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, 2024 included in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission ("SEC") on April 1, 2025.

This Report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "believe," "expect," "intend," "anticipate," "estimate," "may," "will," "can," "plan," "predict," "could," "future," "continue," variations of such words, and similar expressions. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined at the beginning of this Report under "Cautionary Notice Regarding Forward-Looking Statements" and in Item 1A of our most recent Annual Report on Form 10-K filed with the SEC, and in our other reports we file with the SEC, including our periodic reports on Form 10-Q and current reports on Form 8-K. These factors may cause our actual results to differ materially from any forward-looking statements. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

We develop, produce, market and distribute premium beverages that we sell and distribute primarily in the United States and Canada through our network of independent distributors and directly to our national and regional retail accounts. We also sell products in select international markets. Our products are sold in grocery stores, convenience and gas stores, on fountain in restaurants, "up and down the street" in independent accounts such as delicatessens, sandwich shops and burger restaurants, as well as through our national accounts with several large retailers. We refer to our network of independent distributors as our direct store delivery ("DSD") channel, and we refer to our national and regional accounts who receive shipments directly from us as our direct to retail ("DTR") channel. We do not directly manufacture our products but instead outsource the manufacturing process to third-party contract manufacturers. We also sell various products online, including soda with customized labels, wearables, candy and other items, and we license our trademarks for use on products sold by other manufacturers.

Our company is a Washington corporation formed in 2000 as a successor to Urban Juice and Soda Company Ltd., a Canadian company formed in 1986. Our principal place of business is located at 1522 Western Ave, STE 24150, Seattle, WA 98101. Our telephone number is (206) 624-3357.

Products

Our strategy is to evolve from a craft soda company (Jones Soda) to a diverse beverage company covering additional growing market segments including modern soda (Pop Jones and Fiesta Jones) and the alternative adult beverages. Our product line-up currently consists of the following:

Jones Soda

Jones Soda is our premium carbonated soft drink. We sell Jones Soda in premium glass bottles and cans, with labels featuring photos sent to us by our consumers. Over one million photos have been submitted to us. We believe this unique interaction with our consumers distinguishes our brand and offers a strong competitive advantage for Jones Soda. Additionally, we release various label campaigns that celebrate our consumers and the positive impact such consumers have on the world. Our products are made from high quality ingredients, including cane sugar and natural colors and flavors when possible. We also sell Jones Soda in more traditional flavors such as Cream Soda, Cola, Root Beer and Orange & Cream.

Pop Jones and Fiesta Jones (Modern Soda market segment)

We continue to see a growing market in our health focused soda brands, which we consider to be the "modern soda" market. We believe that Rrecent growth by industry competitors such as Poppi and Olipop have proven out thedemonstrates that there is growing consumer demand for this market segment. In 2024, Jones launched its Pop Jones and Fiesta Jones product lines, which were intended to capitalize on this growing market opportunity.

Mary Jones (Hemp Derived Products) & Spiked Jones (Alternative Adult market segment)

Jones started offering its hemp-derived Delta-9 THC products in 2024 through the Mary Jones brand, including with a line of four flavors of Mary Jones hemp-derived sodas. Since that time, Mary Jones has expanded its portfolio to include four flavors of 10mg Mary Jones shooters, four flavors of Mary Jones gummies, and a line of Mary Jones zero sugar sodas (which we launched in September 2025). Although we believe there is currently a growing market for these products as consumers continue to migrate away from traditional beer and wine products, on November 12, 2025, the federal spending legislation passed to reopen the U.S. federal government contained a provision, which when implemented, would materially alter the federal treatment of hemp-derived products by prohibiting the unregulated sale of intoxicating hemp-based or hemp-derived products (including HD9 products), while also caping legal hemp products at 0.4 milligrams of total THC (and similar-effect cannabinoids) per product. Although, the Company believes that when implemented, this legislation would likely require the Company to significantly reformulate or discontinue the Company's current hemp-derived HD9 product lines., since this legislation does not become effective until November 2026, the Company does not expect it to have a material effect on the Company's HD9 product sales in the fourth quarter of 2025.

Additionally, we launched in the third quarter of 2025 our line of hard craft sodas "spiked" with alcohol under the brand name "Spiked Jones".

Fountain (food services market segment)

Drawing inspiration from our traditional bottles, our fountain equipment and cups are branded with an engaging collage of consumer-submitted photos that are inspired by the business themes of our retail partners and the regions in which they are located. Our fountain offerings include traditional flavors such as Cane Sugar Cola, Sugar Free Cola, as well as cane sugar sweetened Ginger Ale, Orange & Cream, Root Beer and Lemon Lime. Rounding out the lineup are two of our most popular cane sugar flavors, Berry Lemonade and Green Apple. We have developed other products in select markets that include teas, lemonade, vitamin enhanced waters, hydration beverages, as well as naturally flavored sparkling waters.

We continue to see growing interest from larger quick service restaurants, corporate accounts, retailers, celebrity chefs and a variety of other outlets looking for differentiated offerings in their fountain soda. We feel that Jones on fountain enhances the consumer experience, while appealing to a broad demographic. We believe our national brand awareness and customer-centric approach make us unique compared to other craft soda competitors within this category.

