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, 2020

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: 333-161943

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.)

164 Douglas Road East
Oldsmar, Florida 34677
(Address of Principal Executive Offices) (Zip Code)

(Registrant's Telephone Number, Including Area Code): **(813) 659-5921**

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
N/A	N/A	N/A

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

Indicate by checkmark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 ☒

*(As a voluntary filer, the registrant has not been subject to the filing requirements of Section 13 or 15(d) of the Exchange Act for the past 90 days. The registrant has filed all reports required under Section 13 or 15(d) of the Exchange Act during the preceding 12 months).

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 checkmark whether the registrant is a large accelerated filer, 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 a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date was 49,139,708 shares of $0.001 par value common stock outstanding as of November 12, 2020.

Better Choice Company Inc.
TABLE OF CONTENTS

Item		Page
	PART I – FINANCIAL INFORMATION	
1.	Financial Statements	4
	Condensed Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2020 and 2019	5
	Condensed Consolidated Statements of Stockholders' Deficit for the Three and Nine Months Ended September 30, 2020	6
	Condensed Consolidated Statements of Stockholders' Deficit for the Three and Nine Months Ended September 30, 2019	7
	Condensed Consolidated Statements of Cash Flows	8
	Notes to the Condensed Consolidated Financial Statements	10
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
3.	Quantitative and Qualitative Disclosures About Market Risk	37
4.	Controls and Procedures	37
	PART II – OTHER INFORMATION	
1.	Legal Proceedings	39
1A.	Risk Factors	39
2.	Unregistered Sales of Equity Securities and Use of Proceeds	39
3.	Defaults Upon Senior Securities	39
4.	Mine Safety Disclosures	39
5.	Other Information	39
6.	Exhibits	39
	Signatures	46

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Quarterly Report on Form 10-Q ("Quarterly Report") is filed by Better Choice Company Inc. ("Better Choice Company" or the "Company") and as discussed in more detail in our Annual Report on Form 10-K, filed on May 4, 2020 (the "Annual Report"), the Company completed its acquisitions of TruPet LLC ("TruPet") and Bona Vida, Inc. ("Bona Vida") on May 6, 2019 (the "May Acquisitions"). The acquisition of TruPet is treated as a reverse merger with TruPet determined to be the accounting acquirer of the Company. As such, the historical financial statements of the registrant prior to the May Acquisitions are those of TruPet and TruPet's equity has been re-cast to reflect shares of Better Choice Company common stock received in the May Acquisitions. The acquisition of Better Choice Company and Bona Vida were treated as asset acquisitions. On December 19, 2019, Better Choice Company acquired (the "Halo Acquisition," and together with the May Acquisitions, the "Acquisitions") 100% of the issued and outstanding capital stock of Halo, Purely for Pets, Inc. ("Halo"). Unless otherwise stated or the context otherwise requires, the historical business information described in this Quarterly Report prior to consummation of the May Acquisitions is that of TruPet and, following consummation of the May Acquisitions through December 19, 2019, reflects business information of the Company, TruPet, and Bona Vida. From December 19, 2019 onward, the results of operations reflects business information of the Company and Halo as a combined business.

FORWARD-LOOKING STATEMENTS

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Quarterly Report are "forward-looking statements" for purposes of federal and state securities laws, including statements regarding our expectations and projections regarding future developments, operations and financial conditions, and the anticipated impact of COVID-19 and our acquisitions, business strategy, and strategic priorities. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential,"or "continue,"or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. The forward-looking statements in this Quarterly Report are only predictions and are based largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition, and results of operations. Forward-looking statements contained herein include, among others, statements concerning management's expectations about future events and the Company's operating plans and performance, the effects of the COVID-19 outbreak, including levels of consumer, business and economic confidence generally, the regulatory environment, litigation, sales, and the expected benefits of acquisitions, and such statements are based on the current beliefs and expectations of the Company's management, as applicable, and are subject to known and unknown risks and uncertainties. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of known and unknown risks, uncertainties, and assumptions. Although we believe the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties.

These forward-looking statements present our estimates and assumptions only as of the date of this Quarterly Report. Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances, or otherwise. You should, however, consult further disclosures we make in future filings and public disclosures, including without limitation, our Annual Report, Transition Report on Form 10-KT, Quarterly Reports on Forms 10-Q, and Current Reports on Forms 8-K.

PART I

ITEM 1. FINANCIAL STATEMENTS

Better Choice Company Inc.
Condensed Consolidated Balance Sheets
As of September 30, 2020 and December 31, 2019
(Dollars in thousands, except share and per share amounts)

	September 30, 2020 Unaudited	December 31, 2019 Audited
Assets		
Cash and cash equivalents	$ 563	$ 2,361
Restricted cash	1,518	173
Accounts receivable, net	5,629	5,824
Inventories, net	5,122	6,580
Prepaid expenses and other current assets	2,005	2,641
Total Current Assets	14,837	17,579
Property and equipment, net	305	417
Right-of-use assets, operating leases	718	951
Intangible assets, net	13,496	14,641
Goodwill	18,614	18,614
Other assets	1,876	1,330
Total Assets	$ 49,846	$ 53,532
Liabilities & Stockholders' Deficit		
Current Liabilities		
Short term loan, net	$ 19,369	$ 16,061
Line of credit, net	—	4,819
PPP loans	458	—
Other liabilities	1,727	500
Accounts payable	4,090	4,049
Accrued liabilities	5,371	4,721
Deferred revenue	305	311
Operating lease liability, current portion	395	345
Warrant derivative liability	102	2,220
Total Current Liabilities	31,817	33,026
Non-current Liabilities		
Notes payable, net	18,240	16,370
Line of credit, net	5,048	—
PPP loans	394	—
Operating lease liability	350	641
Total Non-current Liabilities	24,032	17,011
Total Liabilities	55,849	50,037
Redeemable Series E Convertible Preferred Stock		
Redeemable Series E preferred stock, \$0.001 par value, 2,900,000 shares authorized, 1,387,378 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	10,566	10,566
Stockholders' Deficit		
Common stock, \$0.001 par value, 200,000,000 and 88,000,000 shares authorized as of September 30, 2020 and December 31, 2019, respectively, and 49,139,708 and 47,977,390 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	49	48
Additional paid-in capital	214,305	194,150
Accumulated deficit	(230,923)	(201,269)
Total Stockholders' Deficit	(16,569)	(7,071)
Total Liabilities, Redeemable Preferred Stock, and Stockholders' Deficit	$ 49,846	$ 53,532

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2020	2019	2020	2019
Net sales	$ 33,302	$ 11,567	$ 11,135	$ 3,932
Cost of goods sold	20,567	7,178	6,681	3,096
Gross profit	12,735	4,389	4,454	836
Operating expenses:				
General and administrative	23,298	12,031	3,648	4,856
Share-based compensation	7,047	6,708	1,543	2,496
Sales and marketing	6,203	8,452	2,396	2,856
Customer service and warehousing	500	854	148	303
Total operating expenses	37,048	28,045	7,735	10,511
Loss from operations	(24,313)	(23,656)	(3,281)	(9,675)
Other expense (income):				
Interest expense, net	7,268	165	2,537	41
Loss on extinguishment of debt	88	—	88	—
Loss on acquisitions	—	147,376	—	(2,612)
Change in fair value of warrant derivative liability	(2,118)	(886)	(4,213)	(1,079)
Total other expense (income), net	5,238	146,655	(1,588)	(3,650)
Net and comprehensive loss	(29,551)	(170,311)	(1,693)	(6,025)
Preferred dividends	103	70	35	43
Net and comprehensive loss available to common stockholders	$ (29,654)	$ (170,381)	$ (1,728)	$ (6,068)
Weighted average number of shares outstanding, basic and diluted	48,809,740	28,624,230	48,961,447	43,575,010
Loss per share, basic and diluted	$ (0.61)	$ (5.95)	$ (0.04)	$ (0.14)

See accompanying notes to the unaudited condensed consolidated financial statements.

Better Choice Company Inc.
Condensed Consolidated Statements of Stockholders' Deficit
For the Nine Months Ended September 30, 2020
(unaudited)
(Dollars in thousands except shares)

	Common Stock					Redeemable Series E Convertible Preferred Stock	
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit	Shares	Amount
Balance as of December 31, 2019	**47,977,390**	**$ 48**	**$ 194,150**	**$ (201,269)**	**$ (7,071)**	**1,387,378**	**$ 10,566**
Shares issued pursuant to a private placement	308,642	—	500	—	500	—	—
Share-based compensation	455,956	1	2,484	—	2,485	—	—
Shares and warrants issued to third party for contract termination	72,720	—	198	—	198	—	—
Shares issued to third parties for services	125,000	—	125	—	125	—	—
Warrants issued to third parties for services	—	—	2,594	—	2,594	—	—
Net and comprehensive loss available to common stockholders	—	—	—	(9,488)	(9,488)	—	—
Balance as of March 31, 2020	**48,939,708**	**$ 49**	**$ 200,051**	**$ (210,757)**	**$ (10,657)**	**1,387,378**	**$ 10,566**
Warrants issued to third parties for services	—	—	7,390	—	7,390	—	—
Share-based compensation	—	—	3,020	—	3,020	—	—
Warrants issued in connection with June 2020 Notes	—	—	337	—	337	—	—
Beneficial conversion feature of June 2020 Notes	—	—	1,163	—	1,163	—	—
Modification of conversion feature for November 2019 Notes, Seller Notes, and ABG Notes	—	—	528	—	528	—	—
Modification of warrants	—	—	43	—	43	—	—
Net and comprehensive loss available to common stockholders	—	—	—	(18,438)	(18,438)	—	—
Balance as of June 30, 2020	**48,939,708**	**$ 49**	**$ 212,532**	**$ (229,195)**	**$ (16,614)**	**1,387,378**	**$ 10,566**
Shares issued pursuant to warrant exercise	200,000	—	—	—	—	—	—
Share-based compensation	—	—	1,543	—	1,543	—	—
Warrants issued in connection with ABL Facility	—	—	230	—	230	—	—
Net and comprehensive loss available to common stockholders	—	—	—	(1,728)	(1,728)	—	—
Balance as of September 30, 2020	**49,139,708**	**$ 49**	**$ 214,305**	**$ (230,923)**	**$ (16,569)**	**1,387,378**	**$ 10,566**

See accompanying notes to the unaudited condensed consolidated financial statements.

Better Choice Company Inc.
Condensed Consolidated Statements of Stockholders' Deficit
For the Nine Months Ended September 30, 2019
(unaudited)
(Dollars in thousands except shares)

	Common Stock		Series A Preferred Units					Redeemable Series E Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Additional paid-in capital	Accumulated deficit	Total Stockholders' Deficit	Shares	Amount
Balance as of December 31, 2018	**11,661,485**	**$ 12**	**2,391,403**	**$ 2**	**$ 13,642**	**$ (16,698)**	**$ (3,042)**	**—**	**$ —**
Shares issued pursuant to a private placement – net proceeds	—	—	69,115	—	150	—	150		
Share-based compensation	18,964	—	—	—	206	—	206	—	—
Net and comprehensive loss available to common stockholders	—	—	—	—	—	(2,776)	(2,776)	—	—
Balance as of March 31, 2019	**11,680,449**	**$ 12**	**2,460,518**	**$ 2**	**$ 13,998**	**$ (19,474)**	**$ (5,462)**	**—**	**$ —**
Share-based compensation	1,199,822	2	—	—	4,006	—	4,008	—	—
Conversion of Series A shares to common stock	2,460,518	2	(2,460,518)	(2)	—	—	—	—	—
Acquisition of treasury shares	(1,011,748)	(1)	—	—	(2,199)	—	(2,200)	—	—
Acquisition of Better Choice	3,915,856	3	—	—	23,490	—	23,493	2,633,678	20,059
Acquisition of Bona Vida	18,003,273	18	—	—	108,002	—	108,020	—	—
Shares and warrants issued pursuant to private issuance of public equity (PIPE) – net proceeds	5,744,991	6	—	—	15,670	—	15,676	—	—
Conversion of Series E Preferred Stock	1,175,000	1	—	—	7,050	—	7,051	(925,758)	(7,052)
Net and comprehensive loss available to common stockholders	—	—	—	—	—	(161,533)	(161,533)	—	—
Balance as of June 30, 2019	**43,168,161**	**$ 43**	**—**	**$ —**	**$ 170,017**	**$ (181,007)**	**$ (10,947)**	**1,707,920**	**$ 13,007**
Share-based compensation	—	—	—	—	2,496	—	2,496	—	—
Stock issued to third parties for services	1,000,000	1	—	—	3,439	—	3,440	—	—
Acquisition of treasury shares	—	—	—	—	(3,870)	—	(3,870)	—	—
Acquisition of Better Choice	—	—	—	—	69	—	69	—	—
Acquisition of Bona Vida	—	—	—	—	600	—	600	—	—
Private issuance of public equity ("PIPE") warrant exercise	1,259,498	1	—	—	4,006	—	4,007	—	—
Net and comprehensive loss available to common stockholders	—	—	—	—	—	(6,068)	(6,068)	—	—
Balance as of Balance as of September 30, 2019	**45,427,659**	**$ 45**	**—**	**$ —**	**$ 176,757**	**$ (187,075)**	**$ (10,273)**	**1,707,920**	**$ 13,007**

