REFINITIV

DELTA REPORT

10-Q

BTTR - BETTER CHOICE CO INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1076
CHANGES	201
DELETIONS	496
ADDITIONS	379

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 September 30, March 31, 2023 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 No ☒ ☒

The number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date was: 32,081,148 893,602 shares of $0.001 par value common stock outstanding as of November 13, 2023 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;
- the continued impact of the actual or perceived effects of the COVID-19 pandemic, including as a result of any additional variants of the virus or the efficacy and distribution of vaccines, on the global pet health and wellness industry, our employees, suppliers, customers and end consumers, which could adversely and materially impact our business, financial condition and results of operations;
- 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;

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- 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;

- 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 the COVID-19 pandemic or 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; and
- Per section 9.3(H) of the WinTrust Credit Facility referenced in Note 8, Halo is restricted on its ability to pay dividends and make payments to the Company as defined in the loan and security agreement. This impacts the Company's ability to pay dividends to its shareholders, as the Company depends on its subsidiaries for transfers of funds to support professional fees and its holding company status. 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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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	2023	2022	2023	2022	2024	2023
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Net sales	$ 13,117	$ 11,865	$ 32,890	$ 45,394	$ 7,903	$ 9,237
Cost of goods sold	8,681	7,700	21,625	31,795	5,289	5,996
Gross profit	4,436	4,165	11,265	13,599	2,614	3,241
Operating expenses:						
Selling, general and administrative	7,052	10,569	19,721	28,225	5,080	6,496
Total operating expenses	7,052	10,569	19,721	28,225	5,080	6,496
Loss from operations	(2,616)	(6,404)	(8,456)	(14,626)	(2,466)	(3,255)
Other expenses:						
Interest expense, net	(344)	(142)	(952)	(324)	(362)	(229)
Change in fair value of warrants liabilities	1,339	—	1,339	—		
Total other expense, net	995	(142)	387	(324)	(362)	(229)
Net loss before income taxes	(1,621)	(6,546)	(8,069)	(14,950)	(2,828)	(3,484)
Income tax expense	—	1	—	4	2	—
Net loss available to common stockholders	$ (1,621)	$ (6,547)	$ (8,069)	$ (14,954)		
Net loss attributable to common stockholders					$ (2,830)	$ (3,484)
Weighted average number of shares outstanding, basic	30,975,566	29,364,712	30,679,905	29,339,918	786,745	692,615
Weighted average number of shares outstanding, diluted	30,975,566	29,364,712	30,679,905	29,339,918	786,745	692,615
Net loss per share available to common stockholders, basic	$ (0.05)	$ (0.22)	$ (0.26)	$ (0.51)		
Net loss per share available to common stockholders, diluted	$ (0.05)	$ (0.22)	$ (0.26)	$ (0.51)		
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)

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Assets				
Cash and cash equivalents	$ 3,800	$ 3,173	$ 3,876	$ 4,455
Restricted cash	—	6,300		
Accounts receivable, net	8,582	6,744	4,340	4,354
Inventories, net	7,541	10,257	5,201	6,611
Prepaid expenses and other current assets	992	1,051	1,169	812
Total Current Assets	20,915	27,525	14,586	16,232
Fixed assets, net	258	375	198	230
Right-of-use assets, operating leases	134	173	106	120
Intangible assets, net	8,914	10,059		
Goodwill			405	—
Other assets	828	544	149	155
Total Assets	$ 31,049	$ 38,676	$ 15,444	$ 16,737
Liabilities & Stockholders' Equity				
Current Liabilities				
Accounts payable	$ 7,807	$ 2,932	$ 7,478	$ 6,928
Accrued and other liabilities	2,525	2,596	1,505	2,085
Line of credit, net	1,917	—		
Warrants liabilities	869	—		
Line of credit			2,171	1,741
Term loan, net			3,054	2,881
Operating lease liability	56	52	58	57
Total Current Liabilities	13,174	5,580	14,266	13,692
Non-current Liabilities				
Line of credit, net	—	11,444		
Term loan, net	2,714	—		
Operating lease liability	82	124	52	67
Total Non-current Liabilities	2,796	11,568	52	67
Total Liabilities	15,970	17,148	14,318	13,759
Stockholders' Equity				
Common Stock, $0.001 par value, 200,000,000 shares authorized, 32,077,148 & 29,430,267 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	32	29		
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	321,688	320,071	325,264	324,288
Accumulated deficit	(306,641)	(298,572)	(324,172)	(321,342)
Total Stockholders' Equity	15,079	21,528	1,126	2,978
Total Liabilities and Stockholders' Equity	$ 31,049	$ 38,676	$ 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, 2022	**29,430,267**	**$ 29**	**$ 320,071**	**$ (298,572)**	**$ 21,528**
Share-based compensation	1,066,881	—	861	—	861
Share issuance	—	1	(1)	—	—
Net loss available to common stockholders	—	—	—	(3,484)	(3,484)
Balance as of March 31, 2023	**30,497,148**	**30**	**320,931**	**(302,056)**	**18,905**
Share-based compensation	80,000	—	284	—	284
Net loss available to common stockholders	—	—	—	(2,964)	(2,964)
Balance as of June 30, 2023	**30,577,148**	**30**	**321,215**	**(305,020)**	**16,225**
Share-based compensation	1,500,000	2	473	—	475
Net loss available to common stockholders	—	—	—	(1,621)	(1,621)
Balance as of September 30, 2023	**32,077,148**	**32**	**321,688**	**(306,641)**	**15,079**

	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 Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2021	**29,146,367**	**$ 29**	**$ 317,102**	**$ (259,256)**	**$ 57,875**
Share-based compensation	218,345	—	1,091	—	1,091
Net loss available to common stockholders	—	—	—	(4,040)	(4,040)
Balance as of March 31, 2022	**29,364,712**	**29**	**318,193**	**(263,296)**	**54,926**
Share-based compensation	—	—	801	—	801
Net loss available to common stockholders	—	—	—	(4,367)	(4,367)
Balance as of June 30, 2022	**29,364,712**	**29**	**318,994**	**(267,663)**	**51,360**
Share-based compensation	—	—	562		562
Net loss available to common stockholders	—	—	—	(6,547)	(6,547)
Balance as of September 30, 2022	**29,364,712**	**29**	**319,556**	**(274,210)**	**45,375**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
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)

	2023	2022	2024	2023
	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Cash Flow from Operating Activities:				
Net loss available to common stockholders	$ (8,069)	$ (14,954)		
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	1,262	1,265	35	424
Amortization of debt issuance costs	165	39	20	19
Share-based compensation expense	1,620	2,454	518	861
Amortization of prepaid assets	—	2,095		
Change in fair value of warrants liabilities	(1,339)	—		
Accreted interest expense on term loan			153	—
Inventory reserve	(987)	511	(123)	(682)
Loss on disposal of assets	11	—	—	11
PIK interest expense on term loan			125	—
Other	(6)	127	49	—
Changes in operating assets and liabilities:				
Accounts receivable	(1,831)	(2,901)	24	427
Inventories	3,703	(6,877)	1,533	2,056
Prepaid expenses and other assets	(225)	(257)	(355)	(230)
Accounts payable	4,875	466	550	196
Accrued and other liabilities	(73)	60	(705)	(1,071)
Cash Used in Operating Activities	$ (894)	$ (17,972)	$ (1,006)	$ (1,473)
Cash Flow from Investing Activities:				
Capital expenditures	$ (10)	$ (198)	$ (3)	$ (10)
Cash Used in Investing Activities	$ (10)	$ (198)	$ (3)	$ (10)
Cash Flow from Financing Activities:				
Proceeds from revolving lines of credit	6,764	7,500		
Payments on revolving line of credit	(16,291)	(5,000)		
Proceeds from Alphia Facility	2,792	—		
Payment of loan issuance costs	(242)	(7)		
Proceeds from warrant liabilities	2,208	—		
Payments on term loans	—	(650)		
Cash (Used in) Provided by Financing Activities	$ (4,769)	$ 1,843		
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	$ (5,673)	$ (16,327)	$ (579)	$ (1,524)
Total cash and cash equivalents and restricted cash, beginning of period	9,473	28,942	4,455	9,473
Total cash and cash equivalents and restricted cash, end of period	$ 3,800	$ 12,615	$ 3,876	$ 7,949
Supplemental cash flow information				
Cash paid during the quarter for:				