Our Focus: Sales Growth

Our focus is sales growth through execution of the following key initiatives:

- Expand the Jones Soda glass bottle business in existing and new sales channels;
- Expand our business in the modern soda category through our Pop Jones and Fiesta Jones brands;
- Expand our fountain program in the United States and Canada; and,
- Grow our Spiked Jones alcohol infused brand throughout the US.

Results of Operations

The following selected financial and operating data are derived from our condensed consolidated financial statements and should be read in conjunction with our condensed consolidated financial statements.

Three months ended September 30, 2025 and 2024

	2025 (Dollars in thousands)	2024 (Dollars in thousands)	% Change
Revenue	$ 4,500	$ 3,915	14.9%
Cost of Goods Sold	(3,201)	(3,180)	0.7%
Gross Profit	1,299	735	76.7%
% of Revenue	28.9%	18.8%	

Three months ended September 30, 2025 Compared to Three months ended September 30, 2024

Revenue

For the quarter ending September 30, 2025, revenue increased by approximately $0.6 million, or 14.9%, to approximately $4.5 million compared to approximately $3.9 million for the quarter ending September 30, 2024. The increase in revenue was driven by higher sales in its HD9 products ($0.2 Million) , direct to consumer products ($0.2 million), fountain products ($0.1 million), Spiked Jones products ($0.1 million) and lower tradespend ($0.5 million), which was partially offset by loss in core soda sales ($0.5 million). Core soda sales were front end loaded in 2024 with one customer taking a large pipeline fill order in the second quarter of 2024 which did not repeat in 2025. Management expects to see growth in the fourth quarter driven by Core Soda and direct to consumer (DTC), as well as growth in club, food service and convenience store channels.

Gross Profit

For the quarter ending September 30, 2025, gross profit increased by approximately $0.6 million, or, or 76.7%, to approximately $1.3 million compared to approximately $0.7 million for the quarter ending September 30, 2024 mostly driven by lower trade spend, lower product costs for the Company's products as well as lower freight and warehousing charges. For the quarter ending September 30, 2025, gross margin increased significantly to 28.9% from 18.8% in the quarter ending September 30, 2024. The Company continues to look for opportunities to decrease the cost of goods sold with its co-manufacturers and our warehouse and freight providers.

Selling and Marketing Expenses

Selling and marketing expenses for the third quarter ending September 30, 2025 were approximately $1 million, a decrease of approximately $0.5 million, or 33%, from approximately $1.5 million for the third quarter ending September 30, 2024. This decrease was primarily a result of decreased online marketing spend and tradeshows and sponsorships for both the Jones Soda and Mary Jones brands in the third quarter of 2025 compared to the same quarter of 2024. Selling and marketing expenses as a percentage of revenue decreased to 22.5% in the third quarter ending September 30, 2025 from 38.6% in the same period in 2024. We intend to continue to look for clear return on investment from our selling and marketing expenses to drive profitable sales. For the three months ending September 30, 2025, and 2024, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $45,000 and $37,000, respectively.

General and Administrative Expenses

General and administrative expenses for the third quarter ending September 30, 2025 were approximately $1.7 million compared to $1.8 million in the third quarter ending September 30, 2024 or a reduction of $0.1 million. General and administrative expenses as a percentage of revenue decreased to 38% in the third quarter ending September 30, 2025 from 46% in the same quarter in 2024 or an approximately eight percentage points decrease. We intend to continue to look for additional opportunities to reduce our G&A costs beyond the cost reductions achieved in 2025. For the three months ending September 30, 2025, and 2024, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $425,000 and $345,000, respectively.

Income Tax Expense

We incurred approximately $2,000 and $5,000 of income tax expense during the quarter ended September 30, 2025 and 2024, respectively. 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 income (loss)

Net Loss for the quarter ended September 30, 2025 was approximately $1.4 million compared to net loss of approximately $2.6 million for the quarter ended September 30, 2024, an improvement of $1.2 million. This decrease in net loss was primarily due to the increase in gross profit and the decreases in selling and marketing expenses and general and administrative expenses in the third quarter of 2025 compared to the third quarter of 2024.

Nine months ending September 30, 2025 and 2024

	2025 (Dollars in thousands)	2024 (Dollars in thousands)	% Change
Revenue	$ 13,624	$ 15,155	(10.1)%
Cost of Goods Sold	(9,302)	(10,543)	(11.8)%
Gross Profit	4,322	4,612	(6.3)%
% of Revenue	31.7%	30.4%	

Nine months ending September 30, 2025 Compared to Nine months ending September 30, 2024

Revenue

For the nine months ending September 30, 2025, revenue decreased by approximately $1.5 million, or 10.1%, to approximately $13.6 million compared to approximately $15.1 million for the nine months ending September 30, 2024. The decrease in sales revenue was driven by lower sales in its core soda business ($3.7 million decrease year over year) and direct to consumer business ($0.1 million), which was partially offset by HD9 products ($0.7 million increase year over year) and lower tradespend ($1.5 million). HD9 grew $0.7 million over the nine months from $1.7 million in the prior year to $2.5 million or 30% growth for the nine months ending September 30, 2025 . Core soda sales were front end loaded in 2024 with one customer taking a large pipeline fill order in the second quarter of 2024 which did not repeat in 2025.

