) Restricted stock awards:

In May of 2023, the Board of Director compensation structure consisted of 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.

In 2024, the Board determined that it was in the best interests of the Company to revise the Board of Director compensation plan. It was determined that each director shall receive compensation consisting of RSU grants, with the value of each RSU calculated based on the five (5) day volume-weighted average price of the Company's shares common stock on the OTCQB on the five (5) trading days immediately preceding January 1, 2024. Based on this value of each RSU, the total grant will consist of (i) a \$65,000 grant of RSUs to each continuing Director for service on the Board during 2024; and (ii) an additional \$15,000 grant of RSUs to each non-employee continuing Director who serves as the chair of a Board committee during 2024. These RSU grants shall vest 50% on June 30, 2024, 25% on September 30, 2024, and 25% December 31, 2024.

A summary of our restricted stock activity for the six months ended June 30, 2024 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, 2024	600,000	\$ 0.26	-
Granted	2,797,959	0.14	
Vested	(1,398,980)	0.14	
Cancelled/expired	-	-	
Non-vested restricted stock at June 30, 2024	1,998,979	\$ 0.17	9.6

(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 June 30, 2024, we had unrecognized compensation expense related to stock options of \$857,000 to be recognized over a weighted-average period of 1.9 years.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Stock options	\$ 198	\$ 118	\$ 348	\$ 331
Common stock award	-	-	-	17
Restricted stock	263	156	271	192
	<u>\$ 461</u>	<u>\$ 274</u>	<u>\$ 619</u>	<u>\$ 540</u>
Income statement account:				
Selling and marketing	\$ 32	\$ 23	\$ 52	\$ 45
General and administrative	429	251	567	495
	<u>\$ 461</u>	<u>\$ 274</u>	<u>\$ 619</u>	<u>\$ 540</u>

In 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:

	Six months ended June 30,	
	2024	2023
Expected dividend yield	—	—
Expected stock price volatility	89.3%	87.5%
Risk-free interest rate	4.2%	3.9%
Expected term (in years)	5.9	5.8
Weighted-average grant date fair-value	0.18	0.17

The aggregate intrinsic value of stock options outstanding at June 30, 2024 was approximately \$3.7 million and for options exercisable was \$1.5 million. 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. The aggregate intrinsic value of stock options exercised during the six months ended June 30, 2024 was approximately \$15,000.

(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.

There are no outstanding warrants as of June 30, 2024.

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):

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Revenue:				
United States	\$ 5,606	\$ 3,814	\$ 9,607	\$ 7,043
Canada	1,510	952	2,508	1,593
Other countries	41	40	41	40
Total revenue	<u>\$ 7,157</u>	<u>\$ 4,806</u>	<u>\$ 12,156</u>	<u>\$ 8,676</u>

During the three months ended June 30, 2024, one of our customers (Dot Foods Canada) represented an aggregate of approximately 18% of our revenue. During the three months ended June 30, 2023, one of our previous customers (Lassonde) represented an aggregate of approximately 19% of our revenue.

6. Insurance Premium Financing

Effective November 15, 2023, the Company entered into a one year financing agreement with IPFS Corporation to fund a portion of its insurance premiums in the amount of \$357,000. Repayments are made on January 15, 2024, April 15, 2024, and July 15, 2024, and the entirety of the financing to be paid off. The interest rate is 8.49% 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 were made 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.

7. Line of Credit

On May 17, 2024, the Company entered into a Revolving Financing and Assignment Agreement (the "Line of Credit") with Amerisource Funding Inc. (the "Lender"), pursuant to which the Company, through one of its wholly owned subsidiaries, Jones Soda Co. (USA) Inc. (the "Subsidiary"), may borrow a maximum aggregate amount of up to \$2,000,000 (the "Maximum Amount"), subject to satisfaction of certain conditions. All present and future obligations of the Subsidiaries arising under the Line of Credit are secured by a first priority security interest in all of the assets of the Company, the Subsidiary and the Company's other United States subsidiaries, and proceeds thereof, including accounts receivable, inventory and equipment, and are guaranteed by the Company and each of its Subsidiaries. The Line of Credit provides that, from time to time, the Subsidiary may request advances equal to 80% of the Subsidiary's eligible accounts receivable (minus any reserve amount established by the Lender and other reductions as defined by ineligible accounts receivable amounts). Annual interest on unpaid advances under the Line of Credit is equal to the Prime Rate plus 3.50%, but may not be less than 6.00%. The Line of Credit has an initial term of three years, which automatically will be extended for successive three-year terms unless the Subsidiary gives at least 60 days' prior written notice of its intent to terminate the Line of Credit at the end of the then current term. The Line of Credit requires the Company to comply with certain financial and reporting covenants.