Interest	$ 489	$ 279	$ 64	$ 237
Non-cash investing activities:				
Aimia acquisition			$ 400	$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

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, 2022 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, 2022 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
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 and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, the financial position as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 and the cash flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022. 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 Alphia 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 Alphia Term Loan Facility as of March 31, 2024 and the debt is callable by the lender. Our continued operating losses raise 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 condensed 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 covenant 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. The Company's cash equivalents are held in government money market funds and at times may exceed federally insured limits. For purposes of reporting cash flows, the Company considers all cash accounts that are not subject to withdrawal restrictions or penalties to be cash and cash equivalents. At December 31, 2022, the Company had $8.0 million in money market funds, all of which were held in cash. As of September 30, 2023, the Company had closed its money market funds.

Restricted cash

The Company was required to maintain a restricted cash balance of $6.3 million as of December 31, 2022, in connection with the Wintrust Credit Facility. As of September 30, 2023, there are no restrictions on cash due to the full repayment of the Wintrust Credit Facility described in Note 8.

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 $2.4 1.1 million and $4.8 1.4 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. Advertising costs were $6.1 million and $10.0 million for the nine months ended September 30, 2023 and 2022, 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

ASU 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"

In June 2016, the FASB issued ASU 2016-13, a There were no new standard to replace the incurred loss impairment methodology under current GAAP with a methodology standards that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard was effective for the Company on January 1, 2023. The new standard did not would have a material an impact on the condensed consolidated financial statements for the three and nine months ended September 30, 2023 March 31, 2024.

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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.

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, such as Petco, Pet Supplies Plus 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 September 30,				Nine Months Ended September 30,				Three Months Ended March 31,			
	2023		2022		2023		2022		2024		2023	
E-commerce (1)	$ 3,180	24%	$ 3,530	30%	$ 10,330	32%	$ 11,035	24%	$ 3,265	41%	$ 3,895	42%
Brick & Mortar (2)	2,249	17%	1,342	11%	5,669	17%	9,632	21%				
International (2)									2,874	37%	2,311	25%
DTC	1,298	10%	1,371	12%	4,316	13%	5,066	11%	1,209	15%	1,322	14%
International (3)	6,390	49%	5,622	47%	12,575	38%	19,661	44%				
Brick & mortar (3)									555	7%	1,709	19%
Net Sales	$ 13,117	100%	$ 11,865	100%	$ 32,890	100%	$ 45,394	100%	$ 7,903	100%	$ 9,237	100%

(1) The Company's E-commerce channel includes two customers that amounted to greater than 10% 10% of the Company's total net sales for the three and nine months ended September 30, 2023 March 31, 2024, and 2022, 2023, respectively. These customers had $3.1 3.2 million and $10.0 million of net sales for the three and nine months ended September 30, 2023 and $3.3 million and $10.6 3.8 million of net sales during the three and nine months ended September 30, 2022 March 31, 2024 and March 31, 2023, respectively.

(2) The Company's Brick & Mortar channel includes $4.3 million of net sales from one customer that amounted to greater than 10% of the Company's total net sales for the nine months ended September 30, 2022. None of the Company's Brick & Mortar customers represented greater than 10% of net sales during the three months ended September 30, 2022 or during the three and nine months ended September 30, 2023.

(3) One of the Company's International customers that distributes products in China amounted to greater than 10% 10% of the Company's total net sales during the three months ended March 31, 2024 and nine months ended September 30, 2023 represented March 31, 2023, representing $6.0 2.2 million and $11.0 million of net sales, respectively. 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 and nine months ended September 30, 2022 represented $5.3 million and $16.6 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):

	September 30, 2023	December 31, 2022
Food, treats and supplements	$ 7,048	$ 10,212
Inventory packaging and supplies	1,160	1,699
Total Inventories	8,208	11,911
Inventory reserve	(667)	(1,654)
Inventories, net	$ 7,541	$ 10,257

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	March 31, 2024	December 31, 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	$ 5,201	$ 6,611

Note 4 – Prepaid expenses and other current assets
Prepaid expenses and other current assets are summarized as follows (in thousands):

	September 30, 2023	December 31, 2022
Total Prepaid expenses and other current assets	$ 992	$ 1,051

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

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Note 5 - Fixed assets

Fixed assets consist of the following (in thousands):

	Estimated Useful Life	September 30, 2023	December 31, 2022	Estimated Useful Life	March 31, 2024	December 31, 2023
Equipment	2 - 5 years	$ 11	$ 7	2 - 5 years	$ 18	$ 18
Furniture and fixtures	2 - 5 years	221	221	2 - 5 years	221	221
Computer software, including website development	2 - 3 years	187	187	2 - 3 years	187	187
Computer equipment	1 - 2 years	109	129	1 - 2 years	111	108
Total fixed assets		528	544		537	534
Accumulated depreciation		(270)	(169)		(339)	(304)
Fixed assets, net		$ 258	$ 375		$ 198	$ 230

Depreciation expense was $0.04million for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023. Depreciation expense was $ 0.12 million for the nine months ended September 30, 2023 and September 30, 2022, respectively.

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:

			September 30, 2023		December 31, 2022				December 31, 2023		
	Estimated useful life	Gross carrying amount	Accumulated amortization	Net carrying amount	Accumulated amortization	Net carrying amount	Estimated useful life	Gross carrying amount	Accumulated amortization	Impairment loss	Net carrying amount
Customer relationships	7	$ 7,190	$ (3,885)	$ 3,305	$ (3,115)	$ 4,075	7	$ 7,190	$ (4,142)	$ (3,048)	$ —
Trade name	15	7,500	(1,891)	5,609	(1,516)	5,984	15	7,500	(2,016)	(5,484)	—
Total intangible assets		$ 14,690	$ (5,776)	$ 8,914	$ (4,631)	$ 10,059		$ 14,690	$ (6,158)	$ (8,532)	$ —

Amortization expense was $0.38 million and $1.150.4 million for the for the three and nine months ended September 30, 2023 and September 30, 2022, respectively.

The estimated future amortization of intangible assets over the remaining weighted average useful life of 8.3 years is as follows (in thousands):

Remainder of 2023	$ 382
2024	1,527
2025	1,527
2026	1,494
2027	500
Thereafter	3,484
	$ 8,914

March 31, 2023. The Company assesses intangible assets did not record amortization expense for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be fully recoverable. If impairment indicators are present, the Company performs a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to these long-lived assets to their carrying value. There were no indicators of impairment of the intangible assets as of September 30, 2023 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):

	September 30, 2023	December 31, 2022
Accrued taxes	$ 107	$ 110
Accrued payroll and benefits	375	688
Accrued trade promotions and advertising	524	567
Accrued interest	181	84
Accrued commissions	687	385
Deferred revenue	(8)	336
Short-term financing	341	165
Licenses and permits	72	32
Other	246	229
Total accrued and other liabilities	$ 2,525	$ 2,596
	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	$ 1,505	$ 2,085

Note 8 – Debt

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

	September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
	Amount	Rate	Maturity date	Amount	Rate	Maturity date	Amount	Rate	Maturity date	Amount	Rate	Maturity date
Term loan, net	$ 2,714	(2)	6/21/2026	$ —			$ 3,054	(1)	6/21/2026	$ 2,881	(1)	6/21/2026
Line of credit, net	$ 1,917	(3)	6/21/2025	$ 11,444	(1)	10/31/2024	$ 2,171	(2)	6/21/2025	$ 1,741	(2)	6/21/2025
Total debt							5,225			4,622		
Less current portion	1,917			—			5,225			4,622		
Total long-term debt	$ 2,714			$ 11,444			$ —			$ —		

(1) Interest at a variable fixed rate of the daily U.S. Federal Funds Rate plus 375 10.00 basis points with an interest rate floor of 3.75%% per annum.