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
Cash Flow from Operating Activities:		
Net and comprehensive loss available to common stockholders	$ (29,654)	$ (170,381)
Adjustments to reconcile net and comprehensive loss to net cash used in operating activities:		
Non-cash expenses:		
Shares and warrants issued to third parties for services	10,182	—
Modification of warrants	43	—
Contract termination costs	649	—
Depreciation and amortization	1,298	76
Amortization of debt issuance costs and discounts	3,723	—
Share-based compensation	7,047	6,708
Lease expenses	(8)	39
Change in fair value of warrant derivative liability	(2,118)	(886)
Payment In Kind (PIK) interest expense on notes payable	1,465	—
Loss on extinguishment of debt	88	—
Loss on acquisitions	—	146,980
Changes in operating assets and liabilities, net of effects of business acquisition:		
Accounts receivable, net	195	76
Inventories, net	1,458	(705)
Prepaid expenses and other current assets	224	437
Other assets	(9)	31
Accounts payable	41	889
Accrued liabilities	650	3,357
Deferred revenue	(6)	172
Other	209	(17)
Cash Used in Operating Activities	$ (4,523)	$ (13,224)
Cash Flow from Investing Activities		
Cash acquired in the May Acquisitions	$ —	$ 416
Acquisition of property and equipment	(42)	(52)
Cash (Used in) Provided by Investing Activities	$ (42)	$ 364
Cash Flow from Financing Activities		
Proceeds from shares issued pursuant to private placement, net	$ —	$ 15,826
Payment of related party note payable	—	(1,600)
Proceeds from issuance of debt	—	6,200
Proceeds from revolving lines of credit	6,624	—
Payments on revolving lines of credit	(6,297)	(4,600)
Proceeds from PPP loans	852	—
Proceeds from June 2020 Notes	1,500	—
Cash advance, net	—	(1,898)
Proceeds from investor prepayment	1,518	—
PIPE warrant exercise	—	4,007
Debt issuance costs	(85)	(20)
Cash Provided by Financing Activities	$ 4,112	$ 17,915
Net (decrease) increase in Cash and cash equivalents and Restricted cash	$ (453)	$ 5,055
Total Cash and cash equivalents, Beginning of Period	2,534	3,946
Total Cash and cash equivalents and Restricted cash, End of Period	$ 2,081	$ 9,001

Supplemental cash flow information

The following represent noncash financing and investing activities and other supplemental disclosures related to the statement of cash flows:

On January 1, 2019, the Company adopted ASC 842 which resulted in the acquisition of right-of-use assets and operating lease liabilities as follows:

Right-of-use assets and operating lease liability acquired under operating leases		
Right-of-use assets recorded upon adoption of ASC 842	$	421
Operating lease liability recorded upon adoption of ASC 842	$	(429)
Noncash acquisition of right-of-use assets for leases entered into during period	$	607
Noncash acquisition of operating lease liability for leases entered into during the period	$	(594)

The Company paid no income taxes during the nine months ended September 30, 2020 and 2019.

The Company paid interest of $1.7 million and $0.2 million during the nine months ended September 30, 2020 and 2019, respectively.

The Company issued warrants with a fair value of $0.2 million on July 20, 2020 in connection with a personal guarantee related to the ABL Facility (as defined herein).

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. is a growing animal 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. The Company sells the majority of its dog food, cat food and treats under the Halo and TruDog brands, which are focused, respectively, on providing sustainably sourced kibble and canned food derived from real whole meat, and minimally processed raw-diet dog food and treats.

On May 6, 2019, the Company completed the reverse acquisition of TruPet LLC ("TruPet") and Bona Vida Inc. ("Bona Vida") in a pair of all stock transactions (together referred to as the "May Acquisitions") through the issuance of shares of common stock. Following the completion of the May Acquisitions, the business conducted by the Company became primarily the businesses conducted by TruPet and Bona Vida. As a result, the condensed consolidated financial statements for the year ended December 31, 2019 are comprised of the results of TruPet for the period between January 1, 2019 and December 31, 2019 and the results of Bona Vida beginning May 6, 2019 through December 31, 2019. The Company completed the acquisition of Halo on December 19, 2019 (see "Note 2 - Acquisitions"). Accordingly, Halo's operations are included in the Company's condensed consolidated financial statements beginning on December 19, 2019.

Basis of Presentation

The condensed consolidated financial statements reflect all normal recurring adjustments which, in management's opinion, are necessary for a fair statement of the results for interim periods. 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 condensed consolidated financial statements and accompanying notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission ("SEC").

Tables are presented in U.S. dollars (thousands) and percentage as rounded up or down. In the notes, the Company represents U.S. dollars (millions) and percentage as rounded up or down.

Consolidation

The Company's interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial statements are presented on a condensed consolidated basis subsequent to acquisitions and include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

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. In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. As of November 2020, the Company has not experienced a significant adverse impact to its business, financial condition or cash flows resulting from the pandemic. However, uncertainties regarding the continued economic impact of COVID-19, the disease caused by the novel coronavirus, are likely to result in sustained market turmoil which could also negatively impact the Company's business, financial condition, and cash flows in the future. The Company has continually incurred losses and has an accumulated deficit. The Company continues to rely on current investors and the public markets to finance these losses through debt and/or equity issuances. These operating losses and the outstanding debt create substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the date these interim condensed consolidated financial statements are issued. The Company is implementing plans to achieve cost savings and other strategic objectives to address these conditions. The Company expects cost savings from consolidation of third-party manufacturers, optimizing shipping and warehousing as well as overhead cost reductions. The business is focused on growing the most profitable channels while reducing investments in areas that are not expected to have long-term benefits. The accompanying interim condensed 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 interim condensed 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.

Restricted cash

The Company was required to maintain a restricted cash balance of less than $0.1 million and $0.2 million as of September 30, 2020 and December 31, 2019, respectively, associated with a business credit card and credit card clearance operations.

During the third quarter of 2020, the Company received investor prepayment funds of $1.5 million related to the issuance of Series F Preferred Stock that was completed in October 2020 (see "Note 21 - Subsequent events").

Allowance for doubtful accounts

Accounts receivable consist of unpaid buyer invoices from the Company's Retail customers and credit card payments receivable from third-party credit card processing companies. Accounts receivable is stated at the amount billed to customers, net of point of sale and cash discounts. The Company recorded a less than $0.1 million allowance for doubtful accounts as of September 30, 2020 and December 31, 2019, respectively.

Goodwill

Goodwill of $18.6 million was recognized as of December 31, 2019 in connection with the Halo Acquisition (see "Note 2 - Acquisitions"). No impairment was recognized as of September 30, 2020 and December 31, 2019, respectively.

Intangible assets

The Company acquired an intangible asset related to the Houndog license with the acquisition of Bona Vida on May 6, 2019. The Company fully impaired the asset as of December 31, 2019 as the Company terminated the contract on January 13, 2020. The Company also acquired intangible assets consisting of customer relationships and trade name with the acquisition of Halo on December 19, 2019. There were no interim indicators or impairment of intangible assets as of September 30, 2020 and December 31, 2019, respectively.

Leases

The Company's leases relate to its corporate offices and warehouses. Effective January 1, 2019, the Company adopted the FASB guidance on leases ("Topic 842"), which requires leases with durations greater than twelve months to be recognized on the balance sheets. The Company adopted Topic 842 using the modified retrospective transition approach.

Redeemable convertible preferred stock

The Company's Redeemable Series E Convertible Preferred Stock (the "Series E") contains redemption provisions that require it to be presented outside of stockholders' deficit. Changes in the redemption value of the redeemable convertible preferred stock, if any, are recorded immediately in the period occurred as an adjustment to additional paid-in capital in the condensed consolidated balance sheets.

Income taxes

The Company was incorporated on May 6, 2019. Prior to this date, the Company operated as a flow through entity for state and United States federal tax purposes. The Company files a U.S. federal and state income tax return including its wholly owned subsidiaries. As of September 30, 2020 and December 31, 2019, the Company does not have any uncertain income tax positions.

Revenue

The Company recognizes revenue to depict the transfer of promised goods to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods in accordance with the provisions of ASC 606, "Revenue from Contracts with Customers".

Fair value of financial instruments

The warrant derivative liability is remeasured at fair value each reporting period and represents a Level 3 financial instrument.

Reclassification of prior period presentation

Certain reclassifications have been made to conform the prior period data to the current presentation. These reclassifications had no material effect on the reported results.

Recently issued accounting pronouncements

The Company has reviewed the Accounting Standards Update (ASU), accounting pronouncements and interpretations thereof issued by the FASB that have effective dates during the reporting period and in future periods.

Recently adopted:

ASU 2018-13 "Fair Value Measurement"

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This new guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This new guidance was effective for the Company beginning on January 1, 2020 and did not have a material impact on the Company's condensed consolidated financial statements.

ASU 2018-15 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)"

In August 2018, the FASB issued ASU 2018-15 "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)" to amend ASU 2015-5 in an effort to provide additional guidance on the accounting for costs implementation activities performed in a cloud computing arrangement that is a service contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this update also require the entity to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalizing implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. The new standard was effective for the Company on January 1, 2020. The Company has no internal use software.

Issued but not Yet Adopted:

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

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326)" Codification Improvements to Financial Instruments-Credit Losses (Topic 326). Subsequent updates were released in November 2018 (ASU No. 2018-19), November 2019 (ASU No. 2019-10 and 2019-11) and February 2020 (ASU No. 2020-2) that provided additional guidance on this Topic. This ASU introduces the current expected credit loss (CECL) model, which will require an entity to measure credit losses for certain financial instruments and financial assets, including trade receivables. Under this update, on initial recognition and at each reporting period, an entity will be required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. The standard is effective for the Company on January 1, 2023, and early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its condensed consolidated financial statements and related disclosures.

ASU 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for the Company beginning January 1, 2021 with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

ASU 2020-04 "Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting"

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. This ASU provides optional expedient and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In response to the concerns about structural risks of interbank offered rates (IBORs) and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. The ASU can be adopted no later than December 1, 2022 with early adoption permitted. The Company is currently evaluating the impact the standard will have on its condensed consolidated financial statements and related disclosures.

ASU 2020-03 "Codification Improvements to Financial Instruments"

In March 2020, FASB issued ASU 2020-03, Codification Improvement to Financial Instruments. This ASU improves and clarifies various financial instruments topics, including the current expected credit losses (CECL) standard issued in 2016. The ASU includes seven different issues that describe the areas of improvement and the related amendments to GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. The amendments have different effective dates. The Company is evaluating the impact the accounting guidance will have on its condensed consolidated financial statements and related disclosures.

ASU 2020-06 "Debt — Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, FASB issued ASU 2020-06, Debt - Debt with Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging - Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This ASU reduces the number of accounting models for convertible instruments, amends diluted EPS calculations for convertible instruments, and amends the requirements for a contract (or embedded derivative) that is potentially settled in an entity's own shares to be classified in equity. This standard is effective for the Company beginning on January 1, 2024 with early adoption permitted. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements and related disclosures.

The Company has carefully considered other new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the Company's reported balance sheets or operations.

Note 2 - Acquisitions

Acquisition of Halo

On October 15, 2019, the Company entered into a Stock Purchase Agreement (the "Agreement") to acquire Halo and the acquisition (the "Halo Acquisition") was completed on December 19, 2019 ("Halo Acquisition Date") for $38.2 million. The consideration was subject to customary adjustments for Halo's net working capital, cash, and indebtedness, and consisted of a combination of cash consideration ($20.5 million), shares of the Company's common stock ($3.9 million), seller notes ($15.0 million), and seller warrants ($0.3 million).

The Halo Acquisition was accounted for under the purchase method of accounting, and accordingly, the purchase price was allocated to the identifiable assets and liabilities based on their estimated fair values at the Halo Acquisition Date. The determination of the preliminary purchase price allocation to specific assets acquired and liabilities assumed is incomplete for Halo. The preliminary purchase price allocation may change in future periods as the fair value estimates of assets and liabilities and the valuation of the related tax assets and liabilities are completed. The preliminary purchase price allocation is summarized as follows:

Dollars in thousands	
Total purchase price	$ 38,244
Assets	
Property and equipment	260
Accounts receivable	5,540
Inventories	5,160
Intangible assets	14,690
Other assets	329
Total assets	25,979
Liabilities	
Accounts payable	4,628
Accrued liabilities	1,553
Long term liability	168
Total liabilities	6,349
Net assets acquired	19,630
Goodwill	$ 18,614

The intangible assets acquired relate to customer relationships and trade name. Acquired customer relationships are finite-lived intangible assets and are amortized over their estimated life of 7 years using the straight-line method, which approximates the customer attrition rate, reflecting the pattern of economic benefits associated with these assets. The trade name is a finite-lived intangible asset and is being amortized over its estimated life of 15 years using the straight-line method, which reflects the pattern of economic benefits associated with this asset.