As of June 30, 2024, our outstanding Line of Credit balance was \$254,000.

8. Commitments and Contingencies

On March 25, 2024, our indirect wholly owned subsidiary, Mary Jones Michigan LLC ("MJM"), received a Notice of Claims for arbitration (the "Core Claim") from Core for an arbitration proceeding to be held in Columbus Ohio, unless otherwise agreed to by the parties. The Core Claim alleges that MJM breached the terms of the agreement entered into between MJM and Core on August 24, 2023 (the "Core Agreement"). The Core Agreement provided that Core was to manufacture a line of Hemp derived Delta-9 THC craft sodas for MJM. Previous to the Core Claim, MJM sent a Notice of Material Breaches by Core Manufacturing and Demand for Audit dated February 1, 2024, which claimed that Core was in breach of its commitments under the Core Agreement. In the Core Claim, Core is seeking to enforce the break-up fee provision in the Core Agreement (which Core calculates to be \$7,220,357), as well as obtain other damages arising from MJM's alleged failure to comply with the Core Agreement. We dispute the allegations of Core in the Core Claim and intend to defend ourselves vigorously in this matter. On April 16, 2024, MJM filed an Answer to the Core Claim asserting multiple affirmative defenses to the two breach of contract claims and asserted in its own Counterclaim causes of action against Core for breach of contract, fraud, and negligent misrepresentation. The arbitration is in its early stages but an arbitrator has been selected. We have determined that it is too early in process to evaluate this claim's potential outcome. Accordingly the matter is being disclosed and no range of accrual, if any, can be determined.

MJM is also seeking from P3 Capital Partner LLC ("P3"), an entity related to Core, the return of a \$155,700 deposit previously paid to P3 in connection with the license and manufacturing agreement between MJM and P3. MJM filed for litigation in Michigan federal court asserting claims for fraud, conversion, and breach of contract against P3.

9. Subsequent Events

In July 2024, the Company closed on two tranches of a private placement offering of units of the Company (the "Units") that consisted of 9,135,000 Units for aggregate gross proceeds of approximately \$3.7 million.

Each Unit is composed of: (i) one (1) share of the Company's common stock; and (ii) one-half (1/2) of one detachable share purchase warrant (each whole warrant, a "Private Placement Warrant"). Each whole Private Placement Warrant will be exercisable into one share of the Company's common stock at a price of \$0.50 per share for a period of 24 months from the date of issuance, subject to the Company having the right at its option to accelerate the expiry date of the Private Placement Warrants to the date that is 30 days following delivery of a notice of acceleration to holders of the Private Placement Warrants if at any time the closing price of the shares of the Company's common stock on the OTCQB or other stock exchange or over-the-counter market in the United States or on the Canadian Securities Exchange (the "CSE") exceeds \$0.80 (for the purposes of the CSE, the equivalent in Canadian dollars based on the daily exchange rate published by the Bank of Canada) for a period of five (5) consecutive trading days (the "Warrant Exercise Period"). Each whole Private Placement Warrant may be exercised anytime during the Warrant Exercise Period upon the voluntary election to exercise by the Private Placement Warrant holder.

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.

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 June 30, 2024.

(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 June 30, 2024 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**

On March 25, 2024, our indirect wholly owned subsidiary, Mary Jones Michigan LLC ("MJM"), received a Notice of Claims for arbitration (the "Core Claim") from Core for an arbitration proceeding to be held in Columbus Ohio, unless otherwise agreed to by the parties. The Core Claim alleges that MJM breached the terms of the agreement entered into between MJM and Core on August 24, 2023 (the "Core Agreement"). The Core Agreement provided that Core was to manufacture a line of Hemp derived Delta-9 THC craft sodas for MJM. Previous to the Core Claim, MJM sent a Notice of Material Breaches by Core Manufacturing and Demand for Audit dated February 1, 2024, which claimed that Core was in breach of its commitments under the Core Agreement. In the Core Claim, Core is seeking to enforce the break-up fee provision in the Core Agreement (which Core calculates to be \$7,220,357), as well as obtain other damages arising from MJM's alleged failure to comply with the Core Agreement. We dispute the allegations of Core in the Core Claim and intend to defend ourselves vigorously in this matter. On April 16, 2024, MJM filed an Answer to the Core Claim asserting multiple affirmative defenses to the two breach of contract claims and asserted in its own Counterclaim causes of action against Core for breach of contract, fraud, and negligent misrepresentation. The arbitration is in its early stages but an arbitrator has been selected.