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

(3) 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% 5.50% per annum.

Wintrust Term Loan and Line of Credit

On January 6, 2021, Halo entered into a credit facility with Old Plank Trail Community Bank, N.A., an affiliate of Wintrust Bank, N.A. ("Wintrust") consisting of a $6.0 million term loan and a $6.0 million revolving line of credit, each scheduled to mature on January 6, 2024 and each bore interest at a variable rate of LIBOR plus 250 basis points, with an interest rate floor of 2.50% per annum (the "Wintrust Credit Facility"). The Second Wintrust Amendment described below updated the rate at which the Wintrust Credit Facility bore interest to the greater of the daily U.S. Federal Funds Rate plus 285 basis points, or the interest rate floor, which remained unchanged. The Third Wintrust Amendment described below updated the interest rate on the Wintrust Credit Facility to the U.S. Federal Funds Rate plus 375 basis points, with an interest rate floor of 3.75% and extends the maturity date of the Wintrust Credit Facility from January 6, 2024 to October 31, 2024. Accrued interest on the Wintrust Credit Facility is payable monthly which commenced on February 1, 2021. Principal payments were required to be made monthly on the term loan commencing February 2021 with a balloon payment upon the original maturity date. The proceeds from the Wintrust Credit Facility were used (i) to repay outstanding principal, interest and fees under the previous revolving line of credit with Citizens Business Bank (the "ABL Facility") and (ii) for general corporate purposes.

The Wintrust Credit Facility subjected the Company to certain financial covenants, including the maintenance of a fixed charge coverage ratio of no less than 1.25 to 1.00, tested as of the last day of each fiscal quarter. The numerator in the fixed charge coverage ratio was the operating cash flow of Halo, defined as Halo EBITDA less cash paid for unfinanced Halo capital expenditures, income taxes and dividends. The denominator was fixed charges such as interest expense and principal payments paid or payable on other indebtedness attributable to Halo. As of December 31, 2021, the Company failed to satisfy the fixed charge coverage ratio and entered into a default waiver agreement with Wintrust in which Wintrust waived the existing default through the next testing date, March 31, 2022. As part of the Second Wintrust Amendment described below, the financial covenants were amended to subject the Company to a minimum liquidity covenant test in lieu of a fixed charge coverage ratio which required the Company to maintain liquidity, tested on the last day of each fiscal quarter beginning March 31, 2022, of no less than (i) $13.0 million as of the last day of each fiscal quarter ending March 31, 2022, through and including the last day of the fiscal quarter ending December 31, 2022 and (ii) $12.0 million as of the last day of the fiscal quarter ending March 31, 2023, and as of the last day of each fiscal quarter thereafter. Furthermore, as part of the Third Wintrust Amendment described below, the financial covenants were further amended to require the Company to maintain a minimum liquidity of $8.5 million tested on the last day of each fiscal quarter beginning September 30, 2022 and thereafter.

The Wintrust Credit Facility is secured by a general guaranty and security interest on the assets, including the intellectual property, of the Company and its subsidiaries. The Company has also pledged all of the capital stock of Halo held by the Company as additional collateral. Furthermore, the Wintrust Credit Facility was supported by a collateral pledge by a member of the Company's board of directors; as a result of the First Wintrust Amendment described below, this collateral pledge was terminated and released.

On August 13, 2021, Halo entered into the first amendment to the Wintrust Credit Facility (the "First Wintrust Amendment") to increase the revolving line of credit from $6.0 million to $7.5 million. The First Wintrust Amendment also required Halo to secure the credit facility with a pledge of a deposit account in the amount of $7.2 million, which was decreased to $6.9 million on January 1, 2022 and was to further decrease to $6.0 million on January 1, 2023. Additionally, on March 25, 2022, the Company entered into the second amendment to the Wintrust Credit Facility (the "Second Wintrust Amendment") which provided for the release of the Company's Bona Vida subsidiary as a guarantor, an update to the financial covenants as described above and an update to the rate at which the Wintrust Credit Facility bore interest, which is also described above. Furthermore, on October 24, 2022, the Company entered into the third amendment to the Wintrust Credit Facility (the "third Wintrust Amendment") which provided for an increase to the revolving line of credit from $7.5 million to $13.5 million, set the amount of Halo's obligation to pledge a deposit account with Wintrust to a fixed amount of $6.3 million throughout the remainder of the term and provided updates to the interest rate, maturity date and financial covenants as described above.

As part of the Third Wintrust Amendment described above, Halo used a portion of the increased revolving credit facility to repay and retire the outstanding term loan portion of the Wintrust Credit Facility.

On June 21, 2023, the Company paid off the entire balance in the sum of $13.5 million of the Wintrust Credit Facility removing any covenant requirements to be met at September 30, 2023.

As of September 30, 2023, there was no outstanding balance related to the Wintrust Credit Facility. As of December 31, 2022, the line of credit outstanding was $11.4 million, net of debt issuance costs of less than $0.2 million. Debt issuance costs are amortized using the effective interest method. The carrying amount for the Company's line of credit approximates fair value as the instrument has a variable interest rate that approximates market rates.

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% 75% of the face amount of all purchased invoices, the 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% 2.5% percentage per annum. The interest rate at September 30, 2023 March 31, 2024 was 5.5% 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 restrict 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 and nine months ended September 30, 2023 March 31, 2024, the Company sold receivables having an aggregate face value of $3.5 4.0 million and $6.5 million, respectively, in exchange for cash proceeds of $2.6 3.0 million and $4.9 million, respectively. million. As of September 30, 2023 March 31, 2024, the balance outstanding on the Wintrust Receivables Credit Facility amounted to $1.9 2.2 million.

Alphia Term Loan Facility

On June 21, 2023, the Company entered into a term loan credit agreement (the "Term Loan Agreement") with Alphia Inc. ("Alphia"), a custom manufacturer of super-premium pet food in the U.S. Pursuant to the Term Loan Agreement, Alphia 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 Alphia (see Note 11 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% 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 September 30, 2023 March 31, 2024. The Company may prepay the principal of the Term Loan at any time upon written notice to Alphia 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 Alphia (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 Alphia (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 Alphia (the "Term Loan Guaranty").

As of September 30, 2023 March 31, 2024, our the Company's indebtedness on the Alphia Term Loan Facility is $5.0 million which is comprised 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 $2.5 million and $2.7 2.2 million net of on the Alphia Term Loan Agreement (see Note 12 for further discussion). Furthermore, the Company incurred debt issuance costs of $0.2 million (See Note 11 for further discussion). Debt 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 September 30, 2023 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

Year ending December 31:		
2024	$	—
2025		—
2026		5,000
Total	$	5,000

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 9 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 and the warrants liabilities (measured at fair value on a recurring basis) are based on a risk-neutral Monte Carlo simulation approach. 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:

			September 30, 2023		December 31, 2022				March 31, 2024		December 31, 2023	
	Fair Value Hierarchy		Carrying Amount	Fair Value	Carrying Amount	Fair Value	Fair Value Hierarchy		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Term loan	Level 3	(2)	$ 2,714	$ 3,024	$ —	$ —	Level 3	(2)	$ 3,054	$ 3,565	$ 2,881	$ 3,314
Line of credit	Level 2	(1)	$ 1,917	$ 1,917	$ 11,444	$ 11,444	Level 2	(1)	$ 2,171	$ 2,171	$ 1,741	$ 1,741
Warrants liabilities	Level 3	(2)	$ 2,208	$ 869	$ —	$ —						

(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 10 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 September 30, 2023 March 31, 2024 or December 31, 2022 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.