The excess of purchase price over the fair value amounts assigned to the identifiable assets acquired and liabilities assumed represents goodwill from the acquisition. The Company believes the factors that contributed to goodwill include the acquisition of a talented workforce and administrative cost synergies. The Company does not expect any portion of this goodwill to be deductible for tax purposes. See "Note 9 - Intangible assets, royalties, and goodwill" for more information.

Reverse Acquisitions of Better Choice and Bona Vida by TruPet

On May 6, 2019, Better Choice Company completed the reverse acquisitions of TruPet and Bona Vida whereby TruPet is considered the acquirer for accounting and financial reporting purposes. The acquisitions were accounted for as asset acquisitions.

The purchase price for Better Choice Company was $37.9 million and has been allocated based on an estimate of the fair value of Better Choice Company’s assets acquired and liabilities assumed with the remainder recorded as an expense. The loss on acquisition of Better Choice Company’s net liabilities is $39.6 million.

The purchase price for Bona Vida was $108.6 million and the estimated purchase price has been allocated based on an estimate of the fair value of assets acquired and liabilities assumed. The excess of the purchase price over the net assets acquired has been recorded as an expense. The loss on acquisition of Bona Vida’s net assets is $107.8 million.

On May 6, 2019, the fair value of assets and liabilities acquired was:

Dollars in thousands	Better Choice Company	Bona Vida	Total
Total purchase price	$ 37,949	$ 108,620	$ 146,569
Net Assets (Liabilities) Acquired:			
Assets			
Cash and cash equivalents	7	384	391
Restricted cash	—	25	25
Accounts receivable	—	69	69
Inventories	—	95	95
Prepaid expenses and other current assets	32	348	380
Intangible assets	986	—	986
Other assets	—	74	74
Total assets	1,025	995	2,020
Liabilities			
Warrant derivative liability	(2,130)	—	(2,130)
Accounts payable & accrued liabilities	(544)	(153)	(697)
Total liabilities	(2,674)	(153)	(2,827)
Net assets (liabilities) acquired	(1,649)	842	(807)
Loss on acquisitions	$ (39,598)	$ (107,778)	$ (147,376)

In connection with the preparation of the Company's condensed consolidated financial statements for the period ended September 30, 2019, the Company identified an error in the condensed consolidated financial statements for the six month period ended June 30, 2019 related to the overstatement of loss on acquisitions of $2.6 million in the condensed consolidated statement of operations and comprehensive loss. This was primarily due to a change in the estimated purchase price, which also resulted in errors in the statement of stockholders' deficit and statement of cash flows. The errors were all corrected during the three-month period ended September 30, 2019. The Company believes the correction of these errors is not material to the condensed consolidated financial statements as of and for the period ended September 30, 2019.

Note 3 - Revenue

The Company has two categories of revenue channels: retail-partner based ("Retail"), which includes the sale of product to e-commerce retailers, pet specialty chains, grocery, mass and distributors, and direct to consumer ("DTC"), which is focused on driving consumers to directly purchase product through its online web platform.

Retail-partner based channel

The Company's Retail channel includes the sale of goods to customers for resale. The Company records revenue net of discounts. Discounts primarily consist of early pay discounts, general percentage allowances and contractual trade promotions such as auto-ship subscriptions, and cooperative agreements with third party distributors. Retail-partner based customers are not subject to sales tax. The Retail channel represents 76% and 75% of consolidated revenue for the three and nine months ended September 30, 2020, respectively, and 9% and 10% for the three and nine months ended September 30, 2019.

Shipping costs associated with moving finished products to customers through third party carriers were less than $0.1 million and $0.1 million for the three and nine months ended September 30, 2020, respectively, and no shipping costs were recorded for the three and nine months ended September 30, 2019, respectively. Such shipping costs are recorded as part of general and administrative expenses.

Direct to consumer channel

The Company's DTC products are offered through online stores where customers place orders directly for delivery across the United States. The DTC channel represents 24% and 25% of consolidated revenue of the Company for the three and nine months ended September 30, 2020, respectively, and 91% and 90% for the three and nine months ended September 30, 2019, respectively.

The Company excludes sales taxes collected from revenues. Revenue is deferred for orders that have been paid for, but not shipped. Based on historical experience, the Company records an estimated liability for returns. Product returns were $0.1 million and $0.3 million for the three and nine months ended September 30, 2020, respectively, and $0.1 million and $0.3 million for the three and nine months ended September 30, 2019.

Shipping costs associated with moving finished products to customers were $0.3 million and $1.0 million for the three and nine months ended September 30, 2020, respectively, and $0.6 million and $1.8 million for the three and nine months ended September 30, 2019, respectively. Such shipping costs are recorded as part of general and administrative expenses.

The Company's DTC loyalty program enables customers to accumulate points based on spending. A portion of revenue is deferred at the time of the sale when points are earned and recognized when the loyalty points are redeemed. As of September 30, 2020 and December 31, 2019, customers held unredeemed loyalty program awards of $0.3 million and $0.2 million, respectively. The Company recognized revenue of $0.1 million and $0.4 million from the loyalty program for the three and nine months ended September 30, 2020, respectively, and $0.1 million and $0.2 million for the three and nine months ended September 30, 2019, respectively.

The amount included in net sales related to recoveries of shipping costs from customers for direct to consumer sales was $0.2 million and $0.4 million for the three and nine months ended September 30, 2020, respectively, and $0.2 million and $0.5 million for the three and nine months ended September 30, 2019, respectively.

Note 4 - Inventory

Inventories are summarized as follows:

Dollars in thousands	**September 30, 2020**	**December 31, 2019**
Food, treats and supplements	$ 5,054	$ 6,425
Inventory packaging and supplies	564	504
Other products and accessories	12	73
Total Inventories	5,630	7,002
Inventory reserve	(508)	(422)
Inventories, net	$ 5,122	$ 6,580

Note 5 - Prepaid expenses and other current assets

On August 28, 2019, the Company entered into a radio advertising agreement with iHeart and issued 1,000,000 shares of common stock valued at $3.4 million for future advertising to be provided to the Company from August 2019 to August 2021. The Company issued an additional 125,000 shares valued at $0.1 million on March 5, 2020 pursuant to the agreement. The agreement requires the Company to spend a minimum amount for talent and other direct iHeart costs. The Company committed to using $1.7 million of the media advertising inventory by August 28, 2020, with the remainder of the advertising available through August 28, 2021. On August 28, 2020 the contract was amended to extend the commitment dates by one year, whereas $1.7 million of the advertising media inventory will now be used by August 28, 2021, with the remainder available through August 28, 2022. Prepaid advertising was $3.0 million as of September 30, 2020 and $2.8 million as of December 31, 2019. Of the total prepaid advertising amount, $1.3 million and $1.7 million is recorded in prepaid expenses and other current assets and $1.7 million and $1.1 million in other non-current assets as of September 30, 2020 and December 31, 2019, respectively. During the nine months ended September 30, 2019, $0.6 million of the $3.4 million of the prepaid advertising was incurred.

Note 6 - Property and equipment

Property and equipment consist of the following:

Dollars in thousands	September 30, 2020	December 31, 2019
Equipment	$ 216	$ 222
Furniture and fixtures	199	138
Computer software	111	115
Computer equipment	2	4
Total property and equipment	528	479
Accumulated depreciation	(223)	(62)
Property and equipment, net	$ 305	$ 417

Depreciation expense was less than $0.1 million and less than $0.2 million for the three and nine months ended September 30, 2020, respectively, and less than $0.1 million for both the three and nine months ended September 30, 2019. Depreciation expense is included as a component of general and administrative expenses.

Note 7 - Accrued liabilities

Accrued liabilities consist of the following:

Dollars in thousands	September 30, 2020	December 31, 2019
Accrued professional fees	$ 1,802	$ 1,695
Accrued sales tax	1,041	1,233
Accrued payroll and benefits	1,154	994
Accrued trade promotions	360	357
Accrued dividends	359	256
Accrued interest	359	109
Other	296	77
Total accrued liabilities	$ 5,371	$ 4,721

Accrued dividends related to the Series E are $0.4 million and $0.3 million as of September 30, 2020 and December 31, 2019, respectively. In connection with the issuance of Series F Preferred Stock in October 2020, all accrued dividends were settled through the terms of the exchange agreement related to the Series E preferred stock. See "Note 21 - Subsequent events" for additional information.

Note 8 - Operating leases

The table below presents certain information related to the lease costs for operating leases for the three and nine months ended September 30, 2020 and 2019:

	For the Nine Months Ended		For the Three Months Ended	
Dollars in thousands	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operating lease costs	$ 331	$ 219	$ 110	$ 95
Variable lease costs	27	24	11	8
Total operating lease costs	$ 358	$ 243	$ 121	$ 103

As of September 30, 2020, the weighted-average remaining operating lease term was1.9 years and the incremental borrowing rate was12.5% for operating leases recognized on the Company's condensed consolidated balance sheets. Short term lease costs, excluding expenses relating to leases with a lease term of one month or less, were less than $0.1 million for the nine months ended September 30, 2020. During the three and nine months ended September 30, 2019, the Company recorded less than $0.1 million of short term lease costs, respectively.

Rent expense was $0.2 and $0.4 million for the three and nine months ended September 30, 2020, respectively, and $0.2 million and $0.3 million for the three and nine months ended September 30, 2019, respectively.

Undiscounted cash flows

The table below reconciles the undiscounted cash flows for the remaining term of the operating lease liabilities recorded on the condensed consolidated balance sheets:

Dollars in thousands		Operating Leases
Remainder of 2020	$	114
2021		464
2022		246
2023		7
Total minimum lease payments	$	831
Less: amount of lease payments representing interest		86
Present value of future minimum lease payments	$	745
Less: current obligations under leases		395
Long-term lease obligations	$	350

Note 9 - Intangible assets, royalties, and goodwill

Intangible assets and royalties

The Company's intangible assets as of September 30, 2020 and December 31, 2019 consist of customer relationships and trade name acquired in the Halo Acquisition. The customer relationships and trade name are amortized over their estimated useful lives of 7 and 15 years respectively, using the straight-line method.

In May 2019, the Company acquired a licensing agreement with Authentic Brands and Elvis Presley Enterprises ("ABG") whereby Better Choice Company was to sell newly developed hemp-derived CBD products that were to be marketed under the Elvis Presley Houndog name. The license agreement required an upfront equity payment of $1.0 million worth of common stock and the license was recorded at its amortized cost which approximated fair value. The Company did not plan to use the license in the future and therefore terminated the agreement on January 13, 2020. The Company recognized an impairment charge for the net book value of the licensing agreement as of and for the year ended December 31, 2019.

As part of the termination, the Company: (1) paid ABG $0.1 million in cash upon the signing of the termination agreement on January 13, 2020, (2) issued ABG 72,720 shares of the Company's common stock on January 13, 2020, (3) agreed to pay ABG $0.1 million in cash in four equal installments each month from July 31, 2020 through October 31, 2020, (4) issued ABG $0.6 million aggregate principal amount of Subordinated Promissory Notes (the "ABG Notes") effective January 20, 2020, and (5) issued ABG a common stock purchase warrant (the "ABG Warrants") equal to a fair value of $150,000 on January 20, 2020. The terms of the ABG Notes match those of the Seller Notes, including convertible features exercisable any time after the date of issuance, a 10% interest rate and maturity date of June 30, 2023. The ABG Warrants are exercisable for 24 months from the date of the consummation of an IPO (as defined in the ABG Warrants) and carried an initial exercise price equal to the greater of (i) $5.00 per share or (ii) the price at which the common stock was sold in the IPO. The fair values of the ABG Notes and ABG Warrants on their issuance dates were $0.6 million and less than $0.1 million, respectively. On June 24, 2020, the exercise price of the ABG Warrants was amended in connection with the issuance of the June 2020 Notes (defined below) to lower the maximum exercise price from $5.00 to $4.25 per share.

The total cost of the contract termination noted above is measured at its fair value of $1.1 million and is included in general and administrative expense.

The Company’s intangible assets are as follows:

		September 30, 2020		
Dollars in thousands	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	7	$ 7,500	$ (848)	$ 6,652
Trade name	15	7,190	(346)	6,844
Total intangible assets		$ 14,690	$ (1,194)	$ 13,496

		December 31, 2019		
Dollars in thousands	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	7	$ 7,500	$ (35)	$ 7,465
Trade name	15	7,190	(14)	7,176
Total intangible assets		$ 14,690	$ (49)	$ 14,641

The Company did not have intangible assets or amortization expense during the three and nine months ended September 30, 2019.