MJM is also seeking from P3 Capital Partner LLC ("P3"), an entity related to Core, the return of a \$155,700 deposit previously paid to P3 in connection with the license and manufacturing agreement between MJM and P3. MJM filed for litigation in Michigan federal court asserting claims for fraud, conversion, and breach of contract against P3.

Other than the above, we are not currently involved in any material legal proceedings. We 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 condensed 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, 2023.

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

None.

ITEM 5. OTHER INFORMATION

During the six months ended June 30, 2024, no director or officer (as defined in Rule 16a-1(f) of the Exchange Act) of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "Non-Rule 10b5-1 trading arrangement" as each term is defined in Item 408(a) of Regulation S-K.

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. \(Previously filed with, and incorporated herein by reference to, Exhibit 3.3 to our registration statement on Form S-1, filed on June 14, 2022; File No. 333-265598\).](#)
- 10.1 [Secured Loan Facility dated May 17, 2024, between the Company and Amerisource Funding Inc \(filed herewith\)](#)
- 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.

August 14, 2024

JONES SODA CO.
(Registrant)

By: /s/ Joe Culp

Joe Culp

Interim Chief Financial Officer and Principal Financial Officer

REVOLVING FINANCING AND ASSIGNMENT AGREEMENT

THIS REVOLVING FINANCING AND ASSIGNMENT AGREEMENT (the "Agreement") is made as of May 17, 2024 by and between **Jones Soda Co. (USA) Inc.**, a Washington corporation ("Client") and **Amerisource Funding, Inc.**, a Texas corporation ("Amerisource") (each a "Party" and, collectively herein, the "Parties").

1. **Definitions.** The following terms used herein shall have the following meaning. All capitalized terms not herein defined shall have the meaning set forth in the Uniform Commercial Code:

1.1. " **Advance Rate**" – Eighty percent (80%).

1.2. " **Additional Collateral Reserves**" – a reserve established by Amerisource in the amount of ten percent (10%) of the amount otherwise available for distribution from Client's Reserve Account; which amount may be reviewed by Amerisource from time-to-time in its permitted discretion.

1.3. " **Availability**" – A calculation on a Daily Availability Report which reflects the total amount of Client's Reserve Account which is available for disbursement to Client at a given point in time; equal to the Face Amount of all Purchased Accounts less the Required Reserve Amount.

1.4. " **Closed**" – A Purchased Account is closed upon the first to occur of: (a) receipt of full payment by Amerisource, or (b) the unpaid Face Amount has been charged to the Reserve Account by Amerisource pursuant to the terms hereof.

1.5. " **Daily Availability Report**" – A report, a sample of which appears in Exhibit "A", prepared by Amerisource from time to time reflecting a calculation of the portion of Client's Reserve Account which is available for disbursement at a given point in time.

1.6. " **Face Amount**" – The face amount due on an Account at the time of purchase of such Account.

1.7. " **Invoice**" – The document that evidences or is intended to evidence an Account. Where the context so requires, reference to an Invoice shall be deemed to refer to the Account to which it relates.

1.8. " **Invoice Transmittal**" – A form wherein Client lists such of its Accounts as it requests that Amerisource purchase under the terms of this Agreement. For Accounts submitted by Client electronically to Amerisource, an Electronic Transfer of Sales document may serve as an Invoice Transmittal.

1.9. " **Total Credit Facility**" – Two million dollars (\$2,000,000.00). The Revolving Credit Facility Account Limit may be reviewed and amended by Amerisource from time to time as necessary to accommodate Client's growth in working capital needs.

1.10. " **Obligations**" – All present and future obligations owing by Client to Amerisource arising hereunder or otherwise, whether arising before, during or after the commencement of any Bankruptcy Case in which Client is a Debtor.

1.11. " **Purchased Accounts**" – Accounts purchased by Amerisource from Client hereunder which have not been Closed.

1.12. " **Repurchased**" – An Account has been repurchased when Client has paid to Amerisource the then unpaid Face Amount.

1.13. " **Required Reserve Amount**" – The amount required to be held in Client's Reserve Account to ensure Client's performance with the provisions hereof; including, but not limited to the Additional Collateral Reserves (as defined herein).

1.14. " **Reserve Account**" – A bookkeeping account on the books of Amerisource where the Face Amount of all Purchased Accounts is initially credited, a portion of which is maintained by Amerisource to ensure Client's performance with the provisions hereof.

1.15. " **Reserve Shortfall**" – The amount by which the Reserve Account is less than the Required Reserve Amount.

