

REFINITIV

DELTA REPORT

10-Q

BTTR - BETTER CHOICE CO INC.

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 771

█	CHANGES	6
█	DELETIONS	762
█	ADDITIONS	3

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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: 001-40477

Better Choice Company Inc.

(Exact name of registrant as specified in its charter)

Delaware

83-4284557

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**12400 Race Track Road
Tampa, Florida 33626**

(212)896-1254

(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, \$0.001 par value share	BTTR	NYSE American

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) 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, a 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by a 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date was: 893,602 shares of \$0.001 par value common stock outstanding as of May 17, 2024.

Better Choice Company Inc.
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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "aim," "anticipate," "believe," "can," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "outlook," "plan," "potential," "project," "projection," "seek," "should," "will," "would," the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including, but not limited to, those summarized below:

- our ability to continue as a going concern;
- the impact of damage to or interruption of our information technology systems due to cyber-attacks or other circumstances beyond our control;
- business interruptions resulting from geopolitical actions, including war and terrorism;
- our ability to successfully implement our growth strategy;
- failure to achieve growth or manage anticipated growth;
- our ability to achieve or maintain profitability;
- the loss of key members of our senior management team;
- our ability to generate sufficient cash flow or raise capital on acceptable terms to run our operations, service our debt and make necessary capital expenditures;
- our dependence on our subsidiaries for payments, advances and transfers of funds due to our holding company status;
- our ability to successfully develop additional products and services or successfully market and commercialize such products and services;
- competition in our market;
- our ability to attract new and retain existing customers, suppliers, distributors or retail partners;
- allegations that our products cause injury or illness or fail to comply with government regulations;
- our ability to manage our supply chain effectively;
- our or our co-manufacturers' and suppliers' ability to comply with legal and regulatory requirements;

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- the effect of potential price increases and shortages on the inputs, commodities and ingredients that we require, whether as a result of the continued actual or perceived effects of broader geopolitical and macroeconomic conditions, including the military conflict between Russia and Ukraine;
- our ability to develop and maintain our brand and brand reputation;
- compliance with data privacy rules;
- our compliance with applicable regulations issued by the U.S. Food and Drug Administration (“FDA”), the U.S. Federal Trade Commission (“FTC”), the U.S. Department of Agriculture (“USDA”), and other federal, state and local regulatory authorities, including those regarding marketing pet food, products and supplements;
- risk of our products being recalled for a variety of reasons, including product defects, packaging safety and inadequate or inaccurate labeling disclosure;
- risk of shifting customer demand in relation to raw pet foods, premium kibble and canned pet food products, and failure to respond to such changes in customer taste quickly and effectively; and
- the other risks identified in this Quarterly Report including, without limitation, Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Part II, Item 1A “Risk Factors” as such factors may updated from time to time in our other public filings

NOTE REGARDING TRADEMARKS

We own or have rights to use the trademarks and trade names that we use in conjunction with the operation of our business. Each trademark or trade name of any other company appearing in this Quarterly Report on Form 10-Q is, to our knowledge, owned by such other company. Solely for convenience, our trademarks and trade names referred to in this Quarterly Report on Form 10-Q may appear without the ® or ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

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Better Choice Company Inc.
Unaudited Condensed Consolidated Statements of Operations
(Dollars in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2024	2023
Net sales	\$ 7,903	\$ 9,237
Cost of goods sold	5,289	5,996
Gross profit	2,614	3,241
Operating expenses:		
Selling, general and administrative	5,080	6,496
Total operating expenses	5,080	6,496
Loss from operations	(2,466)	(3,255)
Other expenses:		
Interest expense, net	(362)	(229)
Total other expense, net	(362)	(229)
Net loss before income taxes	(2,828)	(3,484)
Income tax expense	2	—
Net loss attributable to common stockholders	\$ (2,830)	\$ (3,484)
Weighted average number of shares outstanding, basic	786,745	692,615
Weighted average number of shares outstanding, diluted	786,745	692,615
Net loss per share attributable to common stockholders, basic	\$ (3.60)	\$ (5.03)
Net loss per share attributable to common stockholders, diluted	\$ (3.60)	\$ (5.03)

See accompanying notes to the unaudited condensed consolidated financial statements.

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Better Choice Company Inc.
Unaudited Condensed Consolidated Balance Sheets
(Dollars in thousands, except share and per share amounts)

	March 31, 2024	December 31, 2023
Assets		
Cash and cash equivalents	\$ 3,876	\$ 4,455
Accounts receivable, net	4,340	4,354
Inventories, net	5,201	6,611
Prepaid expenses and other current assets	1,169	812
Total Current Assets	14,586	16,232
Fixed assets, net	198	230
Right-of-use assets, operating leases	106	120
Goodwill	405	—
Other assets	149	155
Total Assets	\$ 15,444	\$ 16,737
Liabilities & Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 7,478	\$ 6,928
Accrued and other liabilities	1,505	2,085
Line of credit	2,171	1,741
Term loan, net	3,054	2,881
Operating lease liability	58	57
Total Current Liabilities	14,266	13,692
Non-current Liabilities		
Operating lease liability	52	67
Total Non-current Liabilities	52	67
Total Liabilities	14,318	13,759
Stockholders' Equity		
Common Stock, \$0.001 par value, 200,000,000 shares authorized, 823,650 & 729,026 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	34	32
Additional paid-in capital	325,264	324,288
Accumulated deficit	(324,172)	(321,342)
Total Stockholders' Equity	1,126	2,978
Total Liabilities and Stockholders' Equity	\$ 15,444	\$ 16,737

See accompanying notes to the unaudited condensed consolidated financial statements.

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Better Choice Company Inc.
Unaudited Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(Dollars in thousands, except shares)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2023	729,026	\$ 32	\$ 324,288	\$ (321,342)	\$ 2,978
Share-based compensation	42,088	—	518	—	518
Share issuance	6,818	2	58	—	60
Equity issued in business combinations	45,629	—	400	—	400
Shares issued in lieu of fractional shares	89	—	—	—	—
Net loss attributable to common stockholders	—	—	—	(2,830)	(2,830)
Balance as of March 31, 2024	823,650	\$ 34	\$ 325,264	\$ (324,172)	\$ 1,126
	Common Stock		Additional Paid-In	Accumulated	Total Stockholders' Equity
	Shares	Amount	Capital	Deficit	Equity
Balance as of December 31, 2022	668,870	\$ 29	\$ 320,071	\$ (298,572)	\$ 21,528
Share-based compensation	24,247	—	861	—	861
Share issuance	—	1	(1)	—	—
Net loss attributable to common stockholders	—	—	—	(3,484)	(3,484)
Balance as of March 31, 2023	693,117	\$ 30	\$ 320,931	\$ (302,056)	\$ 18,905

See accompanying notes to the unaudited condensed consolidated financial statements.

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Better Choice Company Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2024	2023
Cash Flow from Operating Activities:		
Net loss attributable to common stockholders	\$ (2,830)	\$ (3,484)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	35	424
Amortization of debt issuance costs	20	19
Share-based compensation expense	518	861
Accreted interest expense on term loan	153	—
Inventory reserve	(123)	(682)
Loss on disposal of assets	—	11
PIK interest expense on term loan	125	—
Other	49	—
Changes in operating assets and liabilities:		
Accounts receivable	24	427
Inventories	1,533	2,056
Prepaid expenses and other assets	(355)	(230)
Accounts payable	550	196
Accrued and other liabilities	(705)	(1,071)
Cash Used in Operating Activities	\$ (1,006)	\$ (1,473)
Cash Flow from Investing Activities:		
Capital expenditures	\$ (3)	\$ (10)
Cash Used in Investing Activities	\$ (3)	\$ (10)
Cash Flow from Financing Activities:		
Proceeds from Wintrust Facility	3,010	—
Payments on Wintrust Facility	(2,580)	—
Payments on short-term financing arrangement	—	(41)
Cash Provided by (Used in) Financing Activities	\$ 430	\$ (41)
Net decrease in cash and cash equivalents and restricted cash	\$ (579)	\$ (1,524)
Total cash and cash equivalents and restricted cash, beginning of period	4,455	9,473
Total cash and cash equivalents and restricted cash, end of period	\$ 3,876	\$ 7,949
Supplemental cash flow information		
Cash paid during the quarter for:		
Interest	\$ 64	\$ 237
Non-cash investing activities:		
Aimia acquisition	\$ 400	\$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Nature of business and summary of significant accounting policies

Nature of the business

Better Choice Company Inc. (the “Company”) is a pet health and wellness company focused on providing pet products and services that help dogs and cats live healthier, happier and longer lives. The Company has a broad portfolio of pet health and wellness products for dogs and cats sold under its Halo brand across multiple forms, including foods, treats, toppers, dental products, chews and supplements. The products consist of kibble and canned dog and cat food, freeze-dried raw dog food and treats, vegan dog food and treats, oral care products and supplements.

Reverse stock split

On March 8, 2024, the Company’s Board of Directors approved a reverse stock split of the Company’s issued and outstanding shares of common stock at a ratio of 1-for-44, effective March 20, 2024 (the “Reverse Split”). In addition, the conversion rates of the Company’s outstanding preferred stock and convertible notes and the exercise prices of the Company’s underlying common stock purchase warrants and stock options were proportionately adjusted at the applicable reverse stock split ratio in accordance with the terms of such instruments. Proportionate voting rights and other rights of common stockholders were not affected by the Reverse Stock Split, other than as a result of the rounding up of fractional shares. In connection with the Reverse Stock Split, 89 shares of common stock were issued in lieu of fractional shares.

Accordingly, all share and per share amounts related to the Company’s common stock for all periods presented in the accompanying consolidated financial statements and notes thereto have been retroactively adjusted, where applicable, to reflect the Reverse Stock Split. The number of authorized shares and the par values of the common stock and convertible preferred stock were not adjusted as a result of the Reverse Stock Split.