The estimated future amortization of intangible assets over the weighted average remaining useful life of10.3 is as follows:

Dollars in thousands	
Remainder of 2020	$ 357
2021	1,551
2022	1,551
2023	1,551
2024	1,551
Thereafter	6,935
	$ 13,496

Note 10 - Debt

The components of the Company's debt consist of the following:

Dollars in thousands	September 30, 2020			December 31, 2019		
	Amount	Rate	Maturity Date	Amount	Rate	Maturity Date
Short term loan, net	$ 19,369	(1)	12/19/2020	$ 16,061	(1)	12/19/2020
Line of credit, net	5,048	(2)	7/5/2022	4,819	(1)	12/19/2020
November 2019 notes payable, net (November 2019 Notes)	2,736	10 %	6/30/2023	2,769	10 %	11/4/2021
December 2019 senior notes payable, net (Seller Notes)	9,993	10 %	6/30/2023	9,191	10 %	6/30/2023
December 2019 junior notes payable, net (Seller Notes)	4,797	10 %	6/30/2023	4,410	10 %	6/30/2023
ABG Notes	674	10 %	6/30/2023	—	—	—
June 2020 notes payable, net (June 2020 Notes)	40	10 %	6/30/2023	—	—	—
Halo PPP Loan	431	1 %	5/3/2022	—	—	
TruPet PPP Loan	421	.98 %	4/6/2022	—	—	—
Total debt	43,509			37,250		
Less current portion	19,827			20,880		
Total long term debt	$ 23,682			$ 16,370		

(1) Interest at Bank of Montreal Prime plus 8.05%

(2) Interest at a variable rate of LIBOR plus 250 basis points with an interest rate floor of 3.25% per annum

Short term loan and line of credit

On the Halo Acquisition date, December 19, 2019, the Company entered into a Loan Facilities Agreement (the "Facilities Agreement") by and among the Company, as the borrower, the several lenders from time to time parties thereto (collectively, the "Lenders") and a private debt lender, as agent (the "Agent"). The Facilities Agreement provided for (i) a term loan facility of $20.5 million and (ii) a revolving demand loan facility not to exceed $7.5 million. The term loan is scheduled to mature on December 19, 2020 or such earlier date on which a demand is made by the Agent or any Lender. The remaining revolving credit facility balance of $ 5.1 million was repaid in full with a portion of the proceeds from the ABL Facility, discussed below, and resulted in a loss on debt extinguishment of $0.1 million.

As of September 30, 2020 and December 31, 2019, the term loan outstanding was $19.4 million and $16.1 million, net of debt issuance costs and discounts of $1.1 million and $4.4 million, respectively, and the line of credit outstanding was $5.0 million and $4.8 million, respectively, net of debt issuance costs and discounts of $0.3 million and $0.2 million, respectively. The debt issuance costs and discounts are amortized using the effective interest method.

Certain directors and shareholders of the Company ("Shareholder Guarantors") agreed to enter into a Continuing Guaranty (the "Shareholder Guaranties") in the amount of $20.0 million and guarantee the Company's obligations under the Facilities Agreement. As consideration for the Shareholder Guaranties, the Company issued common stock purchase warrants to the Shareholder Guarantors in an amount equal to 0.325 warrants for each dollar of debt under the agreement guaranteed by such Shareholder Guarantors (the "Guarantor Warrants"). The Guarantor Warrants are exercisable any time from the date of issuance for up to 24 months from the date of the consummation of an IPO (as defined therein) at an exercise price $1.82 per share. The Guarantor Warrants had a fair value of $4.2 million on the date of issuance.

On July 16, 2020, the Company entered into a revolving line of credit with Citizens Business Bank in the aggregate amount of $7.5 million (the "ABL Facility"). The proceeds of the ABL Facility were used (i) to repay all principal, interest and fees outstanding under the Company's existing revolving credit facility and (ii) for general corporate purposes. Debt issuance costs of less than $0.1 million were incurred related to the Company entering into this revolving line of credit.

The ABL Facility matures on July 5, 2022 and bears interest at a variable rate of LIBOR plus250 basis points, with an interest rate floor of3.25% per annum. Accrued interest on the ABL Facility is payable monthly commencing on August 5, 2020. The ABL Agreement provides for customary financial covenants, such as maintaining a specified adjusted EBITDA and a maximum senior debt leverage ratio, that commence on December 31, 2020 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 ABL Facility at any time without incurring any prepayment charges.
The ABL Facility is secured by a general security interest on the assets of the Company and is personally guaranteed by a member of the Company's board of directors.

As of September 30, 2020 and December 31, 2019, the Company was in compliance with its debt covenants.

Notes payable

On November 4, 2019, the Company issued $2.8 million of subordinated convertible notes (the "November 2019 Notes") which carry a10% interest rate and mature on November 4, 2021. The interest is payable in arrears on March 31, June 30, September 30 and December 31 of each year. Payment in kind ("PIK") interest is payable by increasing the aggregate principal amount of the November 2019 Notes. The November 2019 Notes are exercisable any time from the date of issuance and carried an initial conversion price of the lower of (a) $4.00 per share or (b) the IPO Price. The IPO Price is the price at which the Company's stock will be sold in a future IPO. The Company issued incremental warrants associated with the November 2019 Notes with a fair value of less than $0.1 million on the date of issuance.

The November 2019 Notes were amended on January 6, 2020. The amendment incorporates only the preferable terms of the Seller Notes as noted below, and all other terms and provisions of the November 2019 Notes remain in full force and effect. As amended, for so long as any event of default (as defined in the November 2019 Note) exists, interest shall accrue on the November 2019 Note principal at the default interest rate of 12.0% per annum, and such accrued interest shall be immediately due and payable.

The November 2019 Notes were amended for the second time on June 24, 2020 in connection with the issuance of the June 2020 Notes. The amendment lowers the maximum conversion price applicable to the conversion of these notes from $4.00 per share to $3.75 per share and extends the maturity date from November 4, 2021 to June 30, 2023. Under the applicable accounting guidance, the Company accounted for the change in conversion price as a modification of the debt instrument. The Company recognized the increase in the fair value of the conversion option of $0.3 million as a reduction to the carrying amount of the debt instrument by increasing the associated debt discount with a corresponding increase in additional paid-in capital.

As of September 30, 2020 and December 31, 2019, the aggregate amount of November 2019 Notes outstanding was $2.7 million and $2.8 million, respectively, net of discounts of less than $0.3 million and less than $0.1 million, respectively. The discounts are being amortized over the life of the November 2019 Notes using the effective interest method.

On December 19, 2019, the Company issued $10.0 million and $5.0 million in senior subordinated convertible notes (the "Senior Seller Notes") and junior subordinated convertible notes (the "Junior Seller Notes" and together with the Senior Seller Notes, the "Seller Notes"), respectively, to the sellers of Halo. The Seller Notes are exercisable any time from the date of issuance and carry a 10% interest rate and mature on June 30, 2023. Interest is payable in arrears on March 31, June 30, September 30, and December 31 of each year. PIK interest is payable by increasing the aggregate principal amount of the Seller Notes. The Seller Notes carried an initial conversion price of the lower of (a) $4.00 per share or (b) the IPO Price.

The Seller Notes were amended on June 24, 2020 in connection with the issuance of the June 2020 Notes. The amendment lowers the maximum conversion price applicable to the conversion of these notes from $4.00 per share to $3.75 per share. The Company accounted for the change in the conversion price as a modification of the debt instrument. The Company recognized the increase in the fair value of the conversion option of less than of $0.3 million as a reduction to the carrying amounts of the debt instruments by increasing the associated debt discounts with a corresponding increase in additional paid-in capital.

As of September 30, 2020, the Senior Seller Notes outstanding were $10.0 million, net of discounts of less than $0.9 million, and the Junior Seller Notes outstanding were $4.8 million, net of discounts of less than $0.6 million. As of December 31, 2019, the Senior Seller Notes outstanding were $9.2 million, net of discounts of $0.9 million, and the Junior Seller Notes outstanding were $4.4 million, net of discounts of $0.5 million. The discounts are being amortized over the life of the Seller Notes using the effective interest method.

On January 13, 2020, the Company issued $0.6 million in senior subordinated convertible notes to ABG. The ABG Notes are exercisable any time from the date of issuance and carry a 10% interest rate and mature on June 30, 2023. The interest is payable in arrears on March 31, June 30, September 30 and December 31 of each year. PIK interest is payable by increasing the aggregate principal amount of the ABG Notes. The ABG Notes carried an initial conversion price of the lower of (a) $ 4.00 per share or (b) the IPO Price.

The ABG Notes were amended on June 24, 2020 in connection with the issuance of the June 2020 Notes. The amendment lowers the maximum conversion price applicable to the conversion of these notes from $4.00 per share to $3.75 per share. The Company accounted for the change in the conversion price as a modification of the debt instrument. The Company recognized the increase in the fair value of the conversion option of less than $0.1 million as a reduction to the carrying amount of the debt instrument by decreasing the associated debt premium with a corresponding increase in additional paid-in capital.

As of September 30, 2020, the ABG Notes outstanding was $0.7 million, including a debt premium of less than $0.1 million. The debt premium is being amortized over the life of the ABG Notes using the effective interest method.

On June 24, 2020, the Company issued $1.5 million in subordinated convertible promissory notes (the “June 2020 Notes”) which carry a10% interest rate and mature on June 30, 2023. The interest is payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year. PIK interest is payable by increasing the aggregate principal amount of the June 2020 Notes. The June 2020 Notes are convertible any time from the date of issuance and carry a conversion price $0.75 per share. The June 2020 Notes are also convertible automatically upon the Company’s consummation of an initial public offering or change in control (each as defined in the June 2020 Notes).

The Company evaluated the conversion option within the June 2020 Notes to determine whether the conversion price was beneficial to the note holders. The Company recorded a beneficial conversion feature (“BCF”) related to the issuance of the June 2020 Notes. The BCF for the June 2020 Notes was recognized and measured by allocating a portion of the proceeds to the beneficial conversion feature, based on relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature limited to the proceeds amount allocated to the instrument. The Company will accrete the discount recorded in connection with the BCF valuation as interest expense over the term of the June 2020 Notes, using the effective interest rate method.

As of September 30, 2020, the amount outstanding on the June 2020 Notes was $0.0 million, net of discounts of $1.5 million. The discounts are being amortized over the life of the June 2020 Notes using the effective interest method.

The exercise, conversion or exchange of convertible securities, including for other securities, will dilute the percentage ownership of the Company’s stockholders. The dilutive effect of the exercise or conversion of these securities may adversely affect the Company’s ability to obtain additional capital.

As of September 30, 2020 and December 31, 2019, the Company was in compliance with all covenant requirements and there were no events of default. All notes payable are subordinated to the short term loan and line of credit.

PPP loans

On April 10, 2020, TruPet, LLC, a wholly owned subsidiary of Better Choice Company Inc., was granted a loan from JPMorgan Chase Bank, N.A. in the aggregate amount of $0.4 million, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act (the “TruPet PPP Loan”). The loan matures on April 6, 2022 and bears interest at a rate of 0.98% per annum, with interest and principal payable monthly, commencing on November 6, 2020. As of September 30, 2020, the TruPet PPP Loan outstanding was $0.4 million.

On May 7, 2020, Halo, Purely for Pets, Inc., a wholly owned subsidiary of Better Choice Company Inc., was granted a loan from JPMorgan Chase Bank, N.A. in the aggregate amount of $0.4 million, pursuant to the PPP (the “Halo PPP Loan”). The loan matures on May 3, 2022 and bears interest at a rate of1.00% per annum, with interest and principal payable monthly, commencing on November 1, 2020. As of September 30, 2020, the Halo PPP Loan outstanding was $0.4 million.

Under the terms of the PPP, certain amounts of the loans may be forgiven if they are used for qualifying expenses as described in the CARES Act. The Company has used the entire loan amounts for qualifying expenses.

The Company recorded interest expense related to its outstanding indebtedness of $2.6 million and $7.3 million for the three and nine months ended September 30, 2020, respectively, and less than $0.1 million and $0.1 million for the three and nine months ended September 30, 2019, respectively.

The fair value of the November 2019, Senior Seller Notes and Junior Seller Notes, ABG Notes, June 2020 Notes and PPP loans were approximately $2.9 million, $10.4 million, $5.1 million, $0.6 million, $1.5 million, and $0.7 million, respectively, as of September 30, 2020. Fair value was determined by applying the income approach using a discounted cash flow model which primarily uses unobservable inputs (Level 3).

The carrying amount of the Company's short term loan approximates fair value due to its short term nature. 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.

Note 11 - Warrant derivative liability

On December 12, 2018, the Company closed a private placement offering (the "December Offering") of 1,425,641 units (the "Units"), each unit consisting of (i) one share of the Company's common stock and (ii) a warrant (the "December 2018 Warrants") to purchase one half of a share of common stock. The Units were offered at a fixed price of $1.95 per Unit for gross proceeds of $2.8 million. Costs associated with the December Offering were $0.1 million, and net proceeds were $2.7 million. The December Offering generated $2.6 million of net proceeds that were received by the Company during the year ended December 31, 2018 for the sale of 1,400,000 Units, and $0.1 million of the net proceeds were received on January 8, 2019 for the sale of 25,641 Units. The warrants are exercisable anytime from the date of issuance over a two-year period and carried an initial exercise price of $3.90 per share.

The warrants include an option to settle in cash in the event of a change of control of the Company and a reset feature if the Company issues shares of common stock with a strike price below the exercise price of the warrants, which requires the Company to record the warrants as a derivative liability. The Company calculates the fair value of the derivative liability through a Monte Carlo Model that values the warrants based upon a probability weighted discounted cash flow model.