2. **Sale; Purchase Price; Reserve.**

2.1. **Assignment and Sale.**

2.1.1. Client shall submit to Amerisource each day a sales ledger in electronic format, which shall be a complete and accurate detailed listing of all sales completed by the Client for that given date. All Invoices listed on each daily sales ledger shall represent Invoices billed in accordance with Generally Accepted Accounting Principles ("GAAP") for goods delivered or services rendered and completed by Client for such day. Though an Invoice Transmittal may be included with each daily sales ledger, Client's electronic submission of a sales ledger to Amerisource shall be effective as an Invoice Transmittal and shall automatically constitute the assignment and sale to Amerisource of any and all Invoices and Accounts included on such sales ledger, and all such Invoices and Accounts shall immediately become Purchased Accounts.

2.1.2. Each Invoice Transmittal shall be accompanied by such documentation supporting and evidencing the Accounts listed thereon as Amerisource shall from time-to-time request.

2.1.3. Amerisource's initial payment of the Face Amount purchase price shall be applied and credited to Client's Reserve Account.

2.2. **Daily Availability Report; Reserve Account.**

2.2.1. Client's withdrawals, advances and disbursements from the Reserve Account shall be governed by a calculation of Availability, as determined by a Daily Availability Report to be prepared or modified by Amerisource from time to time and in its sole discretion, a sample of which appears in Exhibit "A".

2.2.2. Each Daily Availability Report shall set forth a calculation of the amount available for withdrawal by Client, as well as the amounts which must be held in the Client's Reserve Account as the Required Reserve Amount. Amounts may be held in the Reserve Account as Required Reserve Amount to ensure Client's performance with the provisions hereof, as well as to secure Obligations and the Repurchase or anticipated Repurchase of the following ineligible or impaired Accounts: (a) Accounts, the payment of which has been disputed by the Account Debtor obligated thereon, Amerisource being under no obligation to determine the bona fides of such dispute, (b) any Account for which Client has breached its obligation under Section 13 herein, (c) any Account owing from an Account Debtor which in Amerisource's reasonable credit judgment has become insolvent, (d) any Accounts owing from an Account Debtor in excess of the credit limit established by Amerisource for such Account Debtor, (e) all or any Purchased Accounts upon the occurrence of an Event of Default or upon the termination date of this Agreement, (f) Accounts over ninety (90) days from original invoice date, (g) Accounts owing by an Account Debtor in excess of 15% of Client's total eligible Purchased Accounts outstanding, (h) Accounts owing by entities related to Client by common ownership or control, (i) all Accounts owing by a given Account Debtor if at least 15% of such Account Debtor's outstanding Accounts are deemed ineligible or impaired by Amerisource, (j) Accounts owing by Account Debtors domiciled outside of the United States of America (k) amounts owing as a contra-balance for any Account (l), and other Accounts or amounts which Amerisource determines from time to time in its sole credit or business judgment.

2.2.3. Amerisource may require that Client Repurchase, by payment of the then unpaid Face Amount thereof, at Amerisource's option, by Amerisource's

adjustment to the Reserve Account any of the Accounts described in Section 2.2.2 above which are deemed uncollectible in Amerisource's sole credit or business judgment. Any such Repurchase by Client shall not constitute reassignment of such Account.

2.2.4. Client shall pay to Amerisource on demand the amount of any Reserve Shortfall.

2.2.5. Amerisource may charge the Reserve Account with any Obligation. The Reserve Account, or any portion thereof, may also be held to secure the Obligations.

2.2.6. Amerisource may pay any amounts due Client hereunder by a credit to the Reserve Account.

2.2.7. Upon termination of this Agreement, Amerisource may retain the Reserve Account (i) sufficient to cover any Obligations that were either known or unknown to Amerisource at the time of termination, and (ii) unless and until Client has executed and delivered to Amerisource a general indemnity and mutual release in a form acceptable to Amerisource.

3. **Authorization for Purchases.** Subject to the terms and conditions of this Agreement, Amerisource is authorized to purchase Accounts and/or approve and release disbursement requests upon telephonic, facsimile or other instructions received from anyone purporting to be an officer, employee or representative of Client.

4. **Interest Rate.** Client shall pay to Amerisource on a monthly basis an interest rate equal to the prime rate plus 3.50% per annum, to be calculated and charged monthly by Amerisource based on the average outstanding balance of all funds employed for all Obligations. The prime rate of interest shall be determined as published and updated from time to time in the Wall Street Journal, but in no event shall be less than 6.00% per annum (the "Floor").

5. **Collateral Management Fee.** Client shall pay to Amerisource on a monthly basis a Collateral Management Fee of 0.15% to be assessed monthly on the Total Credit Facility.