Basis of presentation

The Company’s condensed consolidated financial statements are prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim financial reports and accounting principles generally accepted in the U.S. (“GAAP”). Accordingly, the Condensed Consolidated Balance Sheet as of December 31, 2023 has been derived from the audited consolidated financial statements at that date but does not include all of the information required by GAAP for complete financial statements. Results of operations for interim periods may not be representative of results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes in the Company’s Annual Report for the year ended December 31, 2023, filed with the SEC.

Consolidation

The condensed financial statements are presented on a consolidated basis and include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of estimates

The preparation of the condensed financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. On an ongoing basis, the Company evaluates these assumptions, judgments and estimates. Actual results may differ from these estimates.

In the opinion of management, the condensed consolidated financial statements contain all adjustments necessary for a fair statement of the results of operations for the three months ended March 31, 2024 and 2023, the financial position as of March 31, 2024 and December 31, 2023 and the cash flows for the three months ended March 31, 2024 and 2023.

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Going concern considerations

The Company is subject to risks common in the pet wellness consumer market including, but not limited to, dependence on key personnel, competitive forces, successful marketing and sale of its products, the successful protection of its proprietary technologies, ability to grow into new markets, and compliance with government regulations. The Company has continually incurred losses and has an accumulated deficit. The Company's term loan agreement with Alpha imposes certain financial covenants, including minimum liquidity of \$3.0 million, minimum EBITDA of \$(4.5) million, and maximum marketing spend ratio of 30%. The Company was not in compliance with certain covenants related to the Alpha Term Loan Facility as of March 31, 2024 and the debt is callable by the lender. Our continued operating losses along with our failure to meet the financial covenants create substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the date these consolidated financial statements are issued. The Company does not currently expect it will be able to generate sufficient cash flow from operations to maintain sufficient liquidity to meet the required financial covenants in certain periods prior to maturity giving the lender the right to call the debt. The Company will need to either raise additional capital or obtain additional financing, and/or secure future waivers or amendments from its lenders or accomplish some combination of these items to maintain sufficient liquidity. There can be no assurance that the Company will be successful in raising additional capital, securing future waivers and/or amendments from its lenders, renewing or refinancing its existing debt or securing new financing. If the Company is unsuccessful in doing so, it may need to reduce the scope of its operations, repay amounts owed to its lenders or sell certain assets. The Company is continuing to implement plans to achieve operating profitability, as well as implementing other strategic objectives to address liquidity. The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and payments of liabilities in the ordinary course of business. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of and classification of liabilities that may result should the Company be unable to continue as a going concern.

Summary of significant accounting policies

For additional information, please refer to the most recently filed Annual Report regarding the Company's summary of significant accounting policies.

Cash and cash equivalents

Cash and cash equivalents include demand deposits held with banks and highly liquid investments with original maturities of ninety days or less at acquisition date. Cash and cash equivalents are stated at cost, which approximates fair value because of the short-term nature of these instruments.

Advertising

The Company charges advertising costs to expense as incurred and such charges are included in SG&A expense. The Company's advertising expenses consist primarily of online advertising, search costs, email advertising and radio advertising. In addition, the Company reimburses its customers and third parties for in store activities and record these costs as advertising expenses. Advertising costs were \$1.1 million and \$1.4 million for the three months ended March 31, 2024 and 2023, respectively.

Reclassification

Certain prior period amounts within the condensed consolidated statements of operations related to share-based compensation, previously presented as a separate line item, have been reclassified into selling, general and administrative expense to conform with current period presentation. All share-based compensation in the current and prior periods is a selling, general and administrative expense.

New Accounting Standards

Recently adopted

There were no new standards that would have an impact on the condensed consolidated financial statements for the three months ended March 31, 2024.

Note 2 – Revenue

The Company records revenue net of discounts, which primarily consist of trade promotions, certain customer allowances and early pay discounts.

The Company excludes sales taxes collected from revenues. Retail-partner based customers are not subject to sales tax.

The Company's direct-to-consumer ("DTC") loyalty program enables customers to accumulate points based on their spending. A portion of revenue is deferred at the time of sale when points are earned and recognized when the loyalty points are redeemed.

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Revenue channels

The Company groups its revenue channels into four categories: E-commerce, which includes the sale of product to online retailers such as Amazon and Chewy; Brick & Mortar, which primarily includes the sale of product to Pet Specialty retailers, and neighborhood pet stores, as well as to select grocery chains; DTC, which includes the sale of product through the Company's website; and International, which includes the sale of product to foreign distribution partners and to select international retailers (transacted in U.S. dollars).

Information about the Company's net sales by revenue channel is as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
E-commerce ⁽¹⁾	\$ 3,265	41 %
International ⁽²⁾	2,874	37 %
DTC	1,209	15 %
Brick & mortar ⁽³⁾	555	7 %
Net Sales	<u>\$ 7,903</u>	<u>100 %</u>
	<u>\$ 9,237</u>	<u>100 %</u>

- (1) The Company's E-commerce channel includes two customers that amounted to greater than 10% of the Company's total net sales for the three months ended March 31, 2024, and 2023, respectively. These customers had \$3.2 million and \$3.8 million of net sales during the three months ended March 31, 2024 and March 31, 2023, respectively.
- (2) One of the Company's International customers that distributes products in China amounted to greater than 10% of the Company's total net sales during the three months ended March 31, 2024 and March 31, 2023, representing \$2.2 million and \$2.1 million of net sales, respectively.
- (3) None of the Company's Brick & Mortar customers represented greater than 10% of net sales during the three months ended March 31, 2024 or March 31, 2023. For the three months ended March 31, 2023, Petco is included within the Brick & Mortar channel. In Q1 2024, Petco is presented within E-commerce as a result of the strategic exit out of Petco stores, while remaining on Petco.com.

Note 3 - Inventories

Inventories are summarized as follows (in thousands):

	March 31,		December 31,	
	2024	2023	2024	2023
Food, treats and supplements	\$ 5,056	\$ 6,296		
Inventory packaging and supplies	1,113	1,166		
Total Inventories	6,169	7,462		
Inventory reserve	(968)	(851)		
Inventories, net	<u>\$ 5,201</u>	<u>\$ 6,611</u>		

Note 4 – Prepaid expenses and other current assets

Prepaid expenses and other current assets are summarized as follows (in thousands):

	March 31,		December 31,	
	2024	2023	2024	2023
Prepaid marketing expenses	\$ 451	\$ 451		
Other prepaid expenses and other current assets	718	361		
Total Prepaid expenses and other current assets	<u>\$ 1,169</u>	<u>\$ 812</u>		

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Note 5 - Fixed assets

Fixed assets consist of the following (in thousands):

	Estimated Useful Life	March 31, 2024	December 31, 2023
Equipment	2 - 5 years	\$ 18	\$ 18
Furniture and fixtures	2 - 5 years	221	221
Computer software, including website development	2 - 3 years	187	187
Computer equipment	1 - 2 years	111	108
Total fixed assets		537	534
Accumulated depreciation		(339)	(304)
Fixed assets, net		\$ 198	\$ 230

Depreciation expense was \$0.04million for the three months ended March 31, 2024 and March 31, 2023.

Note 6 – Intangible assets

Intangible assets

The Company's intangible assets include the trade name and customer relationships. As of December 31, 2023, impairment indicators were present which required a recoverability test to be performed. As a result of the recoverability test, the carrying value of the asset group exceeded its fair value and the Company recorded an impairment charge of \$8.5 million for the year ended December 31, 2023, which resulted in a full impairment to the carrying value of the trade name and customer relationships. This noncash charge was recorded to intangible asset impairment expenses on the consolidated statements of operations. The Company did not record any impairment loss on long-lived assets for the three months ended March 31, 2024.

The assumptions used in estimating the undiscounted future cash flows are based on currently available data and management's best estimates of future income statement and working capital elements. A change in market conditions or other factors could have a material effect on the estimated values. Fair value was determined based on discounted cash flows requiring judgement. These factors include, among others, the assumptions related to discount rates, forecasted operating results, long-term growth rates, the determination of comparable companies and market multiples. The measurements used in the impairment review of finite-lived intangible assets are Level 3 measurements. There are inherent uncertainties related to the assumptions used and to management's application of these assumptions.

The Company's intangible assets (in thousands) and related useful lives (in years) are as follows:

		December 31, 2023			
	Estimated useful life	Gross carrying amount	Accumulated amortization	Impairment loss	Net carrying amount
Customer relationships	7	\$ 7,190	\$ (4,142)	\$ (3,048)	\$ —
Trade name	15	7,500	(2,016)	(5,484)	—
Total intangible assets		\$ 14,690	\$ (6,158)	\$ (8,532)	\$ —

Amortization expense was \$0.4 million for the for the three months ended March 31, 2023. The Company did not record amortization expense for the three months ended March 31, 2024.

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Note 7 – Accrued and other liabilities

Accrued and other liabilities consist of the following (in thousands):

	March 31, 2024	December 31, 2023
Accrued taxes	\$ 94	\$ 105
Accrued payroll and benefits	479	487
Accrued trade promotions and advertising	203	90
Accrued interest	379	254
Accrued commissions	—	686
Deferred revenue	15	7
Short-term financing	40	162
Other	295	294
Total accrued and other liabilities	<u>\$ 1,505</u>	<u>\$ 2,085</u>

Note 8 – Debt

The components of the Company's debt consist of the following (in thousands):

	March 31, 2024			December 31, 2023		
	Amount	Rate	Maturity date	Amount	Rate	Maturity date
Term loan, net	\$ 3,054	(1)	6/21/2026	\$ 2,881	(1)	6/21/2026
Line of credit, net	<u>\$ 2,171</u>	<u>(2)</u>	6/21/2025	<u>\$ 1,741</u>	<u>(2)</u>	6/21/2025
Total debt	5,225			4,622		
Less current portion	<u>5,225</u>			<u>4,622</u>		
Total long-term debt	<u>\$ —</u>			<u>\$ —</u>		

(1) Interest at a fixed rate of 10.00% per annum.