During January 2020, the Company issued shares below the exercise price of the warrants acquired on May 6, 2019. Pursuant to the warrant agreement, the Company issued an additional 1,003,232 warrants on March 17, 2020 to certain of its warrant holders at an exercise price of $1.62 and modified the exercise price of the existing warrants to $1.62.

During June 2020, the Company issued common stock equivalents below the exercise price of the warrants issued on March 17, 2020. Pursuant to the warrant agreement, the Company issued an additional 1,990,624 warrants to certain of its warrant holders at an exercise price of $0.75 and modified the exercise price of the existing warrants to $0.75.

During September 2020, the Company amended all of the common stock purchase warrants issued in connection with the December 2018 Warrants to eliminate certain anti-dilution rights, fix the number of shares of common stock purchasable under each of the outstanding December 2018 Warrants, and set the exercise price thereof at $0.65 per share. Pursuant to the warrant agreement, the Company issued an additional 570,258 warrants to certain of its warrant holders at an exercise price of $0.65.

The warrants are valued based on future assumptions and, as the reset triggers were known events on September 30, 2020 and December 31, 2019, the Company included the triggers in the valuations performed as of September 30, 2020 and December 31, 2019.

The following schedule shows the fair value of the warrant derivative liability as of September 30, 2020 and December 31, 2019, and the change in fair value during the three and nine months ended September 30, 2020:

Dollars in thousands	Warrant derivative liability
Balance as of December 31, 2019	$ 2,220
Change in fair value of derivative liability	(1,379)
Balance as of March 31, 2020	$ 841
Change in fair value of derivative liability	3,474
Balance as of June 30, 2020	$ 4,315
Change in fair value of derivative liability	(4,213)
Balance as of September 30, 2020	$ 102

Warrant derivative liability	May 6, 2019	December 31, 2019	September 30, 2020
Stock price	$ 6.00	$ 2.70	$ 0.49
Exercise price	$ 3.90	$ 1.62	$ 0.65
Expected remaining term (in years)	1.60 - 1.68	0.95 - 1.02	0.22
Volatility	64 %	69 %	75 %
Risk-free interest rate	2.39 %	1.60 %	0.09 %

The valuation of the warrants is subject to uncertainty as a result of the unobservable inputs. If the volatility rate or risk-free interest rate were to change, the value of the warrants would be impacted.

As of September 30, 2020, the Company would be required to pay $0.2 million if all warrants were settled in cash or issue 4,276,937 shares if all warrants were settled in shares.

Note 12 - Other liabilities

As of September 30, 2020, other liabilities totaled $1.7 million consisting of $0.2 million related to a reserve for a potential customer dispute and $1.5 million of investor prepayment funds related to the issuance of Series F preferred stock. As of December 31, 2019, other liabilities consisted of a settlement of $0.5 million as a prepayment for the issuance of common stock.

Note 13 - Commitments and contingencies

In the normal course of business, the Company may be subject to various legal claims and contingencies that arise, including claims related to commercial transactions, product liability, health and safety, taxes, environmental matters, employee matters and other matters. 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.

The Company had no purchase obligations as of September 30, 2020 or December 31, 2019.

Note 14 - Stockholders’ deficit

As a result of the reverse acquisition of Better Choice Company and Bona Vida by TruPet in May 2019, the historical TruPet members’ equity (units and incentive units) have been re-cast to reflect the equivalent Better Choice common stock for all periods presented after the transaction. Prior to the transaction in May 2019, TruPet was a limited liability company and as such, the concept of authorized shares was not relevant.

A summary of equity transactions for the nine months ended September 30, 2020 and 2019 is set forth below:

On February 12, 2019, the Company issued 69,115 Series A Preferred Units in a private placement at $2.17 per unit. The proceeds were approximately $0.2 million, net of share issuance costs. On May 6, 2019, all Series A Preferred Shares were converted to 2,460,518 shares of common stock.

On May 6, 2019, the Company acquired 1,011,748 shares of common stock valued at $6.1 million representing its initial 7% investment in TruPet. These shares are recorded as an acquisition of treasury shares.

On May 6, 2019, the Company issued 5,744,991 units for gross proceeds of $3.00 per unit in a PIPE transaction. Each unit included one share of common stock of Better Choice Company stock and a warrant to purchase an additional share. The funds raised from the PIPE were used to fund the operations of the combined company. Net proceeds of $15.7 million were received in the private placement, allocable between shares of common stock and warrants.

On May 6, 2019, the Company acquired 2,633,678 outstanding shares of Series E, which represented an element of the purchase price and were recorded at fair value (on an as converted into common stock basis) based on the $6.00 per share closing price of Better Choice Company’s shares of common stock as they remained outstanding after the reverse acquisitions discussed in "Note 2 - Acquisitions" above. The Series E has a stated value of $0.99 per share; is convertible to common stock at a price of $0.78 per share.

On May 10, 2019 and May 13, 2019, holders of the Company's Series E converted 689,394 and 236,364 preferred shares into 875,000 and 300,000 shares of the Company's common stock, respectively.

Pursuant to the employment agreement of an officer with Bona Vida dated October 29, 2018, the officer was entitled to a $500,000 change of control payment. The officer later agreed to receive 100,000 shares of Better Choice Company common stock. The 100,000 shares of common stock were valued at $6.00 per share, which was the market value as of the date of the May Acquisitions.

On August 28, 2019, the Company issued 1,000,000 shares of Common Stock valued at $3.4 million to iHeartMedia for future advertising to be incurred from August 2019 to August 2021. Refer to "Note 5 - Prepaid expenses and other current assets" for more information.

On January 2, 2020, the Company issued 308,642 shares of common stock to an investor for net proceeds of $0.5 million, net of issuance costs of less than $0.1 million.

On January 13, 2020, the Company issued 72,720 shares of common stock to ABG in connection with the termination of a licensing agreement discussed in "Note 9 - Intangible assets, royalties, and goodwill".

On March 3, 2020, the Company issued 450,000 shares of restricted common stock to three non-employee directors in return for services provided in their capacity as directors.

On March 5, 2020, the Company issued 125,000 shares of common stock for advertising services.

On March 30, 2020, the Company issued 5,956 restricted shares of common stock to an officer of the Company.

On September 22, 2020, the Company issued 200,000 shares of Common Stock in connection with a warrant exercise.

The Company has reserved common stock for future issuance as follows:

	September 30, 2020	December 31, 2019
Conversion of Series E	1,760,903	1,760,903
Exercise of options to purchase common stock	7,241,942	7,791,833
Warrants to purchase common stock	19,898,859	16,981,854
Notes payable	7,346,568	4,437,500
Total	36,248,272	30,972,090

Warrants

On May 6, 2019, in connection with the May Acquisitions, the Company acquired 712,823 warrants to purchase common stock with a weighted average exercise price of $3.90. The Company also issued 5,744,991 warrants with an exercise price of $4.25 on May 6, 2019 as part of the PIPE. Additionally, in connection with the PIPE transaction, the Company issued 220,539 warrants to brokers with an exercise price of $3.00. The warrants are exercisable on the date of issuance and expire 24 months from the date of the consummation of a future IPO.

On September 17, 2019, a Company advisor was issued 2,500,000 warrants with an exercise price of $0.10 and 1,500,000 warrants with an exercise price of $10.00. The warrants were exercisable as follows: 1,250,000 of the warrants with the $0.10 exercise price (the "Tranche 1 Warrants") were exercisable on the earlier of the twelve-month anniversary of the issuance date or immediately prior to a change in control subject to the advisor's continued service to the Company; the remaining 1,250,000 of the warrants with the $0.10 exercise price (the "Tranche 2 Warrants") and the 1,500,000 warrants with the $10.00 exercise price (the Tranche 3 Warrants) were exercisable on the earlier of the eighteen-month anniversary of the issuance date or immediately prior to a change in control subject to the advisor's continued service to the Company.

On June 1, 2020, the Company entered into a termination agreement (the "Termination Agreement") with the advisor. Pursuant to the terms of the Termination Agreement, the Tranche 1 Warrants were amended to reduce the number of shares of common stock purchasable thereunder to 1,041,666 shares, and the Tranche 2 Warrants and Tranche 3 Warrants were cancelled. The Tranche 1 Warrants (as amended pursuant to the Termination Agreement) were fully vested as of the date of the termination of the agreement and will remain exercisable until September 17, 2029. Furthermore, if the Company engages in any restricted business line as defined in the Termination Agreement, the Company will issue to the former advisor additional shares of common stock based on formulas intended to compensate the former advisor for the warrants that were reduced or terminated.

In connection with the Termination Agreement, the Company recorded expense of $5.7 million during the nine months ended September 30, 2020. This amount is included in general and administrative expense.

On November 4, 2019, the Company issued 11,000 warrants in connection with the November 2019 Notes. The warrants are exercisable on the date of issuance and expire 24 months from the date of the consummation of a future initial public offering (“IPO”). The warrants carried an initial exercise price equal to the greater of (i) $5.00 per share or (ii) the price at which the common stock of the Company was sold in the IPO.

On December 19, 2019, the Company issued 937,500 warrants in connection with the Seller Notes. The warrants are exercisable on the date of issuance and expire 24 months from the date of the consummation of a future initial public offering (“IPO”). The warrants carried an initial exercise price equal to the greater of (i) $5.00 per share or (ii) the price at which the common stock of the Company was sold in the IPO.

On June 24, 2020, the warrants related to the November 2019 Notes and Seller Notes were amended in connection with the issuance of the June 2020 Notes to lower the maximum exercise price applicable to these warrants from $5.00 to $4.25 per share. The decrease in the exercise price resulted in an increase to the fair value of the warrants of less than $0.2 million which the Company recognized in general and administrative expense.

On December 19, 2019 the Company issued 6,500,000 warrants with an exercise price of $1.82 in conjunction with the short term loan (the “Guarantor Warrants”). The warrants are exercisable on the date of issuance and expire 24 months from the date of the consummation of a future IPO.

On March 17, 2020, 1,003,232 warrants were issued to holders of warrants issued on May 6, 2019 due to the dilutive impact of subsequent issuances. The Company issued an additional 2,560,883 warrants to holders of these warrants due to the further dilutive impact of subsequent issuances.

On June 24, 2020, the Company issued common stock purchase warrants (the “June 2020 Warrants”) to purchase up to 1,000,000 shares of the Company’s common stock at $1.25 per share in connection with the June 2020 Notes. The June 2020 Warrants are exercisable on the date of issuance and expire on the earlier of (i) 84 months from the date of the consummation of an underwritten public offering or other up-list transaction or (ii) June 30, 2030.

On June 24, 2020, the Company issued warrants to purchase up to 1,000,000 shares of the Company’s common stock at $1.25 per share to two non-employee directors. The warrants are exercisable on the date of issuance and expire on the earlier of (i) 84 months from the date of the consummation of an underwritten public offering or other up-list transaction or (ii) June 30, 2030.

On July 20, 2020, the Company issued common stock purchase warrants to purchase up to 300,000 shares of the Company’s common stock at a price equal to $1.05 per share in consideration for a personal guarantee by a member of the Company's board of directors on the ABL Facility (the "July 2020 Guarantor Warrants"). Additionally, on July 20, 2020, the Company issued common stock purchase warrants to purchase up to 200,000 shares of the Company's common stock to two non-employee directors at a price of $1.05 per share (the "July 2020 Director Warrants" and together with the July 2020 Guarantor Warrants, the "July 2020 Warrants"). The July 2020 Warrants are exercisable on the date of issuance and expire on the earlier of (i) 84 months from the date of the consummation of an underwritten public offering or other up-list transaction or (ii) June 30, 2030.

	Warrants	Weighted Average Exercise Price
Warrants outstanding as of December 31, 2019	16,981,854	$ 3.23
Issued	6,125,339	0.91
Exercised	(250,000)	(0.10)
Terminated	(2,958,334)	(5.12)
Warrants outstanding as of September 30, 2020	19,898,859	$ 2.13

The intrinsic value of outstanding warrants was $0.3 million and $12.2 million as of September 30, 2020 and December 31, 2019, respectively.

Note 15 - Share-based compensation

The Company recognizes compensation cost for stock option awards with only service conditions that have a graded vesting schedule on a straight-line basis over the service period for each separate vesting portion of the award as if the award was, in-substance, multiple awards. During the three and nine months ended September 30, 2020, the Company recognized $1.5 million and $7.0 million of share-based compensation expense, respectively. During the three and nine months ended September 30, 2019 the Company recognized $2.5 million and $6.7 million of share-based compensation expense, respectively.

The Company acquired the Better Choice Company Inc. 2019 Incentive Award Plan (the “2019 Plan”) which became effective as of April 29, 2019. The 2019 Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, other stock or cash-based awards or a dividend equivalent award (each an “Award”). On November 11, 2019, the Company received shareholder approval for the Amended and Restated 2019 Incentive Award Plan (the “Amended 2019 Plan”). Under the Amended 2019 Plan, the number of option awards available for issuance increased from 6,000,000 to 9,000,000 on December 19, 2019.

During the nine months ended September 30, 2020, the Company granted300,000 stock options. During the three and nine months ended September 30, 2019, the Company granted 160,000 and 5,993,000 stock options, respectively.