6. **Commitment Fee.** Client shall pay to Amerisource a Commitment Fee of 1.00% of the current Total Credit Facility, paid annually. Fee is earned upon formal approval and issuance of commitment letter by Amerisource, payable one half at the time of Amerisource approval and commitment to Client and one half at the time of initial funding of the facility. Future renewals or extensions of the maturity date of this Agreement shall also include a Commitment Fee, calculated based on the Total Credit Facility in effect at the time of the renewal or extension. Increases in the Total Credit Facility prior to the maturity date shall only be assessed a Commitment Fee for the incremental amount of the actual increase in the Total Credit Facility.

7. **Non-Usage Fee:** A fee of 0.25% to be assessed quarterly on the difference between the Client's average daily outstanding loan balance and the Total Credit Facility.

8. **Over-Advances.** As inducement to Client to maintain the Reserve Account at required levels to secure the Repurchase or anticipated Repurchase of ineligible or impaired Accounts, Client agrees to pay Amerisource on demand a per diem penalty of 0.20% of the amount of any Reserve Shortfall.

9. **Security Interest.**

9.1. As collateral securing the Obligations, Client grants and assigns to Amerisource a continuing security interest in and to all of its now owned and hereafter acquired personal property and fixtures, and all direct and indirect proceeds thereof (including proceeds of proceeds), including without limitation Accounts, Chattel Paper, Goods (including Inventory and Equipment), Instruments, Investment Property, Documents, General Intangibles, and all Intellectual Property (including Trademarks, Patents and Copyrights) (the "Collateral").

9.2. Notwithstanding the creation of the above security interest, the relationship of the Parties shall be that of purchaser and seller of accounts, and not that of lender and borrower.

10. **Authorization to Amerisource.** Client hereby irrevocably authorizes Amerisource at Client's expense, to exercise at any time any of the following powers until all of the Obligations have been paid in full: (a) receive, take, endorse, assign, deliver, accept and deposit, in the name of Amerisource or Client, any and all cash, checks, commercial paper, drafts, remittances and other instruments and documents relating to the Collateral or the proceeds thereof, (b) take or bring, in the name of Amerisource or Client, all steps, actions, suits or proceedings deemed by Amerisource necessary or desirable to effect collection of or other realization upon the Accounts and other Collateral, (c) after an Event of Default, change the address for delivery of mail to Client and to receive and open mail addressed to Client, (d) after an Event of Default, extend the time of payment of, compromise or settle for cash, credit, return of merchandise, and upon any terms or conditions, any and all Accounts or other Collateral which includes a monetary obligation and discharge or release any account debtor or other obligor (including filing of any public record releasing any lien or security interest granted to Client by such account debtor), without affecting any of the Obligations, (e) pay any sums necessary to discharge any lien, security interest or encumbrance which is senior to, may become senior to, or impairs Amerisource's security interest in the Collateral, which sums shall be included as Obligations hereunder, and in connection with which sums the Delinquency Charge shall accrue and shall be due and payable, (f) in order to complete funding transfers or disbursements, or to satisfy any of the Obligations, initiate electronic debit or credit entries through the Automated Clearinghouse system to any deposit account maintained by Client wherever located, (g) file in the name of Client or Amerisource, or both, mechanic's or materialman's liens or related notices, or claims under any payment bond, in connection with goods or services sold by Client in connection with the improvement of realty, (h) notify any Account Debtor obligated with respect to any Account that the underlying Account has been assigned to Amerisource by Client and that payment thereof is to be made to the order of and paid directly and solely to Amerisource, and (i) communicate directly with Client's Account Debtors to verify the amount and validity of any Account created by Client.

11. **Covenants by Client.**

11.1. Client shall deliver to Amerisource such documentation as may be requested by Amerisource from time to time, including but not limited to: (a) monthly internally-prepared financial statements, accounts receivable aging and accounts payable aging, to be delivered to Amerisource within 20 days of month-end; (b) quarterly 941 payroll tax filings and proof of payment; (c) annual CPA-prepared (reviewed or audited) financial statements, federal 1120 tax return, and updated corporate financial statements for each corporate guarantor, to be delivered to Amerisource within 90 days of year-end; and (d) any other report or documentation reasonably requested by Amerisource.

11.2. Client shall not permit its Tangible New Worth (defined as Borrower's total equity reported on its financial statements in accordance with GAAP, less intangible assets, plus any indebtedness to Amerisource in a format acceptable to Amerisource in its sole discretion) to fall below \$3,500,00.00

11.3. Client shall direct all payments for Client's Accounts to Amerisource's P.O. Box address via a change of address letter to be sent to all of Client's Account Debtors on Client's letterhead. Client shall imprint this P.O. Box address as the sole remittance address on each and every Invoice and communication to all of its Account Debtors, without exception. Payments received by Amerisource shall be applied against the corresponding open Invoices purchased and ledgered by Amerisource and shall be applied to reduce the Client's outstanding Obligations to Amerisource with a maximum of three days for check clearance.