(2) Interest at a variable rate of the daily U.S. Federal Funds Rate plus 250 basis points with an interest rate floor of 5.50% per annum.

Wintrust Receivables Credit Facility

On June 21, 2023, the Company entered into an account purchase agreement with Wintrust Receivables Finance (AP Agreement), a division of Wintrust Bank N.A. ("Wintrust") pursuant to which Wintrust will purchase, at its discretion, eligible customer invoices and advance up to 75% of the face amount of all purchased invoices. The maximum outstanding balance can be \$4.8 million. Each advance under the Advance Purchase Agreement will bear a variable interest rate at the prime rate plus 2.5% percentage per annum. The interest rate at March 31, 2024 was 11.0% per annum. The AP Agreement has an initial term of two years and will automatically renew annually unless terminated by the Company on at least 60 days' notice. The Wintrust Receivables Credit Facility is guaranteed and secured by a general security interest in the assets of the Company. The Company continues to service the receivables, the transfers are at full recourse and the eligible customer invoices are not legally isolated from the Company. As such, the Wintrust Receivables Credit Facility was accounted for as a secured borrowing under ASC 860.

The Wintrust Receivables Credit Facility limits or restricts the ability of the Company to incur additional indebtedness; incur additional liens; make dividends and other restricted payments; make investments; sell, assign, transfer or dispose of certain assets; make optional prepayments of other indebtedness; engage in transactions with affiliates; and enter into restrictive agreements. The Wintrust Receivables Credit Facility does not include any financial covenants and if an event of default occurs, Wintrust is entitled to accelerate the advances made thereunder and exercise rights against the collateral.

Borrowing under the Wintrust Receivables Credit Facility are classified as current debt as a result of a required lockbox arrangement and a subjective acceleration clause. During the three months ended March 31, 2024, the Company sold receivables having an aggregate face value of \$4.0 million in exchange for cash proceeds of \$3.0 million. As of March 31, 2024, the balance outstanding on the Wintrust Receivables Credit Facility amounted to \$2.2 million.

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Alpha Term Loan Facility

On June 21, 2023, the Company entered into a term loan credit agreement (the “Term Loan Agreement”) with Alpha Inc. (“Alpha”), a custom manufacturer of super-premium pet food in the U.S. Pursuant to the Term Loan Agreement, Alpha made a term loan to the Company in the original principal amount of \$5.0 million (the “Term Loan”). In conjunction with the Term Loan Agreement, the Company issued warrants to Alpha (see Note 12 – Warrants for further discussion). The proceeds of the Term Loan, together with a portion of the Company’s cash on hand, were used to retire all of the outstanding obligations of Halo, Purely for Pets, Inc. (“Halo”), a wholly-owned subsidiary of the Company, under Halo’s long-term credit facility with Old Plank Trail Community Bank, N.A., an affiliate of Wintrust Bank, N.A described above.

The Term Loan bears an interest rate of 10% per annum, compounded quarterly, and will mature on June 21, 2026. Accrued interest on the Term Loan is payable quarterly in cash or, at the election of the Company, in-kind by capitalizing such interest and adding it to the then-outstanding principal amount of the Term Loan. The Term Loan Agreement and Term Note provide for customary financial covenants and customary events of default, including, among others, those relating to failure to make payment, bankruptcy, breaches of representations and material adverse effects. The Company was in compliance with these covenants as of March 31, 2024. The Company may prepay the principal of the Term Loan at any time upon written notice to Alpha and subject to a prepayment penalty if such prepayment occurs prior to June 21, 2025.

The Term Loan is secured by a general security interest on the assets, including the intellectual property, of the Company and Halo pursuant to (i) that certain Term Loan Security Agreement, dated June 21, 2023, made by the Company and Halo in favor of Alpha (the “Security Agreement”) and (ii) that certain Intellectual Property Security Agreement, dated as of June 21, 2023 of the Company and Halo in favor of Alpha (the “Intellectual Property Security Agreement”). The Company has also pledged all of the capital stock of Halo held by the Company as additional collateral for the Term Loan.

The term Loan is guaranteed by Halo pursuant to that certain Term Loan Guaranty, dated as of June 21, 2023, by and between Halo and Alpha (the “Term Loan Guaranty”).

As of March 31, 2024, the Company’s indebtedness on the Alpha Term Loan Facility is \$5.0 million and \$0.4 million of payable-in-kind (“PIK”) interest. As discussed below, the total value of the consideration received in connection with the Term Loan Agreement was first allocated to the Warrants (as defined in Note 12) at fair value, with the remainder allocated to debt. Accordingly, the Company recorded a debt discount of \$2.2 million on the Alpha Term Loan Agreement (see Note 12 for further discussion). Furthermore, the Company incurred debt issuance costs of \$0.2 million. The discount and debt issuance costs associated with the Term Loan Agreement are amortized using the effective interest method.

Future Debt Maturities

Future debt maturities as of March 31, 2024 and for succeeding years are as follows (in thousands):

Year ending December 31:

2024	\$	5,379
2025		—
2026		—
Total	\$	5,379

Note 9 - Business combinations

During the three months ended March 31, 2024, the Company completed the acquisition of Aimia Pet Healthco, Inc. (“Aimia”), effective February 9, 2024, to develop treats and toppers that safely combat pet obesity.

The Company completed a business combination for a purchase price of \$0.4 million during the three months ended March 31, 2024 with common shares issued as consideration, which have been adjusted herein to reflect the Reverse Stock Split effective March 20, 2024. In accordance with ASC Topic 805, Business Combinations (“Topic 805”), total consideration was first allocated to the fair value of assets acquired, including liabilities assumed, with the excess being recorded as goodwill. For financial statement purposes, goodwill is not amortized but rather is evaluated for impairment at least annually or more frequently if an event or change in circumstances occurs that indicates goodwill may be impaired. Goodwill is deductible for tax purposes and will be amortized over a period of 15 years.

The recorded purchase price for the business combination includes an estimation of the fair value of equity interests, which is calculated based on the value of the Company’s common stock on the closing date.

Aimia is a pre-revenue business and there were no operating results related to this business combination to include in the condensed consolidated statements of operations for the three months ended March 31, 2024 since the acquisition date.

Acquisition-related costs incurred in connection with business combinations are recorded in selling, general and administrative expenses in the condensed consolidated statements of operations. The Company incurred acquisition-related costs from this

business combination of less than \$0.1 million for the three months ended March 31, 2024.

In November 2023, Aimia entered into a memorandum of understanding (“MOU”) which establishes an R&D partnership with doctors and a lab which would facilitate the development a GLP-1 supplement for pets. In connection with the MOU, 6,818 shares were issued and the Company incurred \$0.1 million of mergers and acquisitions expenses, which are recorded in selling, general, and administrative expenses in the consolidated statement of operations.

Due to the timing of the completion of the acquisition, the purchase price and related allocation are preliminary and could be revised as a result of adjustments made to the purchase price, additional information obtained regarding assets acquired and liabilities assumed, and revisions of provisional estimates of fair values, including, but not limited to appraisals and valuations. The purchase price allocation will be finalized within the measurement period of up to one year from the acquisition date.

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The table below provides a summary of the total consideration and the estimated purchase price allocation made for the business combination that became effective during the three months ended March 31, 2024.

	Aimia
Common stock	\$ 399,713
Total consideration	\$ 399,713
Subscription receipts receivable	\$ 1,100
HST Receivable	856
Goodwill	405,194
Total assets acquired	\$ 407,150
AP and accruals	\$ 7,437
Total liabilities acquired	\$ 7,437
Net assets acquired	\$ 399,713

The factors contributing to the recognition of the amount of goodwill are based on expanding research and development to develop dog treats that mirror the weight loss benefits of brands including Slentrol, Wegovy, Ozempic, and Mounjaro with added protein and nutrients from the Company's Halo products to promote lean muscle and overall pet health.

Note 10 - Fair Value Measurements

The carrying amounts of cash and cash equivalents, trade accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses approximate fair value because of the short-term nature of these financial instruments. The carrying amounts of borrowings under credit facilities approximates fair value as variable interest rates on these instruments approximates current market rates.

The Company estimates the fair value of the term loan based on a discounted cash flow method. The carrying value of the term loan was based on an accounting entry where proceeds from the loan were first allocated to the warrants liabilities. The following table presents the carrying amount and fair value of the Company's term note, line of credit and warrants liabilities by hierarchy level:

	Fair Value Hierarchy	March 31, 2024		December 31, 2023	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Term loan	Level 3 (2)	\$ 3,054	\$ 3,565	\$ 2,881	\$ 3,314
Line of credit	Level 2 (1)	\$ 2,171	\$ 2,171	\$ 1,741	\$ 1,741

(1) the fair value estimates are based upon observable market data

(2) the fair value estimates are based on unobservable inputs reflecting management's assumptions about inputs used in pricing the asset or liability

Note 11 – Commitments and contingencies

The Company has manufacturing agreements with its vendors that provides for the company to make its commercial best efforts to purchase minimum quantities in the ordinary course of business. There are no other purchase obligations as of March 31, 2024 or December 31, 2023.

The Company may be involved in legal proceedings, claims, and regulatory, tax, or government inquiries and investigations that arise in the ordinary course of business resulting in loss contingencies. The Company accrues for loss contingencies when losses become probable and are reasonably estimable. If the reasonable estimate of the loss is a range and no amount within the range is a better estimate, the minimum amount of the range is recorded as a liability. Legal costs such as outside counsel fees and expenses are charged to expense in the period incurred and are recorded in SG&A expenses. The Company does not accrue for contingent losses that are considered to be reasonably possible, but not probable; however, the Company discloses the range of such reasonably possible losses. Loss contingencies considered remote are generally not disclosed.