Note 16 - Related party transactions

Marketing services

A company controlled by a member of the board of directors provided online traffic acquisition marketing services for the Company. The Company incurred immaterial amounts for their services during the nine months ended September 30, 2020. During the three and nine months ended September 30, 2019, the Company incurred less than $0.1 million and $0.2 million, respectively. As of September 30, 2020, the Company had no outstanding balance and as of December 31, 2019 the outstanding balance was less than $0.1 million and was included in accounts payable in the condensed consolidated balance sheets.

Notes payable

The Company issued $1.4 million of subordinated convertible notes to a member of the board of directors during the year ended December 2019, and $0.8 million of subordinated convertible notes to the same director during June 2020. The notes remain outstanding as of September 30, 2020. Interest related to the subordinated convertible notes was less than $0.1 million and $0.1 million for the three and nine months ended September 30, 2020, respectively.

Halo transaction bonus and notes payable

The Company issued $0.1 million of subordinated convertible notes to an executive in satisfaction of a transaction bonus as per his employment agreement upon the close of the Halo Acquisition in December 2019. These convertible notes are outstanding as of September 30, 2020.

Note 17- Income taxes

For the periods ended September 30, 2020 and 2019, the Company recordedno current or deferred income tax expense.

The Company’s effective tax rate of0% differs from the United States federal statutory rate of 21% primarily because the Company’s losses have been fully offset by a valuation allowance due to uncertainty of realizing the tax benefit of net operating losses (“NOLs”) for the periods ended September 30, 2020 and year ended December 31, 2019.

The Company’s deferred tax assets attributed to net operating loss carryforwards begin to expire in 2027.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The Company continues to examine the impact that the CARES Act may have on its business but does not expect the impact to be material.

The ultimate realization of deferred taxes is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. On the basis of management’s assessment, a valuation allowance equal to the net deferred tax assets was recorded since it is more likely than not that the deferred tax assets will not be realized.

The Company has no accrued interest and penalties related to uncertain income tax positions. The Company does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease within the next twelve months. As of September 30, 2020 and December 31, 2019, the Company does not have any significant uncertain tax positions. If incurred, the Company would classify interest and penalties on uncertain tax positions as income tax expense.

The Company's income tax returns generally remain open for examination for three years from the date filed with each taxing jurisdiction.

For the period ended May 6, 2019, the Company was a limited liability company, taxed as a partnership. Thus, all of the Company's income and losses flowed through to the owners. The company converted to a C-corporation, subject to income tax on May 6, 2019, the date of the May Acquisitions.

Note 18 - Major suppliers

The Company sourced approximately 78% of its inventory purchases from three vendors for the nine months ended September 30, 2020. The Company sourced approximately 85% of its inventory purchases from one vendor for the nine months ended September 30, 2019.

Note 19 - Concentration of credit risk and off-balance sheet risk

Cash and cash equivalents and accounts receivable potentially subject the Company to concentrations of credit risk. As of September 30, 2020 and December 31, 2019 the Company's cash and cash equivalents were deposited in accounts at several financial institutions. 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 may maintain balances with financial institutions in excess of federally insured limits.

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. The Company has no significant off-balance sheet concentrations of credit risk, such as foreign currency exchange contracts, option contracts, or other hedging arrangements. Accounts receivable from three customers represented 70% of accounts receivable as of September 30, 2020. Accounts receivable from one customer represented44% of accounts receivable as of December 31, 2019.

Two customers represented 35% of gross sales for the nine months ended September 30, 2020. None of the Company's customers represented greater than 10% of gross sales for the nine months ended September 30, 2019.

Note 20- Net loss per share

Basic and diluted net loss per share attributable to common stockholders is presented using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options and the amount of compensation cost for future service that has not yet been recognized are collectively assumed to be used to repurchase shares.

Basic and diluted net loss per share is calculated by dividing net and comprehensive loss attributable to common stockholders by the weighted-average shares outstanding during the period. For the three and nine months ended September 30, 2020 and 2019, the Company's basic and diluted net and comprehensive loss per share attributable to common stockholders are the same, because the Company has generated a net loss to common stockholders and common stock equivalents are excluded from diluted net loss per share as they have an antidilutive impact.

The following table sets forth basic and diluted net loss per share attributable to common stockholders for the three and nine months ended September 30, 2020 and 2019:

Dollars in thousands	Nine Months Ended September 30,		Three Months Ended September 30,	
Common stockholders	**2020**	**2019**	**2020**	**2019**
Numerator:				
Net and comprehensive loss	$ (29,551)	$ (170,311)	$ (1,693)	$ (6,025)
Less: Preferred stock dividends	103	70	35	43
Net and comprehensive loss available to common stockholders	$ (29,654)	$ (170,381)	$ (1,728)	$ (6,068)
Denominator:				
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	48,809,740	28,624,230	48,961,447	43,575,010
Net loss per share attributable to common stockholders, basic and diluted	$ (0.61)	$ (5.95)	$ (0.04)	$ (0.14)

Note 21 - Subsequent events

Issuance of Series F Preferred Stock and Exchange of Series E Preferred Stock

During October, 2020, the Company consummated an insider-led equity financing, including the transactions contemplated by a securities purchase agreement (the “Securities Purchase Agreement”) between the Company and certain accredited and sophisticated investors (the “Purchasers”) and an exchange agreement (the “Series E Exchange Agreement”) between the Company and Cavalry Fund LP ("Cavalry"), the holder of all of the Company’s outstanding Series E preferred stock.

Pursuant to the Securities Purchase Agreement, the Company, in a private placement (the “Series F Private Placement”), issued and sold units (the “Series F Units”) to the Purchasers for a purchase price of $1,000 per Unit. Each Unit consists of: (i) one share of the Company’s Series F convertible preferred stock, par value $0.001 per share (the “Series F Preferred Stock”), which is convertible into shares of the Company’s common stock, par value $0.001 per share, at a value per share of common stock of $0.50; and (ii) a warrant to purchase for a six year period such number of shares of common stock (the “Warrant Shares”) into which such share of Series F Preferred Stock is convertible at an exercise price per Warrant Share of $0.75. Pursuant to the Series F Private Placement, the Company raised approximately $21.7 million in gross cash proceeds, approximately $11.5 million of which was invested by certain officers and directors of the Company.

Concurrently with the execution of the Securities Purchase Agreement, the Company and the Purchasers entered into a registration rights agreement, (the "Registration Rights Agreement") and as amended by a certain first amendment to the Registration Rights Agreement"), dated October 29,2020, pursuant to which the Company agreed to file a registration statement with the SEC by December 1, 2020 to register the Warrant Shares and the shares of common stock issuable upon conversion of the Series F Preferred Stock.

In connection with the consummation of the Series F Private Placement, on October 1, 2020, the Company filed with the Secretary of State of Delaware a Certificate of Designations which authorizes a total of 30,000 shares of Series F Preferred Stock and sets forth the designations, preferences, and rights of the Company's Series F Preferred Stock.

Pursuant to the Series E Exchange Agreement, the Company issued 3,500 Series F Units to Cavalry in exchange for all of its outstanding Series E Preferred Stock (the “Exchange Transaction”).

In addition, on October 2, 2020, the Company entered into an amendment to its Facilities Agreement to permit the Company to use a portion of the net proceeds of the Series F Private Placement to make a partial repayment of the outstanding term loan thereunder.

Repricing of Stock Options

Effective October 1, 2020, outstanding stock option awards held by current employees as of October 1, 2020 were repriced concurrent with the closing of the Series F Private Placement. In total, 6,077,731 stock options were repriced. The exercise price was set at a 20% premium to the Series F Preferred Stock conversion price, or $0.60 per share.

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. 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

We are a growing animal 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. We take an alternative, nutrition-based approach to animal health relative to conventional dog and cat food offerings and position our portfolio of brands to benefit from the mainstream trends of growing pet humanization and consumer focus on health and wellness. We have a demonstrated, multi-decade track record of success selling trusted animal health and wellness products and leverage our established digital footprint to provide pet parents with the knowledge to make informed decision about their pet's health. We sell the majority of our dog food, cat food and treats under the Halo and TruDog brands, which are focused, respectively, on providing sustainably sourced kibble and canned food derived from real whole meat, and minimally processed raw-diet dog food and treats.

Our diverse product offering has enabled us to penetrate multiple channels of trade, which we believe provides us with broad demographic exposure and appeal. We group these channels of trade into two distinct categories: retail- partner based ("Retail"), which includes the sale of product to e-commerce retailers, pet specialty chains, grocery, mass and distributors, and direct to consumer ("DTC"), which is focused on driving consumers to directly purchase product through our online web platform. With regard to our channels of trade, the online purchase of pet food continues to take market share from brick and mortar retail, with Packaged Facts reporting internet shopping growing from 7% of U.S. pet product sales in 2015 to 22% in 2019. We believe that the trend toward online shopping will continue, and we will continue to reach a growing base of diverse customers through our DTC and e- commerce partner channels. Because our DTC strategy leverages one-on-one customer relationships and utilizes a targeted, data-driven approach to reach customers, we can gather valuable market and consumer behavior data that will allow our brands to be more competitive in the Retail channel. Conversely, we believe Halo's long-established relationships with key Retail customers will enable us to more effectively launch additional brands in the rapidly evolving retail environment. In addition, Halo has successfully launched into high growth markets in Asia. We intend to build on that success by expanding our products consumer reach through online marketplaces in these markets based on the DTC team experience.

Our marketing strategy is designed to educate consumers about the benefits of our portfolio and build awareness of our products. We deploy a broad set of marketing tools across media, mail and public relations to reach consumers through multiple touch points. Our marketing initiatives include the use of social marketing, social influence marketing, direct response marketing, inbound marketing, email marketing, Search Engine Optimization, Search Engine Marketing, radio, paid media (Facebook, Instagram & YouTube), affiliate marketing, and content marketing, among other proven strategies to generate and convert sales prospects into loyal, satisfied customers. In addition to directly targeting and educating consumers of our products, we partner with a number of online retailers such as Amazon, Chewy, PetSmart and Petco to develop joint sales and marketing initiatives to increase sales and acquire new customers.

Our established supply and distribution infrastructure allow us to develop, manufacture and commercialize new products generally in under 12 weeks. We will continue to deliver innovation to expand our product offerings and improve the health and well-being of pets. We leverage our proprietary behavioral database, customer feedback and analytics capabilities to derive valuable insights and launch new products. We recently launched a line extension of our Halo brand to offer vegan alternatives for our customers. In addition to our domestic capabilities, we have partnered with a leading Israeli research and development center, Cannasoul, to create a portfolio of indication- specific intellectual property focused on hemp-derived CBD formulations.

Our experienced management and board members have an established track record across the retail, consumer packaged goods, pet health and wellness industries, and they share a common vision to build the premier provider of health and wellness pet products.

The impact that COVID-19 will have on our results of operations is uncertain. As of October 2020, we have not seen a material decline in sales. We will continue to evaluate the nature and extent of COVID-19's impact to our business, results of operations, financial condition and liquidity. Our results presented herein are not necessarily indicative of the results to be expected for future periods in 2020 or the full fiscal year.

Management cannot predict the full impact of the COVID-19 pandemic on our sourcing, manufacturing and distribution of our products or to economic conditions generally, including the effects on consumer spending. The ultimate extent of the effects of the COVID-19 pandemic on us is highly uncertain and will depend on future developments, and such effects could exist for an extended period of time even after the pandemic might end.

Fiscal Year End

On May 21, 2019, our board of directors approved a change in fiscal year end from August 31 to December 31 to align with the TruPet fiscal year end. The fiscal year change became effective with our 2019 fiscal year, which begins January 1, 2019 and ends December 31, 2019. Following its acquisition by us, Halo has adopted the same fiscal year end.

Components of Our Results of Operations

Net sales

We sell pet food and related items, including private branded freeze dried and dehydrated raw foods, supplements, dental care products for dogs, and treats and accessories for dogs, cats, and pet parents. We sell our products through pet specialty retailers, online retailers, our online portal directly to our consumers and internationally through domestic distributors. We have a deep portfolio of premium animal health and wellness products for dogs and cats sold under the Halo, TruDog, TruGold, Rawgo! and Orapup brand names across multiple forms and classes, including foods, treats, toppers, dental products, chews, tinctures, grooming products and supplements.

Key factors that affect our future sales growth include: our continued expansion in Retail and other specialty channels, international expansion and our new product introduction. We recognize revenue to depict the transfer of promised goods to the customer in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods. We have two categories of revenue channels: Retail, which includes the sale of product to e-commerce retailers, pet specialty chains, grocery, mass and distributors, and DTC, which is focused on driving consumers to directly purchase product through our online web platform.

A significant portion of our revenue is derived from the DTC channel which represents 25% of consolidated revenue; the Retail channel represents 75% of consolidated revenue for the nine months ended September 30, 2020. The majority of these sales transactions are single performance obligations that are recorded when control is transferred to the customer. DTC revenue is recognized at the time the order is shipped to the DTC customers. For the majority of Retail customers, we recognize revenue when the product is shipped from our distribution centers, when control transfers. For the remaining customers, we defer revenue based on average shipping times to those customers. We record a revenue reserve based on past return rates to account for customer returns.