11.4. Any and all checks or other payments received by Client from its Account Debtors or obligors shall be held in trust for Amerisource and shall not constitute the property of Client, and Client shall deliver such instruments in kind to Amerisource within five banking days following the date of receipt by Client. Client shall pay to Amerisource fifteen percent (15%) of the amount of any payment received by Client and not delivered in kind to Amerisource within five banking days following the date of receipt by Client.

11.5. Client shall notify Amerisource promptly of and, if requested by Amerisource, will settle all disputes concerning any Purchased Account, at Client's sole cost and expense.

11.6. After written notice by Amerisource to Client, and automatically, without notice, after an Event of Default, Client shall not, without the prior written consent of Amerisource in each instance, (a) grant any extension of time for payment of any of the Accounts, (b) compromise or settle any of the Accounts for less than the full amount thereof, (c) release in whole or in part any Account Debtor, or (d) grant any credits, discounts, allowances, deductions, return authorizations or the like with respect to any of the Accounts.

11.7. From time to time as requested by Amerisource, at the sole expense of Client, Amerisource or its designees shall have access, during reasonable business hours if prior to an Event of Default and at any time if after an Event of Default, to all premises where Collateral is located for the purposes of inspecting (and removing, if after the occurrence of an Event of Default) any of the Collateral, including Client's books and records, and Client shall permit Amerisource or its designees to make copies of such books and records or extracts therefrom as Amerisource may request.

11.8. Client shall reimburse Amerisource for any out-of-pocket expenses directly incurred by Amerisource in the administration of this Agreement, including banking fees and fees for periodic field exams, lien searches or other expenses.

11.9. Client shall pay when due all payroll and other taxes, and shall provide proof thereof to Amerisource in such form as Amerisource shall reasonably require.

11.10. Client shall not create, incur, assume or permit to exist any lien or security interest upon or with respect to any Collateral now owned or hereafter acquired by Client.

11.11. Client shall advise Amerisource in writing if it reschedules or extends the due date of any amounts owing from its account debtors.

11.12. Client shall indemnify Amerisource from any loss arising out of the assertion of any claim that any payment received by Amerisource from or for the account of an Account Debtor is avoidable under the Bankruptcy Code or any other debtor relief statute ("Avoidance Claim"). Client shall notify Amerisource within two business days of it becoming aware of the assertion of any Avoidance Claim. This provision of this Section 13.11 shall survive termination of this Agreement.

12. **Representation and Warranty.** Client represents and warrants that:

12.1. Client is fully authorized to enter into this Agreement and to perform hereunder.

12.2. This Agreement constitutes its legal, valid and binding obligation.

12.3. Client is solvent and in good standing in the State of its organization.

12.4. The Purchased Accounts are and will remain:

12.4.1. Bona fide existing obligations created by the sale and delivery of goods or the rendition of services in the ordinary course of Client's business.

12.4.2. Unconditionally owed and will be paid to Amerisource without defenses, disputes, offsets, counterclaims, or rights of return or cancellation.

12.4.3. Not sales to any entity which is affiliated with Client or in any way not an "arms length" transaction.

12.5. Client has not rescheduled or extended the due date of any amounts owing by its account debtors during the past twelve (12) months from the date hereof.

12.6. Client has not received notice nor does Client have knowledge of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of any account debtor.

13. **Default.**

13.1. **Events of Default.** Any of the following events will constitute an Event of Default hereunder: (a) Client defaults in the payment of any Obligations or in the performance of any covenant herein or provision hereof or of any other agreement now or hereafter entered into with Amerisource, or any warranty or representation contained herein proves to be false in any way, howsoever minor, (b) Client or any guarantor of all or any part of the Obligations becomes subject to any debtor-relief proceedings, (c) any guarantor fails to perform or observe any of such guarantor's obligations to Amerisource or shall notify Amerisource of its intention to rescind, modify, terminate or revoke any guaranty of the Obligations, or any such guaranty shall cease to be in full force and effect for any reason whatever, (d) Amerisource for any reason, in good faith, deems itself insecure with respect to the prospect of repayment or performance of all or any part of the Obligations.

13.2. **Waiver of Notice.** Client waives any requirement that Amerisource inform Client by affirmative act or otherwise of any Event of Default hereunder. Further, Amerisource's failure to charge or accrue interest or fees at any "Penalty", "Default", or "Past Due" rate shall not be deemed a waiver by Amerisource of its claim thereto.