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On March 25, 2024, the Company initiated a legal action to enforce a right of first refusal option exercised by Alphia pursuant to the terms of a written agreement between Alphia and the Company whereby Alphia 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 11 12 – Warrants

The following summarizes the Company's outstanding warrants to purchase shares of the Company's common stock as of and for the years three months ended September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023:

	Warrants	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Warrants outstanding as of December 31, 2022	9,433,584	$ 5.92		
Warrants outstanding as of December 31, 2023			550,039	$ 2.47
Issued	—	$ —	—	$ —
Exercised	—	$ —	—	$ —
Terminated/Expired	—	$ —	—	$ —
Warrants outstanding as of March 31, 2023	9,433,584	$ 5.92		
Issued	14,768,125	$ 0.26		
Exercised	—	$ —		
Terminated/Expired	—	$ —		
Warrants outstanding as of June 30, 2023	24,201,709	$ 5.92		
Issued	—	$ —		
Exercised	—	$ —		
Terminated/Expired	—	$ —		
Warrants outstanding as of September 30, 2023	24,201,709	$ 5.92		
Warrants outstanding as of March 31, 2024			550,039	$ 2.47

The intrinsic value of outstanding warrants shown in the table above outstanding was $0.0 million as of March 31, 2023 March 31, 2024 and December 31, 2022, are equity classified December 31, 2023. The following discussion provides details on the various types of outstanding warrants issued between May 2019 and January 2021. There was no intrinsic value associated with these equity warrants as of March 31, 2023 and December 31, 2022, respectively. the related relevant disclosures around each type.

In conjunction with the Alphia Term Loan Facility mentioned in Note 8 - Debt, the Company issued to Alphia (i) a warrant (the "First Tranche Warrant") to purchase 6,545,338.45 148,758 shares of the Company's common stock, par value $0.001 per share ("Common Stock") at a price of $0.26 11.44 per share, and (ii) a warrant (the "Second Tranche Warrant" and together with the First Tranche Warrant, the "Warrants") to purchase 8,222,787 186,882 shares of Common Stock at a price of $0.26 11.44 per share. Unless exercised, the Warrants expire on June 21, 2028. Alphia's exercise of the Second Tranche Warrant is was subject to the approval of the Company's stockholders. stockholders and was approved on November 15, 2023. The Warrants contain certain anti-dilution provisions in favor of Alphia 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 contained a cashless exercise option at the election of Alphia.

Additionally, in conjunction with the Term Loan, the Company entered into a Side Letter Agreement with Alphia (the "Side Letter") pursuant to which Alphia 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. Alphia'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 Alphia with certain Board observer rights.

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

The Alphia warrant liabilities are determined using a risk-neutral Monte Carlo simulation based approach, a Level 3 valuation. The significant inputs to anti-dilution provisions which previously precluded equity treatment of the warrant liabilities are warrants, expired on December 21, 2023, and thus the warrants were reclassified and presented in equity as follows:

	September 30, 2023	
	First Tranche Warrant	Second Tranche Warrant
Exercise price	$ 0.26	$ 0.26
Stock price	$ 0.21	$ 0.21
Volatility	66.0 %	66.0 %
Time to maturity	5 years	5 years
Risk-free rate	5.55 %	4.63 %
Dividend yield	— %	— %

The following table summarizes the Alphia warrant liability activity for three and nine months ended September 30, 2023:

Fair value of warrant liabilities as of March 31, 2023	$ —
Warrant liabilities incurred	2,208
Loss (gain) in change of fair value of warrant liabilities	—
Fair value of warrant liabilities as of June 30, 2023	$ 2,208
Warrant liabilities incurred	—
Loss (gain) in change of fair value of warrant liabilities	(1,339)
Fair value of warrant liabilities as of September 30, 2023	$ 869

The change in fair value related to the Alphia warrant liabilities was $(1.3) million for three months and nine months ended September 30, 2023. There were no transfers to/from levels 1, 2 and 3 during the three and nine months ended September 30, 2023 December 31, 2023.

Note 12 13 – Share-based compensation

During the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, the Company recognized $0.5 million and $0.6 million, respectively, of share-based compensation expense. During the nine months ended September 30, 2023 and September 30, 2022, the Company recognized $1.6 million and $2.5 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 1,083,334 24,621 shares of common stock which was increased to 1,500,000 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% 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 9,000,000 204,546 shares of common stock shall be authorized for issuance. The authorized shares for issuance was increased to 2,700,000 61,364 on January 1, 2021, increased to 5,614,637 127,606 on January 1, 2022 and again increased to 8,557,663 194,493 on January 1, 2023.

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Stock options

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

Options Weighted Average Exercise Price

	Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)		Aggregate Intrinsic Value	
Options outstanding as of December 31, 2022 December 31, 2023	54	$	5.03	5.7	$	—	3,071,187 $ 5.39 7.2 $ —
Granted	Granted —		—	—		—	
Forfeited/Expired	(178,6563)	$	4.056.78				
Options outstanding as of March 31, 2023 March 31, 2024	51	$	4.95	5.7	$	—	2,892,531 $ 5.47 6.3 $ —
Granted	—		—				
Forfeited/Expired	(280,689)		4.69				
Options outstanding as of June 30, 2023	2,611,842	$	5.51	6.2	$	—	
Granted	—		—				
Forfeited/Expired	(180,948)	$	4.76				
Options outstanding as of September 30, 2023	2,430,894	$	5.56	5.4	$—		
Options exercisable as of September 30, 2023 March 31, 2024	45	$	5.42	5.4	$	—	2,205,182 $ 5.71 5.1 $ —

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 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	Three Months Ended March 31, 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 February 2022, January 2023, the Company granted 218,345 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.

During the fourth quarter of 2022, the Company granted 65,555 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.

In January 2023, the Company granted 892,860 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 200,000 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 18,021 409 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 1,500,000 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.

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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 13 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 and $0.1 million during the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Note 14 15 – Related party transactions

Director Fees

The Company pays quarterly board of director fees. As of December 31, 2022 March 31, 2024 and December 31, 2023, $0.1 million of these director fees were in accounts payable on the Condensed Consolidated Balance Sheets, respectively. As of September 30, 2023, there were no director fees outstanding. 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 September 30, 2023 March 31, 2023 marketing expense related to Believeco totaled $0.14 0.01 million, none of which less than $0.1 million are is included within Accounts Payable.

Note 15 16 – Income taxes

For the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, the Company recorded income tax provision of less than $0.1 million. For the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, the Company's effective tax rate was less than 1% 1%, respectively. The Company's effective tax rate differs from the U.S. federal statutory rate of 21%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 and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023.

Note 16 17 – Concentrations

Major suppliers

The Company sourced approximately 74% 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 nine three months ended September 30, 2023. The Company sourced approximately 70% of its inventory purchases from three vendors for the nine months ended September 30, 2022 March 31, 2023.

Major customers

Accounts receivable from three two customers represented 88% 89% of accounts receivable as of September 30, 2023 March 31, 2024. Accounts receivable from three two customers represented 89% 79% of accounts receivable as of December 31, 2022 December 31, 2023. Three customers represented 63% 70% of gross sales for the nine three months ended September 30, 2023 March 31, 2024. Four customers represented 70% 70% of gross sales for the nine three months ended September 30, 2022 March 31, 2023.