For our DTC loyalty program, a portion of revenue is deferred at the time of the sale as points are earned based on the relative stand-alone selling price, and not recognized until the redemption of the loyalty points, which do not expire. We have applied a redemption rate based on historical experience.

Cost of goods sold and Gross profit

Our products are manufactured to our specifications by contracted manufacturing plants using raw materials sourced by our contracted manufacturers. We design our packaging in-house for manufacture by third parties, and packaging is shipped directly to contracted manufacturing plants. We work with our co-manufacturers to secure a supply of raw materials that meet our specifications, such as USA farm-raised beef, GAP 2 certified cage-free whole chicken and associated broths, GAP 2 certified cage-free whole turkey and associated broths, MSC certified wild-caught salmon and MSC certified wild-caught whitefish and associated broths, and select non-GMO fruits and vegetables, such as peas, sweet potatoes and lentils. In addition to procuring raw materials that meet our formulation requirements, our contract manufacturers manufacture, test and package our products. In addition, we intend to directly source the hemp derived CBD oils used in our products from select suppliers to ensure product quality and traceability of the ingredient. CBD oils are shipped to our warehouse and forwarded to our contracted manufacturing partners as needed for production.

Cost of goods sold consists primarily of the cost of product obtained from third-party contract manufacturing plants, packaging materials, CBD oils directly sourced by us, inventory freight for shipping product from third-party contract manufacturing plants to our warehouse and third party fulfillment and royalties. We review inventory on hand periodically to identify damages, slow moving inventory, and/or aged inventory. Based on the analysis, we record inventories at the lower of cost or net realizable value, with any reduction in value expensed as cost of goods sold.

We calculate gross profit as net sales, including any shipping revenue collected from our customers, less cost of goods sold. Our gross profit has been and will continue to be affected by a variety of factors, primarily product sales mix including the addition of Halo branded products, volumes sold, discounts offered to Retail customers and our TLC club members, discounts offered to newly acquired and recurring customers, the cost of our manufactured products, and the cost of freight from the manufacturer to our warehouse. Changes in cost of goods sold and gross profit may be driven by the volume and price of our sales, including the extent of discounts offered, variations in the cost of raw materials and the price we pay for our manufactured products and variations in our freight costs.

Operating Expenses

General and administrative expenses include management and office personnel compensation and bonuses, warrant expense, corporate level information technology related costs, rent, travel, professional service fees, costs related to merchant credit card fees, insurance, product development costs, shipping DTC orders to customers and general corporate expenses.

Share-based compensation includes expenses related to stock options and warrants issued to non-employee directors.

Sales and marketing expenses include costs related to compensation for sales personnel, other costs related to the selling platform, as well as marketing, including paid media and content creation expenses. Marketing expenses consist primarily of Facebook and other media ads, and other advertising and marketing costs, all geared towards acquiring new customers and building brand awareness.

Customer service and warehousing costs include the cost of our customer service department, including our in-house call center, and costs associated with warehouse operations, including but not limited to payroll, rent, and warehouse management systems.

Interest expense, net

On November 4, 2019 and December 19, 2019, we issued $2.8 million and $15.0 million, respectively, in aggregate principal amount of subordinated convertible notes. These notes accrue interest payable in kind until maturity or conversion to equity.

On December 19, 2019, we entered into a loan facilities agreement with a private debt lender (the “Facilities Agreement”) that provided for a short term loan facility of $20.5 million and a revolving line of credit not to exceed $7.5 million. The short term loan is scheduled to mature on December 19, 2019 or such earlier date on which a demand is made by the agent or any lender. The revolving line of credit was paid in full with a portion of the proceeds of the ABL facility, discussed below.

On January 13, 2020, we issued $0.6 million in senior subordinated convertible notes to ABG. These notes accrue interest payable in kind until maturity or conversion to equity.

On June 24, 2020, we issued $1.5 million in subordinated convertible promissory notes. These notes accrue interest payable in kind until maturity or conversion to equity.

On July 16, 2020, we received a revolving line of credit in the aggregate amount of $7.5 million from Citizens Business Bank. The proceeds of this ABL Facility were used (i) to repay all principal, interest and fees outstanding under our existing revolving credit facility and (ii) for general corporate purposes. The ABL Facility matures on July 5, 2022 and bears interest at a variable rate of LIBOR plus 0.025 basis points, with an interest rate floor of 3.25% per annum. Accrued interest on the ABL Facility is payable monthly commencing on August 5, 2020.

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. We did not record income tax expense for the three and nine months ended September 30, 2020 due to the continued losses incurred by us. Prior to the May Acquisitions, TruPet was a limited liability company.

Results of Operations for the nine months ended September 30, 2020 and 2019

Dollars in thousands	2020	2019	Change	%
Net sales	$ 33,302	$ 11,567	$ 21,735	188 %
Cost of goods sold	20,567	7,178	13,389	187 %
Gross profit	12,735	4,389	8,346	190 %
Operating expenses:				
General and administrative	23,298	12,031	11,267	94 %
Share-based compensation	7,047	6,708	339	5 %
Sales and marketing	6,203	8,452	(2,249)	(27)%
Customer service and warehousing	500	854	(354)	(41)%
Total operating expenses	37,048	28,045	9,003	32 %
Loss from operations	$ (24,313)	$ (23,656)	$ (657)	3 %

Net sales

Net sales increased $21.7 million, or 188%, to $33.3 million for the nine months ended September 30, 2020 compared to $11.6 million for the nine months ended September 30, 2019. Net sales include $23.9 million from Halo for the nine months ended September 30, 2020 following the closing of the Halo Acquisition in December 2019. This was partially offset by a $2.2 million decrease for the nine months ended September 30, 2020 in net sales related to TruPet as compared to the comparable prior year period.

Cost of goods sold and Gross profit

Cost of goods sold increased $13.4 million, or 187%, to $20.6 million for the nine months ended September 30, 2020 compared to $7.2 million for the nine months ended September 30, 2019. As a percentage of revenue, cost of goods sold remained consistent at 62% during the nine months ended September 30, 2020 and September 30, 2019, respectively. Cost of goods sold includes $16.3 million of Halo product costs for the nine months ended September 30, 2020 following the closing of the Halo Acquisition in December 2019. In addition, cost of goods sold during the first three quarters of 2020 included $0.9 million of non-cash expense related to the amortization of a purchase accounting adjustment to inventory recorded in connection with the Halo Acquisition. These increases were offset by a comparable decrease in cost of goods sold related to the decrease in TruPet sales.

During the nine months ended September 30, 2020, gross profit increased $8.3 million, or 190%, to $12.7 million compared to $4.4 million during the nine months ended September 30, 2019. Gross profit margin remained flat at 38% for the nine months ended September 30, 2020 and September 30, 2019, respectively. Gross profit includes $7.6 million from Halo for the nine months ended September 30, 2020, following the closing of the Halo Acquisition. The Halo line of products for the current period carried a gross profit margin of 32% compared to TruPet's gross margin of 55%. TruPet products have higher margins as compared to the Halo product line as Halo's food and pet food topper products have higher costs than the TruPet products. During the first three quarters of 2020, Halo also incurred storage and fulfillment center costs of $0.6 million, an inventory reserve of $0.2 million and product obsolescence costs of $0.2 million due to the nature of Halo's products.

Operating Expenses

During the nine months ended September 30, 2020, general and administrative expenses increased $11.3 million, or 94%, to $23.3 million compared to $12.0 million for the nine months ended September 30, 2019. This increase includes expenses of $3.8 million incurred by Halo for the nine months ended September 30, 2020, following the closing of the Halo Acquisition. Halo general and administrative expenses include non-cash amortization of $1.2 million related to the trade name and customer relationship intangible assets acquired as part of the Halo acquisition, salaries and wages and related costs of $1.6 million, as well as other costs such as professional and consulting fees, charitable contributions, and other miscellaneous costs. Better Choice general and administrative expenses accounted for the remaining increase, primarily driven by higher warrant expense of $9.6 million, an increase in consulting and other professional fees of $0.5 million, and higher salaries and wages and related costs of $0.9 million as we continued building the infrastructure to support our status as a public company and the expansion of our corporate staff. These increases were partially offset by a decrease in TruPet general and administrative expenses of $3.5 million as compared to the prior year period driven by reductions in compensation costs, professional fees, and outbound shipping costs.

During the nine months ended September 30, 2020, share-based compensation increased $0.3 million, or 5%, to $7.0 million, as compared to share-based compensation of $6.7 million during the nine months ended September 30, 2019. The increase was driven by $1.0 million related to a catch up of unrecognized stock-based compensation expense, $1.0 million of add-on warrant expense issued to two non-employee directors, and $0.5 million related to restricted shares issued to three non-employee directors, mostly offset by the acceleration of vesting of option awards in connection with the May Acquisitions in the prior year period.

During the nine months ended September 30, 2020, sales and marketing expenses, including paid media, decreased $2.3 million, or 27%, to $6.2 million from $8.5 million during the nine months ended September 30, 2019. Marketing expenses include $3.1 million incurred by Halo for the nine months ended September 30, 2020, following the closing of the Halo Acquisition in December 2019 and $0.4 million incurred by Bona Vida for the nine months ended September 30, 2020 related to the write off of a prepaid expense associated with a marketing contract that was terminated. TruPet's sales and marketing expenses decreased from $8.5 million for the nine months ended September 30, 2019 to $2.7 million for the nine months ended September 30, 2020.

During the nine months ended September 30, 2020, customer service and warehousing decreased $0.4 million, or 41%, to $0.5 million, as compared to $0.9 million during the nine months ended September 30, 2019 due to a reduction in staff and related operating costs.

Interest expense, net

During the nine months ended September 30, 2020, interest expense increased $7.1 million to $7.3 million from $0.2 million for the nine months ended September 30, 2019. Interest expense relates primarily to existing and prior indebtedness including short term loans, lines of credit and subordinated convertible notes.

Income Taxes

No provision has been made for federal and state income taxes prior to the date of the May Acquisitions as the proportionate share of TruPet's income or loss was included in the personal tax returns of its members as TruPet was a limited liability company. Subsequent to the Acquisitions, we, as a corporation are required to provide for income taxes.

The effective tax rate subsequent to the Acquisitions is 0%. The effective tax rate differs from the U.S. Federal statutory rate of 21% as our reported losses are offset by a valuation allowance due to uncertainty as to the realization of those losses.

Results of Operations for the three months ended September 30, 2020 and 2019

Dollars in thousands	2020	2019	Change	%
Net sales	$ 11,135	$ 3,932	$ 7,203	183 %
Cost of goods sold	6,681	3,096	3,585	116 %
Gross profit	4,454	836	3,618	433 %
Operating expenses:				
General and administrative	3,648	4,856	(1,208)	(25)%
Share-based compensation	1,543	2,496	(953)	(38)%
Sales and marketing	2,396	2,856	(460)	(16)%
Customer service and warehousing	148	303	(155)	(51)%
Total operating expenses	7,735	10,511	(2,776)	(26)%
Loss from operations	$ (3,281)	$ (9,675)	$ 6,394	(66)%

Net sales

Net sales increased $7.2 million, or 183%, to $11.1 million for the three months ended September 30, 2020 compared to $3.9 million for the three months ended September 30, 2019. Net sales include $8.0 million from Halo for the three months ended

September 30, 2020 following the closing of the Halo Acquisition in December 2019. This was partially offset by a $0.8 million decrease for the three months ended September 30, 2020 in net sales related to TruPet as compared to the comparable prior year period.

Cost of goods sold and Gross profit

Cost of goods sold increased $3.6 million, or 116%, to $6.7 million for the three months ended September 30, 2020 compared to $3.1 million for the three months ended September 30, 2019. As a percentage of revenue, cost of goods sold was 60% during the three months ended September 30, 2020 compared to 79% for the three months ended September 30, 2019. Cost of goods sold includes $5.3 million of Halo product costs for the three months ended September 30, 2020 following the closing of the Halo Acquisition in December 2019. These increases were offset by a comparable decrease in cost of goods sold related to the decrease in TruPet sales, a reduction in product costs, and lower inventory reserve charges.

During the three months ended September 30, 2020, gross profit increased $3.6 million, or 433%, to $4.5 million compared to $0.8 million during the three months ended September 30, 2019. Gross profit margin increased to 40% for the three months ended September 30, 2020 from 21% for the three months ended September 30, 2019. Gross profit includes $2.7 million from Halo for the three months ended September 30, 2020, following the closing of the Halo Acquisition. The Halo line of products for the current period carried a gross profit margin of 34% compared to TruPet's margin of 54%. TruPet products have higher margins as compared to the Halo product line as Halo's food and pet food topper products have higher costs than the TruPet products. Halo also incurred storage and fulfillment center costs of $0.2 million for the three months ended September 30, 2020 due to the nature of Halo's products.