13.3. **Effect of Default.** Upon the occurrence of any Event of Default, in addition to any rights Amerisource has under this Agreement or applicable law, Amerisource may immediately terminate this Agreement without notice, at which time all Obligations shall immediately become due and payable without notice.

14. **Account Stated.** Amerisource shall render to Client from time to time a statement setting forth the transactions arising hereunder. Each statement shall be considered correct and binding upon Client as an account stated, except to the extent that Amerisource receives, within sixty (60) days after the mailing of such statement, written notice from Client of any specific exceptions by Client to that statement, and then it shall be binding against Client as to any items to which it has not objected.

15. **Waiver.** No failure to exercise and no delay in exercising any right, power, or remedy hereunder shall impair any right, power, or remedy which Amerisource may have, nor shall any such delay be construed to be a waiver of any of such rights, powers, or remedies, or any acquiescence in any breach or default hereunder; nor shall any waiver by Amerisource of any breach or default by Client hereunder be deemed a waiver of any default or breach subsequently occurring. All rights and remedies granted to Amerisource hereunder shall remain in full force and effect notwithstanding any single or partial exercise of, or any discontinuance of action begun to enforce, any such right or remedy. The rights and remedies specified herein are cumulative and not exclusive of each other or of any rights or remedies that Amerisource would otherwise have. Any waiver, permit, consent or approval by Amerisource of any breach or default hereunder must be in writing and shall be effective only to the extent set forth in such writing and only as to that specific instance.

16. **Termination.** This term of this Agreement will expire (a) 36 months from the date of initial funding or (b) 30 days after executed legal documents if an initial funding has not occurred, or (c) May 31, 2024, if neither (a) nor (b) occur (the "Initial Maturity Date"). Client may terminate the Agreement by giving Amerisource sixty (60) days written notice of termination prior to each Maturity Date. Otherwise, the Initial Maturity Date and each Maturity Date thereafter shall be automatically extended for an additional 36 months from

the most recent Maturity Date (each a "Renewal Maturity Date")(the Initial Maturity Date and each Renewal Maturity Date are individually and collectively a "Maturity Date"). Upon termination, Client shall pay the Obligations to Amerisource. In the event of termination of the Agreement prior to a Maturity Date, an Early Termination Fee equal to 3.00% of the Total Credit Facility shall apply if there are more than 24 months remaining until maturity an Early Termination Fee of 2.00% if more than 12 months remaining until maturity; otherwise, an Early Termination Fee equal to 1.00% of the Total Credit Facility shall apply.

17. **Amendment.** Neither this Agreement nor any provisions hereof may be changed, waived, discharged or terminated, nor may any consent to the departure from the terms hereof be given orally (even if supported by new consideration), but only by an instrument in writing signed by all parties to this Agreement. Any waiver or consent so given shall be effective only in the specific instance and for the specific purpose for which given.

18. **Lien Termination.** In recognition of Amerisource's right to have its legal fees and other expenses incurred in connection with this Agreement secured by the Collateral, notwithstanding satisfaction in full of all other Obligations by Client, Amerisource shall not be required to record any terminations or satisfactions of any of Amerisource's liens or security interests on the Collateral unless and until Client has executed and delivered to Amerisource a general indemnity and mutual release in a form acceptable to Amerisource. Client understands that this provision constitutes a waiver of its rights under §9-513 of the UCC.

19. **Conflict.** Unless otherwise expressly stated in any other agreement between Amerisource and Client, if a conflict exists between the provisions of this Agreement and the provisions of such other agreement, the provisions of this Agreement shall control.

20. **Severability.** In the event any one or more of the provisions contained in this Agreement is held to be invalid, illegal or unenforceable in any respect, then such provision shall be ineffective only to the extent of such prohibition or invalidity, and the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

21. **Relationship of Parties.** The relationship of the Parties hereto shall be that of seller and purchaser of Accounts, and Amerisource shall not be a fiduciary of the Client, although Client may be a fiduciary of Amerisource. The Parties have, for the purposes of Chapter 306 of the Texas Finance Code, characterized the sale of accounts receivable pursuant to this Agreement as a purchase and sale transaction, and not a loan or other transaction for the use, forbearance or detention of money.