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Litigation is subject to numerous uncertainties and the outcome of individual claims and contingencies is not predictable. It is possible that some legal matters for which reserves have or have not been established could result in an unfavorable outcome for the Company and any such unfavorable outcome could be of a material nature or have a material adverse effect on the Company's consolidated financial condition, results of operations and cash flows. Management is not aware of any claims or lawsuits that may have a material adverse effect on the consolidated financial position or results of operations of the Company.

On March 25, 2024, the Company initiated a legal action to enforce a right of first refusal option exercised by Alphaia pursuant to the terms of a written agreement between Alphaia and the Company whereby Alphaia was to acquire the assets of Halo. As of March 31, 2024, the Company is unable to predict the outcome or impact on its business and financial results.

Note 12 – Warrants

The following summarizes the Company's outstanding warrants to purchase shares of the Company's common stock as of and for the three months ended March 31, 2024 and December 31, 2023:

	Warrants	Weighted Average Exercise Price
Warrants outstanding as of December 31, 2023	550,039	\$ 2.47
Issued	—	\$ —
Exercised	—	\$ —
Terminated/Expired	—	\$ —
Warrants outstanding as of March 31, 2024	<u>550,039</u>	<u>\$ 2.47</u>

The intrinsic value of outstanding warrants was \$0.0 million as of March 31, 2024 and December 31, 2023. The following discussion provides details on the various types of outstanding warrants and the related relevant disclosures around each type.

In conjunction with the Alphaia Term Loan Facility mentioned in Note 8 - Debt, the Company issued to Alphaia (i) a warrant (the "First Tranche Warrant") to purchase 148,758 shares of the Company's common stock, par value \$0.001 per share ("Common Stock") at a price of \$11.44 per share, and (ii) a warrant (the "Second Tranche Warrant" and together with the First Tranche Warrant, the "Warrants") to purchase 186,882 shares of Common Stock at a price of \$11.44 per share. Unless exercised, the Warrants expire on June 21, 2028. Alphaia's exercise of the Second Tranche Warrant was subject to the approval of the Company's stockholders and was approved on November 15, 2023. The Warrants contain certain anti-dilution provisions in favor of Alphaia in connection with any equity offering consummated by the Company prior to December 21, 2023 and equity issuances below the exercise price of the Warrants. The Warrants also contained a cashless exercise option at the election of Alphaia.

Additionally, in conjunction with the Term Loan, the Company entered into a Side Letter Agreement with Alphaia (the "Side Letter") pursuant to which Alphaia was granted a right of first refusal on any of the following relating to the Company or any of its subsidiaries and to the extent such transactions constitute a change of control: (i) any transfer, sale, lease or encumbrance of all or any portion of the capital stock or assets (other than the sale of inventory in the ordinary course of business), (ii) any merger, consolidation or other business combination, (iii) any recapitalization, reorganization or any other extraordinary business transaction, (iv) or any equity issuance or debt incurrence. Alphaia's right of first refusal is effective so long as the Term Loan remains outstanding and for a period of 12 months thereafter. The Side Letter also provides Alphaia with certain Board observer rights.

The Company evaluated the Alphaia Warrants under ASC 815-40, Derivatives and Hedging-Contracts in Entity's Own Equity ("ASC 815-40") and concluded they did not initially meet the criteria to be classified in shareholders' equity. Specifically, there were contingent exercise provisions and settlement provisions that existed, including provisions where the number of shares available under the warrants may be adjusted based on a percentage of equity. Because the number of outstanding common shares was not a fair value input to a fixed-for-fixed model, this provision violated indexation guidance. Therefore, the warrants were not indexed to the Company's stock. The Alphaia warrant liabilities were remeasured at fair value each reporting period until provisions precluding equity classification lapsed and the Company reassessed the warrants classification on December 21, 2023. The total value of the consideration received in connection with the Alphaia Term Loan Agreement was first allocated to warrants liabilities at fair value, with the remainder allocated to the Alphaia Term Loan Agreement. Accordingly, the Company recorded a discount of \$2.2 million on the Alphaia Term Loan Agreement (see Note 8 – Debt for further discussion).

The anti-dilution provisions which previously precluded equity treatment of the warrants, expired on December 21, 2023, and thus the warrants were reclassified and presented in equity as of December 31, 2023.

Note 13 – Share-based compensation

During the three months ended March 31, 2024 and March 31, 2023, the Company recognized \$0.5 million and \$0.9 million, respectively, of share-based compensation expense.

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On November 11, 2019, the Company received shareholder approval for the Amended and Restated 2019 Incentive Award Plan (the “Amended 2019 Plan”). The Amended 2019 Plan provides for the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units, other stock or cash-based awards or a dividend equivalent award. The Amended 2019 Plan authorized the issuance of 24,621 shares of common stock which was increased to 34,091 after the Halo acquisition; the Amended 2019 Plan also provides for an annual increase on the first day of each calendar year beginning on January 1, 2020 and ending on and including January 1, 2029, equal to the lesser of (A) 10% of the shares of common stock outstanding (on an as-converted basis) on the last day of the immediately preceding fiscal year and (B) such smaller number of shares of common stock as determined by the Board; provided, however, not more than 204,546 shares of common stock shall be authorized for issuance. The authorized shares for issuance was increased to 61,364 on January 1, 2021, increased to 127,606 on January 1, 2022 and again increased to 194,493 on January 1, 2023.

Stock options

The following table provides detail of the options granted and outstanding (dollars in thousands):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding as of December 31, 2023	54	\$ 5.03	5.7	\$ —
Granted	—	—	—	—
Forfeited/Expired	(3)	\$ 6.78	—	—
Options outstanding as of March 31, 2024	51	\$ 4.95	5.7	\$ —
Options exercisable as of March 31, 2024	45	\$ 5.42	5.4	\$ —

Options granted under the Amended 2019 Plan vest over a period of two to three years. All vested options are exercisable and may be exercised through the ten-year anniversary of the grant date (or such earlier date described in the applicable award agreement).

During the three months ended March 31, 2024 and March 31, 2023, \$0.1 million and \$0.3 million, respectively, of share-based compensation expense was recognized related to options issued. As of March 31, 2024, unrecognized share-based compensation related to options was \$0.1 million, which is expected to be recognized over a weighted average period of 0.4 years.

The fair value of an option award is estimated on the date of grant using the Black–Scholes option valuation model, using the following assumptions primarily based on historical data:

	Three Months Ended March 31,	
	2024	2023
Risk-free interest rate	0.33 - 4.02 %	0.33 - 4.02 %
Expected volatility ⁽¹⁾	0.0% - 72.5 %	0.0% - 72.5 %
Expected dividend yield	— %	— %
Expected life (years) ⁽²⁾	0 - 7.6	0 - 7.6

(1) Expected volatility was determined using a combination of historical volatility and implied volatility.

(2) For certain options, the simplified method is utilized to determine the expected life due to the lack of historical data.

Restricted Stock Awards

In January 2023, the Company granted 20,292 shares of restricted common stock to members of its board of directors under the Amended 2019 Plan as compensation for annual board service. These restricted stock awards were immediately vested and, as such, the Company recorded share-based compensation expense of \$0.5 million upon issuance.

In January 2023, the Company granted 4,545 shares of restricted common stock to certain executives and employees under the Amended 2019 Plan as performance bonus compensation totaling \$0.1 million. These restricted stock awards were issued on the grant date with a one year cliff vesting condition and the Company will recognize the expense over the vesting period.

During the first quarter of 2023, the Company granted 409 shares of restricted common stock to a member of its board of directors for service as interim CEO. These restricted stock awards were immediately vested and, as such, the Company recorded share-based compensation expense of less than \$0.1 million upon issuance.

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During the second quarter of 2023, the Company granted 909 shares of restricted common stock to certain executives and employees under the Amended 2019 Plan as performance bonus compensation totaling less than \$0.1 million. These restricted stock awards were issued on the grant date with a one year cliff vesting condition and the Company will recognize the expense over the vesting period.

During the third quarter of 2023, the Company granted 34,090 shares of restricted common stock to two members of its board of directors. These restricted stock awards were immediately vested and, as such, the Company recorded share-based compensation expense of less than \$0.3 million upon issuance.

In February 2024, the Company granted 42,088 shares of restricted common stock to members of its Board of Directors as part of their equity compensation pursuant to the Amended and Restated 2019 Incentive Award Plan. These restricted stock awards were immediately vested and, as such, the Company recorded share-based compensation expense of \$0.4 million upon issuance.

Note 14 – Employee benefit plans

The Company has a qualified defined contribution 401(k) plan, which covers substantially all of its employees. Participants are entitled to make pre-tax and/or Roth post-tax contributions up to the annual maximums established by the IRS. The Company matches participant contributions pursuant to the terms of the plan, which contributions are limited to a percentage of the participant's eligible compensation. The Company made contributions related to the plan and recognized expense of less than \$0.1 million during the three months ended March 31, 2024 and 2023, respectively.

Note 15 – Related party transactions

Director Fees

The Company pays quarterly board of director fees. As of March 31, 2024 and December 31, 2023, \$0.1 million of these director fees were in accounts payable on the Condensed Consolidated Balance Sheets.

Marketing Support Services

On March 7, 2023, the Company entered into an agreement with Believeco to provide marketing support services for an interim period. A member of the Company's board of directors is a partner at Believeco. For the three months ended March 31, 2024, marketing expense related to Believeco totaled less than \$0.01 million, all of which is included within Accounts Payable. As of March 31, 2023 marketing expense related to Believeco totaled \$0.01 million, none of which is included within Accounts Payable.

Note 16 – Income taxes

For the three months ended March 31, 2024 and March 31, 2023, the Company recorded income tax provision of less than \$0.1 million. For the three months ended March 31, 2024 and 2023, the Company's effective tax rate was less than 1%, respectively. The Company's effective tax rate differs from the U.S. federal statutory rate of 21% primarily because the Company's losses have been fully offset by a valuation allowance due to uncertainty of realizing the tax benefit of net operating losses ("NOLs") for the three months ended March 31, 2024 and March 31, 2023.