Credit risk

As of September 30, 2023 March 31, 2024 and December 31, 2022 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 17 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 and nine months ended September 30, 2023 and 2022, 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 and nine months ended September 30, 2023 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: 9,433,584214,400 of stock equivalent warrants; 14,768,125 of warrant liabilities (6,545,338.45 First Tranche Warrant and 8,222,787 Second Tranche Warrant); 2,611,84265,740 of stock equivalent employee stock options and 6,412146 of stock equivalent other options. For the three months ended September 30, 2022, 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: 9,433,584 of stock equivalent warrants; 14,768,125 of warrant liabilities; 3,200,271 of stock equivalent employee stock options and 6,412 of stock equivalent other options. The warrants classified as liabilities represent a participating security and thus should be included in the calculation of earnings per share (EPS) using the two-class method. Because these warrants do not have a contractual obligation to share in losses, these warrants will be included in only the diluted EPS calculation assuming the Company has undistributed losses for the period. To determine if the warrants are dilutive, the First Tranche will be calculated using the treasury stock method and adjusting the numerator for changes in fair value and included in diluted EPS, if considered dilutive. The Second Tranche Warrant is contingently exercisable and should not be included in the denominator until the contingency (approval of the Company's stockholders) is resolved
.

The following table sets forth basic and diluted net (loss) earnings per share attributable to common stockholders for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 (in thousands, except share and per share amounts):

	2023	2022	2023	2022	2024	2023
	Three Months Ended September 30,		Nine Months ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Numerator:						
Net loss	$ (1,621)	$ (6,547)	$ (8,069)	$ (14,954)	$ (2,830)	$ (3,484)
Adjusted net loss available to common stockholders	$ (1,621)	$ (6,547)	$ (8,069)	$ (14,954)		
Adjusted net loss attributable to common stockholders					$ (2,830)	$ (3,484)
Denominator:						
Basic WASO	30,975,566	29,364,712	30,679,905	29,339,918	786,745	692,615
Dilutive common stock equivalents	—	—	—	—	—	—
Diluted WASO	30,975,566	29,364,712	30,679,905	29,339,918	786,745	692,615
Net loss per share attributable to common stockholders, basic	$ (0.05)	$ (0.22)	$ (0.26)	$ (0.51)	$ (3.60)	$ (5.03)
Net loss per share attributable to common stockholders, diluted	$ (0.05)	$ (0.22)	$ (0.26)	$ (0.51)	$ (3.60)	$ (5.03)

Note 18 19 – Subsequent events

In October 2023, 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 such as Petco, Pet Supplies Plus 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).

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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 September 13, 2022, we announced that Scott Lerner was stepping down from his role as Chief Executive Officer (“CEO”), effective September 14, 2022. Also on September 13, 2022, we announced that Lionel F. Conacher was appointed as Interim CEO, effective September 14, 2022.

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.

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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 Alphia 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 Alphia, Inc. (“Alphia”), 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 and nine months ended September 30, 2023 March 31, 2024 and 2022 2023

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

	Three Months Ended September 30,		Change		Nine Months ended September 30,		Change		Three Months Ended March 31,		Change	
	2023	2022	$	%	2023	2022	$	%	2024	2023	$	%
Net sales	$ 13,117	$ 11,865	$ 1,252	11 %	$ 32,890	$ 45,394	$ (12,504)	(28)%	$ 7,903	$ 9,237	$ (1,334)	(14)%
Cost of goods sold	8,681	7,700	981	13 %	21,625	31,795	(10,170)	(32)%	5,289	5,996	(707)	(12)%
Gross profit	4,436	4,165	271	7 %	11,265	13,599	(2,334)	(17)%	2,614	3,241	(627)	(19)%
Operating expenses:												
Selling, general and administrative	7,052	10,569	(3,517)	(33)%	19,721	28,225	(8,504)	(30)%	5,080	6,496	(1,416)	(22)%
Total operating expenses	7,052	10,569	(3,517)	(33)%	19,721	28,225	(8,504)	(30)%	5,080	6,496	(1,416)	(22)%
Loss from operations	(2,616)	(6,404)	3,788	59 %	(8,456)	(14,626)	6,170	42 %	(2,466)	(3,255)	789	24 %
Other expenses:												
Interest expense, net	(344)	(142)	(202)	(142)%	(952)	(324)	(628)	194 %	(362)	(229)	(133)	(58)%
Change in fair value of warrants liabilities	1,339	—	1,339	— %	1,339	—	(1,339)	— %	—	—	—	— %
Total other expense, net	995	(142)	1,137	801 %	387	(324)	711	(219)%	(362)	(229)	(133)	(58)%
Net loss before income taxes	(1,621)	(6,546)	4,925	75 %	(8,069)	(14,950)	6,881	46 %	(2,828)	(3,484)	656	19 %
Net loss available to common stockholders	$ (1,621)	$ (6,547)	$ 4,926	75 %	$ (8,069)	$ (14,954)	$ 6,885	46 %				
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.

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

	Three Months Ended September 30,				Nine Months Ended September 30,				Three Months Ended March 31,			
	2023		2022		2023		2022		2024		2023	
E-commerce (1)	$ 3,180	24 %	$ 3,530	30 %	$ 10,330	32 %	$ 11,035	24 %	$ 3,265	41 %	$ 3,895	42 %
Brick & Mortar (3)	2,249	17 %	1,342	11 %	5,669	17 %	9,632	21 %				
International (2)									2,874	37 %	2,311	25 %
DTC	1,298	10 %	1,371	12 %	4,316	13 %	5,066	11 %	1,209	15 %	1,322	14 %
International (2)	6,390	49 %	5,622	47 %	12,575	38 %	19,661	44 %				
Brick & mortar (3)									555	7 %	1,709	19 %
Net Sales	$ 13,117	100 %	$ 11,865	100 %	$ 32,890	100 %	$ 45,394	100 %	$ 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 and nine months ended September 30, 2023 March 31, 2024, and 2022, 2023, respectively. These customers had $3.1 million and $10.0 million $3.2 million of net sales for the three and nine months ended September 30, 2023 March 31, 2024 and $3.3 million and $10.6 million of net sales during the three and nine months ended September 30, 2022, respectively.

(2) The Company’s Brick & Mortar channel includes $4.3 million of net sales from one customer that amounted to greater than 10% of the Company’s total net sales for the three and nine months ended September 30, 2022. None of the Company’s Brick & Mortar customers represented greater than 10% $3.8 million of net sales during the three months ended September 30, 2023 or during the three and nine months ended September 30, 2023 March 31, 2023.

(3) (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 nine months ended September 30, 2023 represented $6.0 million March 31, 2023, representing $2.2 million and $11.0 million $2.1 million of net sales, respectively. One

(3) None of the Company’s International Brick & Mortar customers that distributes products in China amounted to represented greater than 10% of the Company’s total net sales during the three months and nine ended March 31, 2024 or March 31, 2023. For the three months ended September 30, 2022 represented $5.3 million and $16.6 million March 31, 2023, Petco is included within the Brick & Mortar channel. In Q1 2024, Petco is presented within E-commerce as a result of net sales, respectively. the strategic exit out of Petco stores, while remaining on Petco.com.

Net sales increased $1.3 million, decreased $(1.3) million, or 11% (14)%, to $13.1 million $7.9 million for the three months ended September 30, 2023 March 31, 2024 compared to $11.9 million $9.2 million for the three months ended September 30, 2022 March 31, 2023. Net sales decreased $(12.5) million, or (28)%, to $32.9 million for the nine months ended September 30, 2023 compared to $45.4 million for the nine months ended September 30, 2022. We experienced an increase The decrease in net sales for the three months ended September 30, 2023 , with the growth realizing within our International channel and Amazon platform. The decrease in net sales for the nine months ended September 30, 2023 March 31, 2024 is primarily attributable to supply chain constraints and the downstream impact it has on our business. We experienced significant production delays from our dry kibble co-manufacturing partner stemming from short-term shortages new payment terms enforced in raw materials, labor constraints, and capacity constraints. The inconsistency in supply created material out-of-stocks which resulted in less-than-optimal fill rates of our Halo Elevate® product line, sold primarily in our Brick & Mortar channel. Since closing the Alphia Term Loan, we have fully transitioned our dry kibble manufacturing to Alphia which, albeit a very positive change needed for stabilizing supply and for long-term sustainability, has had a short-term impact to our International channel as it created registration delays to preserve cash, and a decline in certain foreign markets, traffic in turn delaying ordering and product launches. 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.