22. **Legal Fees.** Client agrees to reimburse Amerisource on demand for the actual amount of all costs and expenses, including attorneys' fees and other legal fees, which Amerisource has incurred or may incur in: (a) negotiating, preparing, or administering this Agreement and any documents prepared in connection herewith or in any way arising out of this Agreement; (b) protecting, preserving or enforcing any lien, security interest or other right granted by Client to Amerisource or arising under applicable law, whether or not suit is brought, including but not limited to the defense of any Avoidance Claims; (c) complying with any subpoena or other legal process attendant to any litigation in which Client is a party; including photocopying, travel, and attorneys' fees and expenses; (d) the actual amount of all costs and expenses, including attorneys' fees, which Amerisource may incur in enforcing this Agreement and any documents prepared in connection herewith, or in connection with any federal or state insolvency proceeding commenced by or against Client, including those (i) arising out of the automatic stay, (ii) seeking dismissal or conversion of the bankruptcy proceeding, or (iii) opposing confirmation of Client's plan thereunder.

23. **Entire Agreement.** This Agreement supersedes all other agreements and understandings between the Parties hereto, verbal or written, express or implied, relating to the subject matter hereof. No promises of any kind have been made by Amerisource or any third party to induce Client to execute this Agreement. No course of dealing, course of performance or trade usage, and no parole evidence of any nature, shall be used to supplement or modify any terms of this Agreement.

24. **Choice of Law.** This Agreement and all transactions contemplated hereunder and/or evidenced hereby shall be governed by, construed under, and enforced in accordance with the internal laws of the State of Texas.

25. **Jury Trial Waiver.** In recognition of the higher costs and delay which may result from a jury trial, the Parties hereto waive any right to trial by jury of any claim, demand, action or cause of action (a) arising hereunder, or (b) in any way connected with or related or incidental to the dealings of the Parties hereto or any of them with respect hereto, in each case whether now existing or hereafter arising, and whether sounding in contract or tort or otherwise; and each Party further waives any right to consolidate any such action in which a jury trial has been waived with any other action in which a jury trial cannot be or has not been waived; and each Party hereby agrees and consents that any such claim, demand, action or cause of action shall be decided by court trial without a jury, and that any Party hereto may file an original counterpart or a copy of this section with any court as written evidence of the consent of the Parties hereto to the waiver of their right to trial by jury.

26. **Venue; Jurisdiction.** The Parties agree that any suit, action or proceeding arising out of the subject matter hereof, or the interpretation, performance or breach of this Agreement, shall, if Amerisource so elects, be instituted in any court sitting in the State of Texas (the "Acceptable Forums"). Each party agrees that the Acceptable Forums are convenient to it, and each party irrevocably submits to the jurisdiction of the Acceptable Forums, irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement, and waives any and all objections to jurisdiction or venue that it may have under the laws of the State of Texas or otherwise in those courts in any such suit, action or proceeding. Should such proceeding be initiated in any other forum, Client waives any right to oppose any motion or application made by Amerisource as a consequence of such proceeding having been commenced in a forum other than an Acceptable Forum.

27. **Notice.** All notices to Amerisource hereunder shall be deemed given upon actual receipt by a responsible officer of Amerisource.

28. **Counterparts.** This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were upon the same instrument. Delivery of an executed counterpart of the signature page to this Agreement by facsimile, email or other electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement, and any Party delivering such an executed counterpart of the signature page to this Agreement by facsimile to any other Party shall thereafter also promptly deliver a manually executed counterpart of this Agreement to such other Party, provided that the failure to deliver such manually executed counterpart shall not affect the validity, enforceability, or binding effect of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the day and year first above written.

CLIENT: AMERISOURCE:

Jones Soda Co. (USA) Inc.

Amerisource Funding, Inc.

X _____

Name: _____

Title: Member _____

X _____

Name: _____

Title: Managing Director _____

EXHIBIT A
Jones Soda Co., Inc.
Borrowing Base Report

ACCOUNTS RECEIVABLE

1)		Total A/R Ledger Balance	-
2)		Plus: Addback All Credits	-
3)		Total Invoice Balance A/R Outstanding	-
4)		Less: Over 90 Invoice Balance	-
5)		Less: Dilutive Credits	-
6)		Total A/R Outstanding < 90 Days	-
7)		Ineligible A/R:	
8)		Less: Miscellaneous Ineligibles	-
9)		Less: Cross-Age Exclusions	-
10)		Less: Specific Account Debtor OCLs	-
11)		Less: Concentration Cap Exclusions	-
12)		Total Eligible A/R	-
13)		A/R Availability at 80% Advance Rate	-

TOTAL AVAILABILITY

14)	Total Availability (Line 13)	-	
15)	Reserves and Loan Balance	-	
16)		Less: Amounts Currently	
17)	Final Availability	Outstanding	-

**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: August 14, 2024

/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: August 14, 2024

/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 June 30, 2024 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: August 14, 2024

/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 June 30, 2024 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: August 14, 2024

/s/ Joe Culp

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