Note 17 – Concentrations

Major suppliers

The Company sourced approximately 75% of its inventory purchases from two vendors for the three months ended March 31, 2024. The Company sourced approximately 81% of its inventory purchases from three vendors for the three months ended March 31, 2023.

Major customers

Accounts receivable from two customers represented 89% of accounts receivable as of March 31, 2024. Accounts receivable from two customers represented 79% of accounts receivable as of December 31, 2023. Three customers represented 70% of gross sales for the three months ended March 31, 2024. Four customers represented 70% of gross sales for the three months ended March 31, 2023.

Credit risk

As of March 31, 2024 and December 31, 2023, the Company's cash and cash equivalents were deposited in accounts at several financial institutions and may maintain some balances in excess of federally insured limits. The Company maintains its cash and cash equivalents with high-quality, accredited financial institutions and, accordingly, such funds are subject to minimal credit risk. The Company has not experienced any losses historically in these accounts and believes it is not exposed to significant credit risk in its cash and cash equivalents.

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Note 18 – Loss per share

The Company presents loss per share on a basic and diluted basis. Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding (“WASO”) during the period. Diluted loss per share includes the dilutive effect of common stock equivalents consisting of stock options and warrants using the treasury stock method and convertible notes and preferred stock using the if-converted method. Under the treasury stock method, the amount the holder must pay for exercising stock options or warrants and the amount of average compensation cost for future service that has not yet been recognized are collectively assumed to be used to repurchase shares.

For the three months ended March 31, 2024, the Company’s basic and diluted net loss per share attributable to common stockholders are the same as the Company generated a net loss and common stock equivalents are excluded from diluted net loss per share as they have an anti-dilutive impact. Therefore, the Company did not have any dilutive securities and/or other contracts that could, potentially, be exercised or converted into shares of common stock and then share in the earnings of the Company. For the three months ended March 31, 2023, potentially dilutive securities not included in the calculation of diluted net loss per share, because to do so would be anti-dilutive, are as follows: 214,400 of stock equivalent warrants; 65,740 of stock equivalent employee stock options and 146 of stock equivalent other options.

The following table sets forth basic and diluted net (loss) earnings per share attributable to common stockholders for the three months ended March 31, 2024 and 2023 (in thousands, except share and per share amounts):

	Three Months Ended	
	March 31,	
	2024	2023
Numerator:		
Net loss	\$ (2,830)	\$ (3,484)
Adjusted net loss attributable to common stockholders	\$ (2,830)	\$ (3,484)
Denominator:		
Basic WASO	786,745	692,615
Dilutive common stock equivalents	—	—
Diluted WASO	786,745	692,615
Net loss per share attributable to common stockholders, basic	\$ (3.60)	\$ (5.03)
Net loss per share attributable to common stockholders, diluted	\$ (3.60)	\$ (5.03)

Note 19 – Subsequent events

In April 2024, the Company borrowed an additional \$0.8 million from the Wintrust Receivables Credit Facility.

On April 16, 2024, the Company’s board of directors approved a share repurchase program that authorized the repurchase of up to \$5.0 million of the Company’s outstanding common stock in the open market through December 31, 2024. Repurchased shares are immediately retired and returned to unissued status.

In April 2024, the Company received a notice from the NYSE American LLC (the “NYSE American”), notifying the Company that it is no longer in compliance with NYSE American continued listing standards. The NYSE American requires a listed company to have stockholders’ equity of \$4.0 million or more if the listed company has reported losses from continuing operations and/or net losses in three of its four most recent fiscal years. The Company reported a stockholders’ equity of \$3.0 million as of December 31, 2023, and losses from continuing operations and/or net losses in three out of its four most recent fiscal years ended December 31, 2023. The Notice has no immediate impact on the listing of the Company’s shares of common stock, which will continue to be listed and traded on the NYSE American. The Company must submit a plan of compliance (the “Plan”) by May 24, 2024, addressing how it intends to regain compliance with the continued listing standards before the end of the cure period ends on October 24, 2025. The Company has begun to prepare its Plan for submission to the NYSE American by the May 24, 2024 deadline.

In May 2024, the Company borrowed an additional \$0.6 million from the Wintrust Receivables Credit Facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion includes forward-looking statements about our business, financial condition and results of operations, including discussions about management's expectations for our business. The financial condition, results of operations and cash flows discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are those of Better Choice Company Inc. and its consolidated subsidiaries, collectively, the "Company," "Better Choice Company," "we," "our," or "us". These statements represent projections, beliefs and expectations based on current circumstances and conditions and in light of recent events and trends, and you should not construe these statements either as assurances of performance or as promises of a given course of action. Instead, various known and unknown factors are likely to cause our actual performance and management's actions to vary, and the results of these variances may be both material and adverse. A description of material factors known to us that may cause our results to vary or may cause management to deviate from its current plans and expectations, is set forth under "Risk Factors." See "Cautionary Note Regarding Forward-Looking Statements." The following discussion should also be read in conjunction with our audited consolidated financial statements including the notes thereto appearing elsewhere in this filing. Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview and Outlook

Better Choice is a pet health and wellness company committed to leading the industry shift toward pet products and services that help dogs and cats live healthier, happier and longer lives. Our mission is to become the most innovative premium pet food company in the world, and we are motivated by our commitment to making products with integrity and treating pets and their parents with respect. We believe that our broad portfolio of pet health and wellness products are well positioned to benefit from the trends of growing pet humanization and an increased consumer focus on health and wellness, and have adopted a laser focused, channel specific approach to growth that is driven by new product innovation.

We sell our premium and super-premium products (which we believe generally includes products with a retail price greater than \$0.20 per ounce) under the Halo brand umbrella, including Halo Holistic™, Halo Elevate® and the former TruDog brand, which has been rebranded and successfully integrated under the Halo brand umbrella during the third quarter of 2022. Our core products sold under the Halo brand are made with high-quality, thoughtfully sourced ingredients for natural, science based nutrition. Each innovative recipe is formulated with leading veterinary and nutrition experts to deliver optimal health. Our diverse and established customer base has enabled us to penetrate multiple channels of trade, which we believe enables us to deliver on core consumer needs and serve pet parents wherever they shop. We group these channels of trade into four distinct categories: E-commerce, which includes the sale of product to online retailers such as Amazon and Chewy; Brick & Mortar, which primarily includes the sale of product to Pet Specialty retailers and neighborhood pet stores, as well as to select grocery chains; Direct to Consumer ("DTC") which includes the sale of product through our website halopets.com; and International, which includes the sale of product to foreign distribution partners and to select international retailers.

The Global Pet Food and Treat Market

The U.S. represents the largest and most developed market for pet food globally, with food and treats accounting for approximately \$58 billion, or 42% of the total U.S. pet care market in 2022. According to the American Pet Product Association, between 66% of all households in the U.S. own a pet, equating to a total pet population of more than 130 million companion animals and an average of 1.7 pets per household. Pet spending represents a significant portion of household spend on consumer products, as this translates to an average annual spend on pet care of more than \$1,500 per pet owning household, with \$460 of this spend attributed to pet food and treats.

Historically, consumer spending on pets grew at an approximately 3% CAGR in the decade leading up to the COVID-19 pandemic, driven by steady annual increases in household pet ownership of approximately 1%, the continued premiumization of the category and the humanization of pets. This surge in pet acquisition has led to an increase in the forecasted growth of the pet care industry over the next ten years. The U.S. pet food industry is expected to grow at a 4.96% CAGR between 2023 and 2028 (Statistica).

From a demographic perspective, younger pet owners are more likely to spend a higher percentage of their income on pets, treat their pet as an important member of the family and to purchase products from pet specialty and online retailers rather than from grocery stores. Along these lines, women are 3.2 times more interested in purchasing pet food than men, and are 2.4 times more likely to engage with search ads than men. Taken holistically, these traits suggest a preference to purchase more premium and super-premium pet food and treats from brands like Halo, with a tendency to purchase products in the channels where we compete.

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Globally, Asia is the second largest market for pet products, with China representing the largest market opportunity for growth. Like the U.S., growth in the Asian pet care industry has been driven by dramatic increases in household pet ownership. We believe that growth in Asia is fueled by increasing levels of economic financial status and demand for premium, western manufactured products as a result of product quality concerns. This demand has been supported by a rapidly growing middle class in China, where a McKinsey report estimated that in 2018 roughly 730 million people in urban areas fell into the income categories of “aspirants” and “affluents,” with the Brookings group estimating that approximately 60 million people are added to these income categories each year. We believe that this growth drove the increase in the number of dog-owning Chinese households as measured by Euromonitor, which increased from 12% in 2015 to 20% in 2020, according to Euromonitor. According to Euromonitor, the Chinese market for premium dry dog and cat food is anticipated to grow at a 20% CAGR and 28% CAGR, respectively, from 2015 through 2025, suggesting that the Chinese pet market has significant room for growth in the foreseeable future. We are focused on targeting Chinese pet owners with the highest willingness to pay, which tend to be urban dwelling millennial and Gen-Z women. In 2021, 80% of our products were purchased online, and approximately 50% of our end-consumers were born after 1990.

Our Growth Strategy

- **Strong Innovation Pipeline.** We have a robust and growing pipeline of new products, and believe our size is an advantage as we are nimble enough to quickly bring new products to market, but large enough to benefit from strong existing customer relationships and established economies of scale with our co-manufacturers.
- **Ability to Leverage Differentiated Omni-Channel Strategy for Growth.** We believe that we can leverage our differentiated omni-channel strategy to design and sell products purpose-built for success in specific channels while maintaining our ability to leverage marketing and sales resources cross-channel. We believe that this strategy will allow us to deliver on core consumer needs, maximize gross margin and respond to changing channel dynamics that have accelerated in recent years.
- **Capitalize on Continuing Trends of Humanization of Pets.** We believe our combination of innovative products designed specifically for certain channels can assist our growth to become a leader in the premium and super-premium categories across dog and cat food.
- **Well Positioned to Capitalize on a Once-in-a-Generation Demographic Shift in Asia.** We believe that Asia represents the largest macro-growth opportunity in the global pet food industry. In China, the number of households that own a pet has doubled in the last five years, with younger pet owners leading growth.