Gross Profit

For the nine months ending September 30, 2025, gross profit decreased by approximately $0.3 million, or 6.3%, to approximately $4.3 million compared to approximately $4.6 million for the nine months ending September 30, 2024 because of lower revenue, being partially offset by lower cost of goods sold. For the nine months ending September 30, 2025, gross margin increased to 31.7% from 30.4% in the comparable period driven by lower product costs for Jones products as well as lower freight and warehousing charges. The Company continues to The Company continues to focus on reducing product costs by negotiating lower co-manufacturing fees along with lower raw material and packaging costs.

Selling and Marketing Expenses

Selling and marketing expenses for the nine months ending September 30, 2025, were approximately $3.2 million, a decrease of approximately $1.4 million, or 30%, from approximately $4.6 million in the comparable period. This decrease was primarily a result of decreased online marketing spend and tradeshows and sponsorships for both the Jones Soda and Mary Jones brands in the nine months ending September 30, 2025, compared to the same period in 2024. Selling and marketing expenses as a percentage of revenue decreased to 23.5% in the nine months ending September 30, 2025, from 30.4% in the same period in 2024. We intend to continue to look for clear return on investment from our selling and marketing expenses to drive profitable sales. For the nine months ending September 30, 2025, and 2024, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $127,000 and $101,000, respectively.

General and Administrative Expenses

General and administrative expenses for the nine months ending September 30, 2025, were approximately $4.2 million compared to $5.6 million in the first nine months ending September 30, 2024, or a reduction of $1.4 million (25% reduction). General and administrative expenses as a percentage of revenue decreased to 30.9% in the mine months ending September 30, 2025, from 37% in the same period in 2024 or an approximately 6 percentage points decrease. We continue to look for additional opportunities to reduce our G&A costs beyond the cost reductions achieved in the nine months ending September 30, 2025. For the nine months ending September 30, 2025, and 2024, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $660,000 and $927,000, respectively.

Income Tax Expense

We incurred approximately $9,000 and $26,000 of income tax expense during the nine months ending September 30, 2025, and 2024, respectively. 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 Income (loss)

Net Income for the nine months ending September 30, 2025, was approximately $0.3 million compared to net loss of approximately $5.4 million for nine months ending September 30, 2024, or an improvement of $5.7 million. The improvement in income was primarily due to the decreases in selling and marketing expenses and general and administrative expenses in the nine months of 2025 compared to the nine months of 2024 and gain on sale of the Cannabis business which was partially offset by reduced sales revenues and gross profit.

Seasonality and other fluctuations

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

Liquidity and Capital Resources

As of September 30, 2025, and December 31, 2024, the Company had cash of approximately $0.2 million and $1.3 million, respectively, and working capital of approximately $0.6 million and $2.0 million, respectively. Net cash used in operating activities for the nine months ended September 30, 2025 and 2024, was approximately $4.0 million and $4.8 million, respectively. The Company reported a net income of approximately $0.3 million for the nine months ended September 30, 2025, compared to a net loss of approximately $5.3 million for the nine months ended September 30, 2024. As of September 30, 2025, the Company's accumulated deficit decreased to approximately $92.6 million, compared to approximately $92.9 million as of December 31, 2024.

For the nine months ended September 30, 2025, net cash provided by investing activities was approximately $1 million. This amount was primarily attributable to cash proceeds of $1 million received in connection with the disposition of the Company's Cannabis business.

For the nine months ended September 30, 2025, net cash provided by financing activities was approximately $1.3 million. This amount was primarily attributable to net proceeds of $1.3 million from a new credit facility and repayments of approximately $0.2 million under the Company's insurance financing agreement. In addition, the Company issued a $0.5 million promissory note to its Chairman of the Board, of which $0.3 million was repaid during the period.

We have experienced recurring losses from operations and negative cash flows from operating activities. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. To address this issue, in the first quarter of fiscal year 2025, the Company changed its senior leadership and is focusing on reducing its operating expenses while bringing products to market with higher margins and potentially higher customer demand. Additionally, on February 5, 2025, the Company, through a wholly-owned subsidiary (the "Subsidiary"), entered into loan agreement (the "Loan Agreement") with Two Shores Capital Corp, pursuant to which the Subsidiary may borrow a maximum aggregate amount of up to $5 million, subject to satisfaction of certain conditions. All advances drawn under the Loan Agreement will bear interest at a rate of 13.75% per annum and all present and future obligations of the Subsidiary arising under the Loan Agreement 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. The Loan Agreement replaces the $2 million revolving credit facility entered into by the Company in March 2024 (the "2024 Credit Facility"). The borrowing base under the Loan Agreement expands the assets that can be financed against from only accounts receivable under the 2024 Credit Facility to accounts receivable, inventory and customer purchase orders.

Based on management's current operating plan, the Company believes its cash on hand, projected cash generated from product sales and funds received from under the Loan Agreement 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. There is no assurance that management's current operating plan will be successful.