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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 September 30, 2023 March 31, 2024, gross profit increased $0.2 million decreased $0.6 million, or 7% 19%, to $4.4 million $2.6 million compared to $4.2 million $3.2 million during the three months ended September 30, 2022. During the nine months ended September 30, 2023, gross profit decreased $(2.3) million, or (17)%, to $11.3 million compared to $13.6 million during the nine months ended September 30, 2022 March 31, 2023.

Gross margin decreased 128 200 basis points to 34% 33% for the three months ended September 30, 2023 March 31, 2024 compared to 35% for the three months ended September 30, 2022. Gross margin increased 429 basis points to 34% for the nine months ended September 30, 2023 compared to 30% for the nine months ended September 30, 2022 March 31, 2023. The decrease in gross margin for the three months ended September 30, 2023 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 increase decrease in gross margin for the nine months ended September 30, 2023 is primarily was attributable to our product sales mix, and a decrease in revenue at a rate lower than total sales volume. There was also an increase in our inventory reserve, driven by the rate at which cost of goods sold ("COGS") decreased. For the nine months ended September 30, 2023, the average price per pound cost $1.83, versus $1.89 for the nine months ended September 30, 2022. Due to the increased production run sizes for the International channel, we were able to achieve minimum order quantity price breaks which included orders over 100,000 pounds receiving approximately a 6% price break on COGS. We also implemented a 7% price increase across our Halo Holistic™ and Halo masterbrand wet product lines in August 2022, and a 12.5% sales price increase on our Halo Elevate® products in the first nine months of 2023. 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 September 30, 2023 March 31, 2024, sales and marketing costs decreased approximately $(2.5) $(0.6) million or (47) (33)%, to $2.8 million $1.2 million from $5.4 million $1.8 million during the three months ended September 30, 2022. During the nine months ended September 30, 2023, sales and marketing costs decreased approximately $(5) million or (41)%, to $7.0 million from $11.9 million during the nine months ended September 30, 2022 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 during 2022. channel.
- *Employee compensation and benefits* decreased approximately $(0.4) $(0.2) million or (21) (10)% during the three months ended September 30, 2023 March 31, 2024 to $1.5 million from $1.9 million $1.7 million during the three months ended September 30, 2022. Employee compensation and benefits decreased approximately $(1.3) million or (22)% during the nine months ended September 30, 2023 to $4.7 million from $6.1 million during the nine months ended September 30, 2022 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 2022. 2024.
- *Share-based compensation* includes expenses related to equity awards issued to employees and non-employee directors. During the three months ended September 30, 2023 March 31, 2024, Share-based compensation decreased $(0.1) $(0.4) million or (15) (40)% to $0.5 million compared to $0.6 million $0.9 million for the three months ended September 30, 2022 March 31, 2023. During January 2023 grants became fully vested during the nine three months ended September 30, 2023 March 31, 2023, Share-based compensation decreased by $(0.8) million, or (34)%, to $1.6 million, as compared resulting in a decrease to share-based compensation, of $2.5 million during the nine months ended September 30, 2022. The decrease is driven by reduction of senior management headcount resulting in cancellations of options during 2023, partially offset by common stock issued for board service and accelerated vesting of a certain stock option grant during 2022, interim CEO service compensation and additional option grants. 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 September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023. Freight decreased $(0.3) million or (20)% during the nine months ended September 30, 2023 to slightly less than $1.0 million from $1.2 million during the nine months ended September 30, 2022. Freight costs are generally decreasing due to lower DTC sales remained consistent as described outlined above.
- *Non-cash charges* including depreciation, amortization, disposal or sale of assets and bad debt expense decreased slightly by $(0.1) $(0.4) million or (21) (94)% to less than $0.1 million during the three months ended March 31, 2024 from $0.4 million during the three months ended September 30, 2023 from $0.5 million during the three months ended September 30, 2022 March 31, 2023. Non-cash charges were $1.3 million and $1.4 million during the nine months ended September 30, 2023 and September 30, 2022, respectively. The decrease was driven by disposals of certain assets during 2023, offset by additional capital expenditures throughout 2022. 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 September 30, 2023 March 31, 2024, other general and administrative costs decreased $(0.5) million, increased $0.2 million, or (26)% 14% to $1.4 million $1.6 million compared to $1.9 million $1.4 million during the three months ended September 30, 2022. During the nine months ended September 30, 2023, other general and administrative costs decreased $(1.2) million, or (23)% to $4.0 million compared to $5.2 million during the nine months ended September 30, 2022 March 31, 2023. The decrease increase was driven by commission fees related to sales in our International channel, and lower professional fees related to investor relations. channel.

Interest expense, net

During the three months ended September 30, 2023 March 31, 2024, interest expense increased by $0.2 million, or 174% 58% to $0.4 million from $0.1 million $0.2 million for the three months ended September 30, 2022. During the nine months ended September 30, 2023, interest expense increased by $0.7 million, or 208% to $1.0 million from $0.3 million for the nine months ended September 30, 2022 March 31, 2023. Interest expense for the three and nine months ended September 30, 2023 March 31, 2024 is comprised of interest on our Wintrust Receivables Credit Facility, Alphia Term Loan, the amortization of debt issuance costs, and interest accretion on the Alphia 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. The increase in interest expense for the three and nine months ended September 30, 2023 is related to the acceleration of debt issuance costs charged to interest expense due to the payoff of the Wintrust credit facility.

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 and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, we recorded income tax benefit of less than $0.1 million, $0.1 million, which relates to indefinite-lived assets. The effective tax rate for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 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 8,000,000 181,818 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 $36.1 million from the IPO, after deducting underwriting discounts and commissions of $2.8 million, $2.8 million, and offering costs of approximately $1.1 million. $1.1 million. On September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had cash and cash equivalents of $3.9 million and restricted cash of $3.8 million and $9.5 million $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 September 30, 2023 March 31, 2024, we have not experienced a significant adverse impact to our business, financial condition or cash flows resulting from the COVID-19 pandemic, 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, the COVID-19 pandemic, 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, and the he recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from the COVID-19 pandemic and 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):

	Nine Months ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Cash flows (used in) provided by:				
Operating activities	$ (894)	$ (17,972)	$ (1,006)	$ (1,473)
Investing activities	(10)	(198)	(3)	(10)
Financing activities	(4,769)	1,843	430	(41)
Net decrease in cash and cash equivalents	$ (5,673)	$ (16,327)	$ (579)	$ (1,524)

Cash flows from operating activities

Cash used in operating activities decreased by $17.1 million $0.5 million, or 95% 32%, during the nine three months ended September 30, 2023 March 31, 2024 compared to the nine three months ended September 30, 2022 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 increase in our inventory balance of $4.1 million, or 35%, as we built inventory during 2022 to support the Halo Elevate® launch and the rebranding of TruDog and Halo Holistic™. Additionally, a comparative decrease in accounts receivable balances of $1.1 million $(0.4) million due to timing of sales and collections and a comparative increase in accounts payable of $4.4 million $0.4 million due to inventory rebuild in 2023.

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Cash flows from investing activities

Cash used in investing activities was less than $0.0 million $0.1 million during the nine three months ended September 30, 2023 March 31, 2024 and $0.2 million during the nine months ended September 30, 2022 March 31, 2023. The cash used in investing activities is related to capital expenditures.