Recent Corporate Developments

On March 2, 2023, we announced that Robert Sauermann was resigning from his role as Chief Operating Officer (“COO”), effective March 17, 2023. On March 21, 2023, we announced that Sharla Cook was resigning from her role as Chief Financial Officer (“CFO”), effective April 3, 2023. Also on March 21, 2023, we announced that Carolina Martinez was appointed as Interim CFO, effective April 3, 2023.

On May 11, 2023, we announced that Lionel F. Conacher was resigning from his role as Interim CEO of the Company, effective May 22, 2023. Mr. Conacher will still continue to serve on the Board as a Director. On May 11, 2023, we announced that Kent Cunningham was appointed as Chief Executive Officer of the Company, effective May 22, 2023.

On August 2, 2023, we announced that Carolina Martinez was appointed as Chief Financial Officer, Treasurer and Secretary of the Company, effective August 7, 2023. On August 28, 2023, we announced that Donald Young, was resigning from his role as Chief Sales Officer of the Company, effective September 8, 2023.

In December 2023, the Company made a strategic exit out of Petco stores (while remaining on Petco.com), and Pet Supplies Plus. As of Q1 2024, the Company has made plans to exit its DTC channel in Q2 2024, in an effort to improve profitability.

The Company was not in compliance with certain covenants related to the Alphaia Term Loan Facility as of December 31, 2023 and the debt is callable by the lender. Refer to the Going concern considerations for additional information.

On March 25, 2024, Better Choice Company, Inc. (“BTTR”) initiated a legal action to enforce a right of first refusal (“ROFR”) option exercised by Alphaia, Inc. (“Alphaia”), which is controlled by a Paris-based private equity firm, PAI Partners. As of March 31, 2024, the Company is unable to predict the outcome or impact on its business and financial results.

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Results of Operations for the three months ended March 31, 2024 and 2023

The following table sets forth our consolidated results for the periods presented (in thousands):

	Three Months Ended March 31,		Change	
	2024	2023	\$	%
Net sales	\$ 7,903	\$ 9,237	\$ (1,334)	(14)%
Cost of goods sold	5,289	5,996	(707)	(12)%
Gross profit	2,614	3,241	(627)	(19)%
Operating expenses:				
Selling, general and administrative	5,080	6,496	(1,416)	(22)%
Total operating expenses	5,080	6,496	(1,416)	(22)%
Loss from operations	(2,466)	(3,255)	789	24%
Other expenses:				
Interest expense, net	(362)	(229)	(133)	(58)%
Change in fair value of warrants liabilities	—	—	—	—%
Total other expense, net	(362)	(229)	(133)	(58)%
Net loss before income taxes	(2,828)	(3,484)	656	19%
Income tax expense	2	—	2	100%
Net loss	(2,830)	(3,484)	654	19%
Net loss attributable to common stockholders	\$ (2,830)	\$ (3,484)	\$ 654	19%

Net sales

We sell our products through online retailers, pet specialty retailers, our online portal directly to our consumers and internationally to foreign distribution partners (transacted in U.S. dollars). Generally, our sales transactions are single performance obligations that are recorded at the time the product is shipped from our distribution centers and when control transfers. We offer a variety of trade promotions, discounts and incentives to our customers, which impacts the transaction price of our products and our net sales accordingly. DTC net sales include revenue derived from shipping fees and are net of loyalty points earned (a portion of revenue is deferred at the time of the sale as points are earned and not recognized until the redemption of the points, estimated based on historical experience). We record a revenue reserve based on historical return rates to account for customer returns.

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Information about our revenue channels is as follows (in thousands):

	Three Months Ended March 31,				
	2024		2023		
E-commerce ⁽¹⁾	\$ 3,265	41 %	\$ 3,895	42 %	
International ⁽²⁾	2,874	37 %	2,311	25 %	
DTC	1,209	15 %	1,322	14 %	
Brick & mortar ⁽³⁾	555	7 %	1,709	19 %	
Net Sales	\$ 7,903	100 %	\$ 9,237	100 %	

(1) The Company's E-commerce channel includes two customers that amounted to greater than 10% of the Company's total net sales for the three months ended March 31, 2024, and 2023, respectively. These customers had \$3.2 million of net sales for the three months ended March 31, 2024 and \$3.8 million of net sales during the three months ended March 31, 2023.

(2) One of the Company's International customers that distributes products in China amounted to greater than 10% of the Company's total net sales during the three months ended March 31, 2024 and March 31, 2023, representing \$2.2 million and \$2.1 million of net sales, respectively.

(3) None of the Company's Brick & Mortar customers represented greater than 10% of net sales during the three months ended March 31, 2024 or March 31, 2023. For the three months ended March 31, 2023, Petco is included within the Brick & Mortar channel. In Q1 2024, Petco is presented within E-commerce as a result of the strategic exit out of Petco stores, while remaining on Petco.com.

Net sales decreased \$(1.3) million, or (14)%, to \$7.9 million for the three months ended March 31, 2024 compared to \$9.2 million for the three months ended March 31, 2023. The decrease in net sales for the three months ended March 31, 2024 is primarily attributable to new payment terms enforced in our International channel to preserve cash, and a decline in traffic in our E-commerce platform.

Key factors that we expect to affect our future sales growth include new product innovation and launches, our expansion strategy in each of the sales channels and our key supplier relationships.

Gross profit

Cost of goods sold consists primarily of the cost of product obtained from co-manufacturers, packaging materials, freight costs for shipping inventory to the warehouse, as well as third-party warehouse and order fulfillment costs. We review inventory on hand periodically to identify damages, slow moving inventory, and/or aged inventory. Based on this analysis, we record inventories at the lower of cost or net realizable value, with any reduction in value expensed as cost of goods sold.

Our products are manufactured to our specifications by our co-manufacturers using raw materials. We work with our co-manufacturers to secure a supply of raw materials that meet our specifications. In addition to procuring raw materials that meet our formulation requirements, our co-manufacturers manufacture, test and package our products. We design our packaging for our co-manufacturers and the packaging is shipped directly to them.

Our gross profit has been and will continue to be affected by a variety of factors, primarily product sales mix, volumes sold, discounts offered to newly acquired and recurring customers, the cost of our manufactured products, and the cost of freight from the manufacturer to the warehouse.

During the three months ended March 31, 2024, gross profit decreased \$0.6 million, or 19%, to \$2.6 million compared to \$3.2 million during the three months ended March 31, 2023.

Gross margin decreased 200 basis points to 33% for the three months ended March 31, 2024 compared to 35% for the three months ended March 31, 2023. The decrease in gross margin for the three months ended March 31, 2024 is primarily attributable to selling excess inventory at a discount. As a result, revenue increased at a rate lower than the rate at which cost of goods sold ("COGS") increased. The decrease in gross margin was attributable to our product sales mix, and a decrease in total sales volume. There was also an increase in our inventory reserve, driven by the increase in the Halo Elevate expiration risk.

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We continue to actively work with our co-manufacturing and freight partners to generate future cost savings and realize improved gross margins in future periods. We could see continued margin variability due to the current economic environment and pricing pressures due to inflationary costs for both transportation and raw materials. We will continue to refine and optimize our overall pricing strategy as we evaluate the future impact of inflation and align ourselves with the market.

Operating expenses

Our Selling, general and administrative (“SG&A”) expenses consist of the following:

- *Sales and marketing costs*, for specific customer promotional programs, paid media, content creation expenses and our DTC selling platform. Marketing costs are geared towards customer acquisition and retention and building brand awareness. During the three months ended March 31, 2024, sales and marketing costs decreased approximately \$(0.6) million or (33)%, to \$1.2 million from \$1.8 million during the three months ended March 31, 2023. The decrease was driven primarily by lower marketing and advertising agency fees related to the Halo brand renovation and migration from the former TruDog brand, as well as increased marketing spend in our International sales channel.
- *Employee compensation and benefits* decreased approximately \$(0.2) million or (10)% during the three months ended March 31, 2024 to \$1.5 million from \$1.7 million during the three months ended March 31, 2023. The decrease was primarily related to a reduction in employee headcount, partially offset by higher severance costs during the first half of 2024.
- *Share-based compensation* includes expenses related to equity awards issued to employees and non-employee directors. During the three months ended March 31, 2024, Share-based compensation decreased \$(0.4) million or (40)% to \$0.5 million compared to \$0.9 million for the three months ended March 31, 2023. January 2023 grants became fully vested during the three months ended March 31, 2023, resulting in a decrease to share-based compensation, partially offset by common stock issued for board service.
- *Freight*, which is primarily related to the shipping of DTC orders to customers, remained consistent at \$0.3 million during the three months ended March 31, 2024 and March 31, 2023. DTC sales remained consistent as outlined above.
- *Non-cash charges* including depreciation, amortization, disposal or sale of assets and bad debt expense decreased by \$(0.4) million or (94)% to less than \$0.1 million during the three months ended March 31, 2024 from \$0.4 million during the three months ended March 31, 2023. The decrease was driven by disposals of certain assets during 2023.
- *Other general and administrative costs* for various general corporate expenses, including professional services, information technology, insurance, travel, costs related to merchant credit card fees, product development costs, rent, and certain tax costs. During the three months ended March 31, 2024, other general and administrative costs increased \$0.2 million, or 14% to \$1.6 million compared to \$1.4 million during the three months ended March 31, 2023. The increase was driven by commission fees related to sales in our International channel.

Interest expense, net

During the three months ended March 31, 2024, interest expense increased by \$0.2 million, or 58% to \$0.4 million from \$0.2 million for the three months ended March 31, 2023. Interest expense for the three months ended March 31, 2024 is comprised of interest on our Wintrust Receivables Credit Facility, Alpha Term Loan, the amortization of debt issuance costs, and interest accretion on the Alpha Term Loan. Interest expense for the three months ended March 31, 2023 is comprised of interest on our Wintrust Credit Facility and the amortization of debt issuance costs which was refinanced during 2022.

Income taxes

Our income tax provision consists of an estimate of federal and state income taxes based on enacted federal and state tax rates, as adjusted for any allowable credits, deductions and uncertain tax positions as they arise. During the three months ended March 31, 2024 and March 31, 2023, we recorded income tax benefit of less than \$0.1 million, which relates to indefinite-lived assets. The effective tax rate for the three months ended March 31, 2024 and 2023 was less than 1%, respectively, which differs from the U.S. Federal statutory rate of 21% primarily because our losses have been fully offset by a valuation allowance due to uncertainty of realizing the tax benefit of NOLs.

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Liquidity and capital resources

Historically, we have financed our operations primarily through the sales of shares of our common stock, warrants, preferred stock, and loans. In connection with our IPO, we issued and sold 181,818 shares of common stock at a price of \$5.00 per share. On July 1, 2021 we received total net proceeds of approximately \$36.1 million from the IPO, after deducting underwriting discounts and commissions of \$2.8 million, and offering costs of approximately \$1.1 million. On March 31, 2024 and December 31, 2023, we had cash and cash equivalents of \$3.9 million and \$4.5 million, respectively.

We are subject to risks common in the pet wellness consumer market including, but not limited to, dependence on key personnel, competitive forces, successful marketing and sale of our products, the successful protection of our proprietary technologies, ability to grow into new markets, and compliance with government regulations. As of March 31, 2024, we have not experienced a significant adverse impact to our business, financial condition or cash flows resulting from geopolitical actions or threat of cyber-attacks. However, we have seen adverse impacts to our gross margin from time to time due to inflationary pressures in the current economic environment. Uncertainties regarding the continued economic impact of inflationary pressures, geopolitical actions and threat of cyber-attacks are likely to result in sustained market turmoil, which could negatively impact our business, financial condition, and cash flows in the future.

We have historically incurred losses and expect to continue to generate operating losses and consume cash resources in the near term. These conditions raise substantial doubt about our ability to continue as a going concern for a period of twelve months from the date these interim condensed consolidated financial statements are issued, meaning that we may be unable to generate sufficient operating cash flows to pay our short-term obligations. We have implemented and continue to implement plans to achieve operating profitability, including various margin improvement initiatives, the consolidation of and introduction of new co-manufacturers, the optimization of our pricing strategy and ingredient profiles, and new product innovation.

Our ability to raise additional capital may be adversely impacted by the potential worsening of global economic conditions, including inflationary pressures, recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from geopolitical tensions. If we seek additional financing to fund our business activities in the future and there remains doubt about our ability to continue as a going concern, investors or other financing sources may be unwilling to provide additional funding on commercially reasonable terms or at all. If we are unable to raise the necessary funds when needed or achieve planned cost savings, or other strategic objectives are not achieved, we may not be able to continue our operations, or we could be required to modify our operations that could slow future growth.

A summary of our cash flows is as follows (in thousands):

	Three Months Ended March 31,	
	2024	2023
Cash flows (used in) provided by:		
Operating activities	\$ (1,006)	\$ (1,473)
Investing activities	(3)	(10)
Financing activities	430	(41)
Net decrease in cash and cash equivalents	\$ (579)	\$ (1,524)

Cash flows from operating activities

Cash used in operating activities decreased by \$0.5 million, or 32%, during the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The decrease in cash was primarily driven by a \$(0.7) million decrease in net loss as well as a \$(0.6) million decrease in inventory reserve due to selling off stock. The decrease in cash was also driven by significant fluctuations in our working capital, including a comparative decrease in accounts receivable balances of \$(0.4) million due to timing of sales and collections and a comparative increase in accounts payable of \$0.4 million due to inventory rebuild in 2023.

Cash flows from investing activities

Cash used in investing activities was less than \$0.1 million during the three months ended March 31, 2024 and March 31, 2023. The cash used in investing activities is related to capital expenditures.

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Cash flows from financing activities

Cash provided by financing activities was \$0.4 million and less than \$(0.1) million, during the three months ended March 31, 2024 and March 31, 2023, respectively. The cash provided by financing activities for the three months ended March 31, 2024 was related proceeds from the Wintrust revolving line of credit of \$3.0 million, offset by payments on the Wintrust revolving line of credit of \$(2.6) million. The cash provided by financing activities for the three months ended March 31, 2023 was related to payments on the short-term financing arrangement of \$0.04 million.

Wintrust Receivables Credit Facility

On June 21, 2023, the Company entered into an account purchase agreement with Wintrust Receivables Finance, a division of Wintrust Bank N.A. ("Wintrust") pursuant to which Wintrust will purchase, at its discretion, eligible customer invoices and advance up to 75% of the face amount of all purchased amounts up to \$4,750,000. Each advance under the AP Agreement will bear interest at the U.S. prime rate, plus 2.5%. The AP Agreement has an initial term of two years and will automatically renew annually unless terminated by the Company on at least 60 days' notice. The Wintrust Receivables Credit Facility is secured by a general security interest in the assets of the Company. The Wintrust Receivables Credit Facility is guaranteed secured by the Company pursuant to that certain Unlimited Continuing Guaranty Agreement dated as of June 21, 2023.

As of March 31, 2024, the balance outstanding on the Wintrust Receivables Credit Facility amounted to \$2.2 million.

Alpha Term Loan

On June 21, 2023, the Company entered into a term loan credit agreement with Alpha Inc., a leading custom manufacturer of super-premium pet food in the U.S. Pursuant to the Term Loan Agreement, Alpha made a term loan to the Company in the original principal amount of \$5,000,000 (the "Term Loan"). The Term Loan is also evidenced by that certain Term Note dated as of June 21, 2023 issued by the Company to Alpha (the "Term Note"). The proceeds of the Term Loan, together with a portion of the Company's cash on hand, were used to retire all of the outstanding obligations of Halo, Purely for Pets, Inc. ("Halo"), a wholly-owned subsidiary of the Company, under Halo's long-term credit facility with Old Plank Trail Community Bank, N.A., an affiliate of Wintrust Bank, N.A.

The Term Loan will bear interest at a rate of 10% per annum, compounded quarterly, and will mature on June 21, 2026. Accrued interest on the Term Loan is payable quarterly in cash or, at the election of the Company, in-kind by capitalizing such interest and adding it to the then-outstanding principal amount of the Term Loan. The Term Loan Agreement and Term Note provide for customary financial covenants and customary events of default, including, among others, those relating to failure to make payment, bankruptcy, breaches of representations and material adverse effects. The Company may prepay the principal of the Term Loan at any time upon written notice to Alpha and subject to a prepayment penalty if such prepayment occurs prior to June 21, 2025.

The Term Loan is secured by a general security interest on the assets, including the intellectual property, of the Company and Halo pursuant to (i) that certain Term Loan Security Agreement, dated June 21, 2023, made by the Company and Halo in favor of Alpha (the "Security Agreement") and (ii) that certain Intellectual Property Security Agreement, dated as of June 21, 2023 of the Company and Halo in favor of Alpha (the "Intellectual Property Security Agreement"). The Company has also pledged all of the capital stock of Halo held by the Company as additional collateral for the Term Loan.

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The term Loan is guaranteed by Halo pursuant to that certain Term Loan Guaranty, dated as of June 21, 2023, by and between Halo and Alpha (the “Term Loan Guaranty”).

In conjunction with the Term Loan, the Company issued to Alpha (i) a warrant (the “First Tranche Warrant”) to purchase 148,758 shares of the Company’s common stock, par value \$0.001 per share (“Common Stock”) at a price of \$0.26 per share, and (ii) a warrant (the “Second Tranche Warrant” and together with the First Tranche Warrant, the “Warrants”) to purchase 186,882 shares of Common Stock at a price of \$0.26 per share. Unless exercised, the Warrants expire on June 21, 2028. The Warrants contain certain anti-dilution provisions in favor of Alpha in connection with any equity offering consummated by the Company prior to December 21, 2023 and equity issuances below the exercise price of the Warrants. The Warrants also contain a cashless exercise option at the election of Alpha.

Additionally, in conjunction with the Term Loan, the Company entered into a Side Letter Agreement with Alpha (the “Side Letter”) pursuant to which Alpha was granted a right of first refusal on any of the following relating to the Company or any of its subsidiaries and to the extent such transactions constitute a change of control: (i) any transfer, sale, lease or encumbrance of all or any portion of the capital stock or assets (other than the sale of inventory in the ordinary course of business), (ii) any merger, consolidation or other business combination, (iii) any recapitalization, reorganization or any other extraordinary business transaction, (iv) or any equity issuance or debt incurrence. Alpha’s right of first refusal is effective so long as the Term Loan remains outstanding and for a period of 12 months thereafter. The Side Letter also provides Alpha with certain Board observer rights.

As of March 31, 2024, our indebtedness on the Alpha Term Loan Facility amounted to \$3.1 million net of debt issuance costs of \$0.2 million. For details about the terms, covenants and restrictions contained in the Alpha Term Loan Facility, see “Note 8 - Debt” to our interim condensed consolidated financial statements included in this Quarterly Report.