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Cash flows from financing activities

Cash used in provided by financing activities was $(4.8) $0.4 million and less than $(0.1) million, during the nine three months ended September 30, 2023 March 31, 2024 and March 31, 2023, respectively. The cash provided by financing activities was $1.8 million during for the nine three months ended September 30, 2022. The cash used in financing activities for the nine months ended September 30, 2023 March 31, 2024 was related to payment of the Wintrust revolving line of credit of $2.9 million and payments on term loans of $13.4 million, offset by proceeds from the Wintrust revolving line of credit of $6.8 million and $2.8 million from $3.0 million, offset by payments on the Alphia facility and proceeds Wintrust revolving line of $2.2 million from warrant liabilities. credit of $(2.6) million. The cash provided by financing activities for the nine three months ended September 30, 2022 March 31, 2023 was related to net proceeds from the revolving lines of credit of $7.5 million, partially offset by payments on the term loan short-term financing arrangement of $(0.7) million and payments on the revolving line of credit of $(5.0) million.

Wintrust Credit Facility $0.04 million.

On January 6, 2021, Halo entered into a credit facility with Old Plank Trail Community Bank, N.A., an affiliate of Wintrust, consisting of a $6.0 million term loan and a $6.0 million revolving line of credit, each scheduled to mature on January 6, 2024. The Wintrust Credit Facility is secured by a general guaranty and security interest on the assets, including the intellectual property of us and our subsidiaries. We have also pledged all of the capital stock of Halo held by us as additional collateral.

On March 25, 2022, we entered into the second amendment to the Wintrust Credit Facility, which removed the financial covenant to maintain a fixed charge coverage ratio and included a new financial covenant to maintain a minimum liquidity, as well updated the rate at which the Wintrust Credit Facility bore interest.

On October 24, 2022, we entered into the third amendment to the Wintrust Credit Facility which provided for an increase to the revolving line of credit, set the amount of Halo’s obligation to pledge a deposit account with Wintrust to a fixed amount throughout the remainder of the term and provided updates to the interest rate, maturity date and minimum liquidity amount associated with the financial covenant.

On June 21, 2023, the Company paid off the entire balance in the sum of $13.5 million of the Wintrust Credit Facility removing any covenant requirements to be met at September 30, 2023.

As of September 30, 2023, there was no outstanding balance related to the Wintrust Credit Facility.

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 September 30, 2023 March 31, 2024, the balance outstanding on the Wintrust Receivables Credit Facility amounted to $1.9 million $2.2 million.

Alphia Term Loan

On June 21, 2023, the Company entered into a term loan credit agreement with Alphia Inc., a leading custom manufacturer of super-premium pet food in the U.S. Pursuant to the Term Loan Agreement, Alphia 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 Alphia (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 Alphia and subject to a prepayment penalty if such prepayment occurs prior to June 21, 2025.

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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 Alphia (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 Alphia (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 Alphia (the "Term Loan Guaranty").

In conjunction with the Term Loan, the Company issued to Alphia (i) a warrant (the "First Tranche Warrant") to purchase 6,545,338.45 148,758 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 8,222,787 186,882 shares of Common Stock at a price of $0.26 per share. Unless exercised, the Warrants expire on June 21, 2028. Alphia's exercise of the Second Tranche Warrant is subject to the approval of the Company's stockholders. The Warrants contain certain anti-dilution provisions in favor of Alphia 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 Alphia.

Additionally, in conjunction with the Term Loan, the Company entered into a Side Letter Agreement with Alphia (the "Side Letter") pursuant to which Alphia 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. Alphia'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 Alphia with certain Board observer rights.

As of September 30, 2023 March 31, 2024, our indebtedness on the Alphia Term Loan Facility amounted to $2.8 million $3.1 million net of debt issuance costs of $0.2 million. For details about the terms, covenants and restrictions contained in the Alphia 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, 2022 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, 2022 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 12 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 12 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.

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

Our management, Under the supervision and with the participation of management, including our interim chief executive officer Chief Executive Officer (our principal executive officer) Principal Executive Officer or "PEO") and our interim chief financial officer Chief Financial Officer (our principal financial officer) 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 quarter ended September 30, 2023. Based upon 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 evaluation, our 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 officer and principal financial officer 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, as because of September 30, 2023 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 due to the material weaknesses discussed below. 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, present, 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.

In July**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 the Company became aware consolidated financial statements. A "material weakness" is defined under SEC rules as a deficiency, or a combination of a cybersecurity incident via email compromise. Management is investigating the matter internally and has engaged a third-party forensics expert to facilitate a full investigation to determine the exact nature, timing, and magnitude of the breach. The investigation is still ongoing as of the date of this report. Management determined that although there was a deficiencies, in internal control that was designed and implemented, it did not prevent the cybersecurity breach. Management has thus determined over financial reporting such that there is a reasonable possibility that a material weakness related 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 the (i) failure to maintain controls that should have been over the operating effectively as effectiveness of September 30, 2023. 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.

Our disclosure controls and procedures were not effective as**Remediation of June 30, 2023, due a material weakness in analyzing complex financial instruments, including the proper classification of warrants as liabilities and the related financial statement disclosures. In light of this material weakness, we performed additional analysis as deemed necessary to ensure that our condensed consolidated financial statements were prepared in accordance with GAAP. Accordingly, management believes that the financial statements included in this report present fairly in all material respects our financial position, results of operations and cash flows for the periods presented. Prior Year Material Weaknesses**

Cybersecurity and IT General Controls

To address remediate the material weakness associated with failure to maintain controls over the operating effectiveness of cybersecurity and IT general controls, we have planned to (i) transition fully transitioned to a new outsourced managed IT service provider with an appropriate level of knowledge and technical experience to design and maintain cybersecurity and IT general controls, controls; (ii) establish established policies and procedures for the design and operation of IT general generals controls (iii) implement an IT general and manual controls framework, and (iv) where necessary, we have identified, to prevent cybersecurity breaches, such as multi-factor authentication implemented and documented IT general controls. We continue 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 evaluate conclude that the appropriate controls to design and maintain effective controls supporting financial systems relevant to our financial reporting processes. We continue to evaluate staffing requirements and technology improvement opportunities to further address and achieve remediation. 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 instruments, 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 implementing further enhancing certain controls over revenue, including adding resources and training programs addressing the review design, implementation, and documentary evidence requirement of complex financial instruments, which may include engaging outside advisors with specialist knowledge of GAAP and valuation. 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.