Contractual Commitments and Obligations

We are contractually obligated to make future cash payments for various items, including debt arrangements, certain purchase obligations, as well as the lease arrangement for our office. See “Note 8 - Debt” to our interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for more information about our debt obligations. Our purchase obligations include certain ongoing marketing projects, software subscriptions as well as in-transit or in-production purchase orders with our suppliers, for which amounts vary depending on the purchasing cycle. The majority of our software subscriptions are not under long-term contracts, and we do not have long-term contracts or commitments with any of our suppliers beyond active purchase orders. These purchase obligations were not material as of the date of this Quarterly Report on Form 10-Q.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our unaudited condensed consolidated financial statements and related disclosures requires us to make estimates, assumptions and judgements that affect the reported amounts of assets, liabilities, net sales, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described in our Annual Report for the year ended December 31, 2023 have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting estimates. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. There have been no material changes to our critical accounting estimates compared to the descriptions in our Annual Report for the year ended December 31, 2023.

Share-Based Compensation

Share-based compensation expense is measured based on the estimated fair value of awards granted to employees, directors, officers and consultants on the grant date. Forfeitures are accounted for as they occur, therefore there are no forfeiture related estimates required.

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model, which requires the development of input assumptions, as described in “Note 13 - Share-based compensation”. Determining the appropriate fair value model and calculating the fair value of share-based payment awards requires the input of the subjective assumptions described in “Note 13 - Share-based compensation”. The assumptions used in calculating the fair value of share-based payment awards represent management’s best estimates, which involve inherent uncertainties and the application of management’s judgment.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our Chief Executive Officer (our Principal Executive Officer or “PEO”) and our Chief Financial Officer (our Principal Financial Officer or “PFO”), we evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, because of the material weaknesses in our internal control over financial reporting described in our Annual Report on Form 10-K for the year ended December 31, 2023, our disclosure controls and procedures were not effective as of March 31, 2024.

Notwithstanding the material weaknesses in our internal control over financial reporting, we have concluded that the condensed consolidated financial statements included in this Form 10-Q, when read with the notes thereto, present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Material Weaknesses

We previously reported three material weaknesses in the design and operation of our internal control over financial reporting that were identified in connection with the audit of our fiscal year 2023 consolidated financial statements. A “material weakness” is defined under SEC rules as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis by the Company’s internal controls. The material weaknesses relate to (i) failure to maintain controls over the operating effectiveness of cybersecurity and IT general controls; (ii) insufficient policies and procedures to review, analyze, account for and disclose complex transactions; (iii) failure to design and maintain controls over the operating effectiveness of revenue recognition controls.

Remediation of Prior Year Material Weaknesses

Cybersecurity and IT General Controls

To remediate the material weakness associated with failure to maintain controls over the operating effectiveness of cybersecurity and IT general controls, we have (i) fully transitioned to a new managed IT service provider with an appropriate level of knowledge and technical experience to design and maintain cybersecurity and IT general controls; (ii) established policies and procedures for the design and operation of IT general controls and manual controls to prevent cybersecurity breaches, such as multi-factor authentication implemented and enforced, anti-virus and anti-malware software suites installed, a cybersecurity training platform for all employees through the industry leading KnowBe4 platform, and the dual approval of vendor payments and wiring instructions; (iii) sustained operation of our controls over a period that is appropriate in order to conclude that the controls are operating effectively.

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Remediation Plan

Accounting for Complex Transactions

To address the material weakness in internal controls related to the accounting for complex accounting transactions, we have (i) added resources responsible for the execution and oversight of accounting and financial reporting operations; (ii) expanded the use of specialist involvement in highly complex and technical areas of accounting and valuation; and (iii) designed and implemented enhancements to internal control over financial reporting including those related to business combinations. We will continue ongoing remediation efforts related to enhancing our internal controls to include specific activities to assess the accounting for significant complex transactions.

Revenue Recognition

To address the material weakness in internal controls related to the revenue recognition, we continue to evaluate the design and operating effectiveness controls supporting revenue recognition and are in the process of enhancing certain controls over revenue, including adding resources and training programs addressing the design, implementation, and documentary evidence requirement of control procedures over revenue recognition for appropriate personnel.

Although we implemented measures and plan to implement additional measures to remedy our internal control deficiencies, there can be no assurance that our efforts will be successful. In addition, until the remediation steps have been completed and operated for a sufficient period of time, and subsequent evaluation of their effectiveness is completed, the material weaknesses identified and described above will continue to exist.

Changes in Internal Control Over Financial Reporting

We completed one acquisition for an aggregate purchase price of \$0.4 million during the three months ended March 31, 2024. Guidance from the staff of the Securities and Exchange Commission provides that the staff will not take exception to companies that exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition. The Company will exclude the acquisition from its assessment of internal control as of December 31, 2024. The acquisition represents less than 1% of our consolidated total assets and has no revenues as of and for the three months ended March 31, 2024, respectively.

Our remediation efforts were ongoing during the quarter ended March 31, 2024. Except with respect to our ongoing remediation efforts described in our Annual Report on Form 10-K for the year ended December 31, 2023 with respect to the aforementioned material weaknesses, and the successful remediation of our material weakness related to cybersecurity and IT general controls, there were no changes in our internal control over financial reporting that occurred during the quarter-ended March 31, 2024 that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to litigation and other proceedings that arise in the ordinary course of our business. Subject to the inherent uncertainties of litigation and although no assurances are possible, we believe that there are no pending lawsuits or claims that, individually or in the aggregate, will have a material adverse effect on our business, financial condition or our yearly results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors described under the heading "Risk Factors" in our Annual Report filed on April 12, 2024. While we believe there have been no material changes from the risk factors previously disclosed, you should carefully consider, in addition to the other information set forth in this report, the risk factors discussed in our Annual Report that could materially affect our business, financial condition or future results. The risks described in our Annual Report are not the only risks facing our Company. In addition to risks and uncertainties inherent in forward-looking statements contained in this Quarterly Report, additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are filed herewith.

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EXHIBIT INDEX

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date
10.20 †	Engagement Agreement, dated as of March 13, 2023, by and between ONE10 Advisors, LLC and Better Choice Company Inc.	8-K	001-40477	10.1	03/21/2023
10.21 †	Interim Officer Agreement, dated as of March 20, 2023, by and between Carolina Martinez and Better Choice Company, Inc.	8-K	001-40477	10.2	03/21/2023
10.22 †	Employment Agreement, dated as of May 22, 2023, by and between Kent Cunningham and Better Choice Company, Inc.	8-K	001-40477	10.2	05/16/2023
10.23 †	Term Loan Credit Agreement, dated as of June 21, 2023, by and between Better Choice Company Inc. and Alpha Inc.	8-K	001-40477	10.1	06/21/2023
10.24 †	Account Purchase Agreement, dated as of June 21, 2023, by and between Wintrust Receivables Finance, a division of Wintrust Bank N.A., and Halo, Purely for Pets, Inc.	8-K	001-40477	10.9	06/21/2023
10.25	Notice of Delisting or Failure to Satisfy a Continued Listing Rule or Standard; Transfer of Listing	8-K	001-40477	99.1	09/27/2023
10.26	Better Choice Acquires Aimia Pet Healthco to Enter the GLP1 Pet Market	8-K	001-40477	99.1	02/12/2024
10.27	Better Choice Company to Effectuate a 1 for 44 Reverse Stock Split	8-K	001-40477	99.1	03/14/2024
10.28	Better Choice Company Board of Directors Authorize Stock Repurchase Program	8-K	001-40477	3.1	03/25/2024
10.29	Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers	8-K	001-40477		04/04/2024
10.30	Better Choice Company Board of Directors Authorize Stock Repurchase Program	8-K	001-40477	99.1	04/16/2024
10.32	Notice of Delisting or Failure to Satisfy a Continued Listing Rule or Standard; Transfer of Listing	8-K	001-40477	99.1	04/30/2024
10.33	Complaint in Re: Better Choice Company, Inc., as Plaintiff, v. Alpha, Inc., as Defendant	8-K	001-40477	99.1	05/13/2024
21.1	Subsidiaries of the Company	10-K	001-40477	21.1	03/28/2023
31.1 *	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2 *	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1 *	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				

101 * The following materials from the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023 formatted in Inline Extensible Business Reporting Language ("iXBRL"): (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Stockholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows and (v) related notes, tagged as blocks of text and including detailed tags.

104 * Cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, formatted in iXBRL (included as Exhibit 101).

† Indicates a management contract or any compensatory plan, contract or arrangement.

* Filed or furnished herewith.

Certain schedules and similar attachments to this agreement have been omitted in accordance with Item 601(b)(5) of Regulation S-K. The Company will furnish copies of any schedules or similar attachments to the SEC upon request.

*** Certain information in this document has been excluded pursuant to Regulation S-K, Item 601(b)(10). Such excluded information is not material and would likely cause competitive harm to the registrant if publicly disclosed.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 17, 2024

BETTER CHOICE COMPANY INC.

By: /S/ KENT CUNNINGHAM

Kent Cunningham

Chief Executive Officer

(Principal Executive Officer)

Date: May 17, 2024

By: /S/ CAROLINA MARTINEZ

Carolina Martinez

Chief Financial Officer

(Principal Financial and Accounting Officer)

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Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) / RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Kent Cunningham, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three and six months ended March 31, 2024 June 30, 2024 of Better Choice Company Inc.;
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 our 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: May 17, 2024 August 13, 2024

/s/ KENT CUNNINGHAM

Kent Cunningham
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a) /
RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Carolina Martinez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the three and six months ended March 31, 2024 June 30, 2024 of Better Choice Company Inc.;
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 our 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.

Dated: May 17, 2024 August 13, 2024

/s/ *CAROLINA MARTINEZ*

Carolina Martinez
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATIONS OF CEO AND CFO PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report on Form 10-Q of Better Choice Company Inc. (the “Company”) for the three and six months ended **March 31, 2024** **June 30, 2024**, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. (section) 1350, as adopted pursuant to (section) 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: **May 17, 2024** **August 13, 2024**

/s/ KENT CUNNINGHAM

Kent Cunningham
Chief Executive Officer
(Principal Executive Officer)

/s/ CAROLINA MARTINEZ

Carolina Martinez
Chief Financial Officer
(Principal Financial Officer)

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