Other than 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, described above, and the successful remediation of our material weakness related to cybersecurity and IT general controls, there has not been any change were no changes in our internal controls control over financial reporting identified in connection with the Evaluation that occurred during the quarter ended September 30, 2023 quarter-ended March 31, 2024 that has materially affected, or is that are reasonably likely to materially affect, those controls. 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 March 28, 2023 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
2.1	Agreement and Plan of Merger, dated February 28, 2019, by and among the Company, BBC Merger Sub, Inc. and Bona Vida, Inc.	8-K	333-161943	2.1	05/10/2019
2.2	First Amendment to Agreement and Plan of Merger, dated February 28, 2019, by and among the Company, BBC Merger Sub, Inc., and Bona Vida, Inc., dated May 3, 2019	8-K	333-161943	2.2	05/10/2019
2.3	Securities Exchange Agreement, dated February 2, 2019, by and among the Company, TruPet LLC and the members of TruPet LLC	8-K	333-161943	2.3	05/10/2019
2.4	First Amendment to Securities Exchange Agreement, dated February 2, 2019, by and among the Company, TruPet LLC and the members of TruPet LLC, dated May 6, 2019	8-K	333-161943	2.4	05/10/2019
2.5	Amended and Restated Stock Purchase Agreement, dated December 18, 2019, by and among the Company, Halo, Purely For Pets, Inc., Thriving Paws, LLC and HH-Halo LP	8-K	333-161943	2.1	12/26/2019
2.6	Agreement and Plan of Merger, dated July 28, 2022, by and among TruPet LLC and Halo, Purely for Pets, Inc.	10-Q	001-40477	2.6	08/11/2022
3.1	Certificate of Incorporation, dated January 1, 2019	10-Q	333-161943	3.1	04/15/2019
3.2	Certificate of Amendment to Certificate of Incorporation, dated February 1, 2019	10-Q	333-161943	3.2	04/15/2019
3.3	Certificate of Amendment to Certificate of Incorporation, dated March 13, 2019	8-K	333-161943	3.1	03/20/2019
3.4	Certificate of Amendment to Certificate of Incorporation, dated April 18, 2019	10-KT	333-161943	3.5	07/25/2019
3.5	Certificate of Amendment to Certificate of Incorporation, dated July 30, 2020	8-K	333-161943	99.1	07/30/2020
3.6	Certificate of Merger of Sport Endurance, Inc. with and into the Company	10-Q	333-161943	3.4	04/15/2019
3.7	Bylaws	10-Q	333-161943	3.5	04/15/2019
3.8	Certificate of Designation for Series F Convertible Preferred Stock	8-K	333-161943	3.1	10/02/2020
3.10	Certificate of Merger of TruPet LLC with and into Halo, Purely for Pets, Inc.	10-Q	001-40477	3.10	08/11/2022
4.1	Form of Warrant in connection with the November 2019 private placement	8-K	333-161943	4.2	11/15/2019
4.2	Form of Subscription Agreement, dated December 19, 2019, by and among the Company and the Halo Sellers	10-Q	333-161943	10.6	01/31/2020
4.3	Form of Warrant, dated December 19, 2019, by and among the Company and the Halo Sellers	10-Q	333-161943	4.8	01/31/2020
4.4	Form of Warrant, dated December 19, 2019, by and among the Company and the Shareholder Personal Guarantors	10-Q	333-161943	4.10	01/31/2020
4.5	Form of Subscription Agreement dated April 25, 2019 in connection with the May 2019 private placement	8-K	333-161943	10.1	04/30/2019
4.6	Form of Subscription Agreement in connection with the November 2019 private placement	8-K	333-161943	10.1	11/15/2019
4.7†	Better Choice Company Inc. Amended and Restated 2019 Incentive Award Plan	10-K	333-161943	10.19	05/04/2020
4.8†	Form of 2019 Incentive Award Plan Stock Option Agreement	S-1	333-234349	10.7	10/28/2019
4.9	Form of Common Stock Purchase Warrant in connection with the June 2020 private placement.	10-Q	333-161943	4.11	06/25/2020
4.10	Form of Subscription Agreement in connection with the June 2020 private placement.	10-Q	333-161943	4.13	06/25/2020
4.11	Form of July 2020 Warrants	8-K	333-161943	10.5	07/21/2020
4.12	Form of Warrant in connection with the October 2020 Series F Private Placement	8-K	333-161943	4.1	10/02/2020
4.13	Form of Securities Purchase Agreement in connection with the October 2020 Series F Private Placement	8-K	333-161943	10.1	10/02/2020

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 Alphia 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. Alphia, 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).				

4.14	Form of warrant in connection with the January 2021 Private Placement	S-1/A	333-251241	4.22	02/16/2021
4.15	Form of Securities Purchase Agreement in connection with the January 2021 Private Placement	S-1/A	333-251241	4.23	02/16/2021
10.1†	Form of Indemnification Agreement by and among the Company and its officers and directors	S-1	333-234349	10.8	10/28/2019
10.2†	Employment Agreement, Dated December 28, 2020 by and between Scott Lerner and the Company	8-K/A	333-161943	10.2	01/05/2021
10.3†	Employment Agreement, dated October 8, 2020, by and between Sharla Cook and the Company	10-K	333-161943	10.12	03/30/2021
10.4†	Employment Agreement, dated September 27, 2020, by and between Robert Sauermann and the Company	10-K	333-161943	10.13	03/30/2021
10.5†	Employment Agreement, dated January 1, 2021, by and between Donald Young and the Company	10-K	333-161943	10.14	03/30/2021
10.6	Loan and Security Agreement, dated as of January 6, 2021, by and between Old Plank Trail Community Bank, N.A. (“Lender”) and Halo, Purely for Pets, Inc., a Delaware corporation (“Halo”)	8-K	333-161943	10.1	01/11/2021
10.7	Term Note A, dated as of January 6, 2021, issued by Halo in favor of Lender	8-K	333-161943	10.3	01/11/2021
10.8	Guaranty and Security Agreement, dated as of January 6, 2021, made by Better Choice Company Inc. , TruPet LLC, and Bona Vida, Inc., a Delaware corporation	8-K	333-161943	10.4	01/11/2021
10.9	Intellectual Property Security Agreement, dated as of January 6, 2021, executed and delivered by the Company, TruPet and Bona Vida	8-K	333-161943	10.5	01/11/2021
10.10	Stock Pledge Agreement, dated as of January 6, 2021, executed and delivered by the Company in favor of Lender	8-K	333-161943	10.6	01/11/2021
10.11	First Amendment to Loan and Security Agreement, dated as of August 13, 2021, by and between Old Plank Trail Community Bank, N.A. (“Lender”) and Halo, Purely for Pets, Inc.	8-K	001-40477	10.1	08/17/2021
10.12	Revolving Promissory Note, dated as of August 13, 2021, issued by Halo Purely for Pets, Inc.	8-K	001-40477	10.2	08/17/2021
10.13	Deposit Account Pledge Agreement, dated as of August 13, 2021, executed and delivered by Halo Purely for Pets Inc.	8-K	001-40477	10.3	08/17/2021
10.14	Second Amendment to Loan and Security Agreement, dated March 25, 2022, by and between Old Plank Trail Community Bank, N.A. and Halo, Purely for Pets, Inc.	10-K	001-40477	10.14	03/29/2022
10.15	Third Amendment to Loan and Security Agreement, dated October 24, 2022, by and between Old Plank Trail Community Bank, N.A. and Halo, Purely for Pets, Inc.	8-K	001-40477	10.1	10/25/2022
10.16	Revolving Promissory Note, dated as of October 24, 2022, issued by Halo in favor of Lender	8-K	001-40477	10.2	10/25/2022
10.17	First Amendment to Deposit Account Pledge Agreement, dated as of October 24, 2022, executed and delivered by Halo in favor of Lender.	8-K	001-40477	10.3	10/25/2022
10.18 †#	Separation Agreement, dated as of September 14, 2022, by and between the Company and Scott Lerner	10-Q	001-40477	10.18	11/10/2022
10.19 †#	Advisory Consulting Agreement, dated as of November 2, 2022, by and between the Company and Lionel F. Conacher	10-Q	001-40477	10.19	11/10/2022
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	10.1	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

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10.23 †	Term Loan Credit Agreement, dated as of June 21, 2023, by and between Better Choice Company Inc. and Alphia 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
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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.				
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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.

BETTER CHOICE COMPANY INC.

Date: November 13, 2023 May 17, 2024 By: */S/ KENT CUNNINGHAM*

Kent Cunningham

Chief Executive Officer

(Principal Executive Officer)

Date: November 13, 2023 May 17, 2024 By: */S/ CAROLINA MARTINEZ*

Carolina Martinez

Interim Chief Financial Officer

(Principal Financial and Accounting Officer)

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, Lionel F. Conacher, Kent Cunningham, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period three months ended September 30, 2023 March 31, 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: November 13, 2023 May 17, 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 period three months ended September 30, 2023 March 31, 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: November 13, 2023 May 17, 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 the this Quarterly Report on Form 10-Q of Better Choice Company Inc. (the "Company") on Form 10-Q for the period three months ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers 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

Dated: November 13, 2023

/s/ KENT CUNNINGHAM

Kent Cunningham
Chief Executive Officer
(Principal Executive Officer)

/s/ CAROLINA MARTINEZ

Carolina Martinez
Chief Financial Officer
(Principal Financial Officer)