Operating Expenses

During the three months ended September 30, 2020, general and administrative expenses decreased $1.3 million, or 25%, to $3.6 million compared to $4.9 million for the three months ended September 30, 2019. The decrease is primarily driven by a reduction in TruPet general and administrative expenses of $1.1 million consisting primarily of decreases in sales tax expense, partially offset by an increase in professional fees. Better Choice general and administrative expenses accounted for the remaining decrease, driven by lower consulting and professional fees of $1.0 million and lower warrant compensation of $0.4 million. The decrease is offset by $1.2 million of general and administrative expenses incurred by Halo for the three months ended September 30, 2020, following the closing of the Halo Acquisition. Halo general and administrative expenses include non-cash amortization of $0.4 million related to the trade name and customer relationship intangible assets acquired as part of the Halo acquisition, salaries and wages and related costs of $0.5 million, as well as other costs such as professional and consulting fees, charitable contributions, and other miscellaneous costs.

During the three months ended September 30, 2020, share-based compensation decreased $1.0 million, or 38%, to $1.5 million, as compared to share-based compensation of $2.5 million during the three months ended September 30, 2019. The decrease was driven by the acceleration of vesting of option awards in connection with an executive termination in the prior year period.

During the three months ended September 30, 2020, sales and marketing expenses, including paid media, decreased $0.5 million, or 16%, to $2.4 million from $2.9 million during the three months ended September 30, 2019. Sales and marketing expenses include $1.1 million incurred by Halo for the three months ended September 30, 2020, following the closing of the Halo Acquisition in December 2019 and $0.4 million incurred by Bona Vida for the three months ended September 30, 2020 related to the write off of a prepaid expense associated with a marketing contract that was terminated. TruPet's sales and marketing expenses decreased from $2.9 million for the three months ended September 30, 2019 to $0.9 million for the three months ended September 30, 2020.

During the three months ended September 30, 2020, customer service and warehousing decreased $0.2 million, or 51%, to $0.1 million, as compared to $0.3 million during the three months ended September 30, 2019 due to a reduction in staff and related operating costs.

Interest expense, net

During the three months ended September 30, 2020, interest expense increased $2.5 million to $2.5 million from less than $0.1 million for the three months ended September 30, 2019. Interest expense relates primarily to existing and prior indebtedness including short term loans, lines of credit and subordinated convertible notes.

Income Taxes

No provision has been made for federal and state income taxes prior to the date of the May Acquisitions as the proportionate share of TruPet's income or loss was included in the personal tax returns of its members as TruPet was a limited liability company. Subsequent to the Acquisitions, we, as a corporation are required to provide for income taxes.

The effective tax rate subsequent to the Acquisitions is 0%. The effective tax rate differs from the U.S. Federal statutory rate of 21% as our reported losses are offset by a valuation allowance due to uncertainty as to the realization of those losses.

Liquidity and Capital Resources

Since our founding, we have financed our operations primarily through sales of member units while a limited liability company, and since becoming a corporation, through the sales of shares of our common stock, warrants, preferred stock, and loans. On September 30, 2020 and December 31, 2019, we had cash and cash equivalents and restricted cash of $2.1 million and $2.5 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 its products, the successful protection of its proprietary technologies, ability to grow into new markets, and compliance with government regulations. In late 2019, a novel strain of coronavirus ("COVID-19") began to spread globally. As of November 2020, we have not experienced a significant adverse impact to our business, financial condition or cash flows resulting from the pandemic. However, uncertainties regarding the continued economic impact of COVID-19 are likely to result in sustained market turmoil, which could negatively impact our business, financial condition, and cash flows in the future.

We have incurred losses over the last three years and have an accumulated deficit. We expect to continue to generate operating losses and consume significant cash resources for the foreseeable future. These conditions raise substantial doubt about our ability to continue as a going concern, meaning that we may be unable to continue operations for the foreseeable future or realize assets and discharge liabilities in the ordinary course of operations. We have implemented and continue to implement plans to achieve cost savings and other strategic objectives to address these conditions. We expect cost savings from consolidation of third-party manufacturers, optimizing shipping and warehousing as well as overhead cost reductions. The business is focused on growing the most profitable channels while reducing investments in areas that are expected to have lower long-term benefits.

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. The accompanying interim condensed consolidated financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and payments of liabilities in the ordinary course of business. Accordingly, the interim condensed 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 we be unable to continue as a going concern.

A summary of our cash flows for the nine months ended September 30, 2020 and 2019 is as follows:

	Nine Months Ended September 30,	
Dollars in thousands	**2020**	**2019**
Cash flows (used in) provided by:		
Operating activities	$ (4,523)	$ (13,224)
Investing activities	(42)	364
Financing activities	4,112	17,915
Net (decrease) increase in cash and cash equivalents and restricted cash	$ (453)	$ 5,055

Cash flows from Operating Activities

Cash used in operating activities consisted of net loss from operations adjusted for non-cash items such as warrant issuances, share-based compensation expense and depreciation and amortization as well as changes in working capital and other activities.

Cash used in operating activities decreased $8.7 million, or 66%, during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. Net loss from operations adjusted for non-cash expenses was $7.0 million for the nine months ended September 30, 2020 compared to $17.5 million for the comparable prior year period. The improvement was driven by an increase in revenue from the Halo Acquisition and a reduction in sales and marketing and customer services and warehouse expenses. While general and administrative costs increased $11.3 million for the nine months ended September 30, 2020 compared to the comparable prior year period, a majority of the increase was related to non-cash expenses. As a percentage of revenue, cash expenses from general and administrative activity decreased year over year, reflecting continued optimization and leverage of operating costs as a combined company.

Cash flows from Investing Activities

Cash used in investing activities was less than $0.1 million during the nine months ended September 30, 2020. Cash provided by investing activities was $0.4 million during the nine months ended September 30, 2019.The cash used in investing activities for the nine months ended September 30, 2020 is related to the purchase of property and equipment. The cash flow from investing activities for the nine months ended September 30, 2019 is primarily due to cash acquired in the merger, partially offset by cash used to purchase property and equipment.

Cash flows from Financing Activities

Cash provided by financing activities was $4.1 million for the nine months ended September 30, 2020 compared tocash provided by financing activities of $17.9 million during the nine months ended September 30, 2019. The cash provided by financing activities for the nine months ended September 30, 2020 was related to proceeds from the revolving line of credit of $0.3 million, proceeds from the PPP loans of $0.9 million, proceeds of $1.5 million from the June 2020 Notes and $1.5 million related to investor prepayments associated with the issuance of preferred stock, slightly offset by less than $0.1 million in debt issuance costs. Net cash provided by financing activities during the nine months ended September 30, 2019 was related to net proceeds from a private placement of $15.8 million and a PIPE warrant exercise of $4.0 million, offset by payments to eliminate the balance due under a cash advance agreement of $1.9 million. We refinanced debt acquired in the merger of $1.6 million with the proceeds from the issuance of new debt of $6.2 million. For details about the terms, covenants and restrictions contained in the Facilities Agreement and the subordinated convertible notes, see "Note 10 - Debt" to our interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable regulations of the SEC, that are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

We have identified significant accounting policies that, as a result of the judgments, uncertainties, uniqueness and complexities of the underlying accounting standards and operations involved could result in material changes to its financial condition or results of operations under different conditions or using different assumptions. Our most critical accounting policies are related to revenue recognition, valuation of long-lived and intangible assets, share-based compensation, and the accounting for convertible notes, warrants and business combinations. Details regarding our use of these policies and the related estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission on May 4, 2020.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management evaluated its internal control over financial reporting for the quarter ended September 30, 2020. Based upon that evaluation, the Company’s Chief Executive Officer and Principal Financial and Accounting Officer concluded that the Company’s disclosure controls and procedures were not effective as of September 30, 2020. Management anticipates that such disclosure controls and procedures will not be effective until the material weaknesses described in the Company’s Annual Report on Form 10-K are remediated.

Changes in Internal Control Over Financial Reporting

As part of the Halo acquisition, the existing Halo finance team will support the process of bringing current outsourced processes in house. Additionally, the Company hired the Principal Financial and Accounting Officer of the Company, effective May 12, 2020, to help improve internal control over financial reporting. There were no other changes in internal control over financial reporting during the fiscal quarter ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Item 1A. of Part 1 of our Form 10-K for the fiscal year ended December 31, 2019. While we believe there have been no material changes from the risk factors previously disclosed in such Form 10-K, 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 Report on Form 10-Q, 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

We have previously disclosed all sales of securities without registration under the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith.

EXHIBIT INDEX

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
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	

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
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	
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	Amended and Restated Certificate of Designation for Series E Convertible Preferred Stock	8-K	333-161943	3.1	05/23/2019	
3.9	Certificate of Designation for Series F Convertible Preferred Stock	8-K	333-161943	3.1	10/02/2020	
4.1	Form of Common Stock Purchase Warrant in connection with the May 2019 private placement	8-K	333-161943	4.1	04/30/2019	
4.2	Form of Tranche 1 Common Stock Purchase Warrant, dated September 17, 2019, by and between the Registrant and Bruce Linton	8-K	333-161943	4.1	09/23/2019	
4.3	Form of Tranche 2 Common Stock Purchase Warrant, dated September 17, 2019, by and between the Company and Bruce Linton	8-K	333-161943	4.2	09/23/2019	

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
4.4	Form of Additional Common Stock Purchase Warrant, dated September 17, 2019, by and between the Company and Bruce Linton	8-K	333-161943	4.3	09/23/2019	
4.5	Form of Subordinated Convertible Promissory Note in connection with the November 2019 private placement	8-K	333-161943	4.1	11/15/2019	
4.6	Form of Common Stock Purchase Warrant in connection with the November 2019 private placement	8-K	333-161943	4.2	11/15/2019	
4.7	Form of Subordinated Convertible Promissory Note, dated December 19, 2019, by and among the Company and the Halo Sellers listed on the signature pages thereto	10-Q	333-161943	4.7	01/31/2020	
4.8	Form of Common Stock Purchase Warrant, dated December 19, 2019, by and among the Company and the Halo Sellers	10-Q	333-161943	4.8	01/31/2020	
4.9	Form of Common Stock Purchase Warrant, dated December 19, 2019, by and among the Company and the Shareholder Personal Guarantors	10-Q	333-161943	4.10	01/31/2020	
4.10	Form of Common Stock Purchase Warrant Agreement in connection with the December 2018 private placement	8-K	333-161943	4.1	12/13/2018	
4.11	Form of Common Stock Purchase Warrant in connection with the June 2020 private placement.	10-Q	333-161943	4.11	06/25/2020	
4.12	Form of Subordinated Convertible Promissory Note in connection with the June 2020 private placement.	10-Q	333-161943	4.12	06/25/2020	
4.13	Form of Subscription Agreement in connection with the June 2020 private placement.	10-Q	333-161943	4.13	06/25/2020	
4.14	Form of Registration Rights Agreement by and among the Company and the persons listed on the signature pages thereto in connection with the June 2020 private placement.	10-Q	333-161943	4.14	06/25/2020	
4.15	Form of Amendment to November 2019 Notes, Seller Notes and ABG Notes	10-Q	333-161943	4.15	8/14/2020	

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
4.16	Form of July 2020 Common Stock Purchase Warrants	8-K	333-161943	10.5	07/21/2020	
4.17	Form of Warrant in connection with the October 2020 Series F Private Placement	8-K	333-161943	4.1	10/02/2020	
10.1	Loan Agreement dated May 6, 2019, between the Company and Franklin Synergy Bank	8-K	333-161943	10.1	05/10/2019	
10.2	Security Agreement dated May 6, 2019, between the Company and Franklin Synergy Bank	8-K	333-161943	10.2	05/10/2019	
10.3	Guaranty Agreement, dated April 8, 2019, by TruPet LLC in favor of Franklin Synergy Bank	S-1	333-234349	10.17	10/28/2019	
10.4	Form of Revolving Line of Credit Promissory Note dated 2019	8-K	333-161943	10.3	05/10/2019	
10.5	Guaranty Agreement, dated April 8, 2019, by Bona Vida, Inc. in favor of Franklin Synergy Bank	S-1	333-234349	10.16	10/28/2019	
10.6***	Loan Facilities Credit Letter Agreement, dated December 19, 2019, by and among the Better Choice Company Inc., Halo, Purely for Pets, Inc., Bona Vida Inc., TruPet LLC and Bridging Finance Inc., as agent.	10-Q	333-161943	10.1	01/31/2020	
10.7	Pledge and Security Agreement, dated December 19, 2019, by and among the Company, Halo, Purely or Pets, Inc., Bona Vida, Inc., TruPet LLC and Bridging Finance Inc., as Administrative Agent	10-Q	333-161943	10.2	01/31/2020	
10.8	Continuing Guaranty of Halo, Purely for Pets, Inc., Bona Vida Inc., TruPet LLC, dated December 19, 2019	10-Q	333-161943	10.3	01/31/2020	
10.9	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	
10.10	Continuing Personal Guaranty of John Word, Lori Taylor and Michael Young, dated December 19, 2019	10-Q	333-161943	10.4	01/31/2020	

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
10.11	Registration Rights Agreement, dated May 6, 2019, by and among the Company and the persons listed on the signature pages thereto in connection with the May 2019 private placement	S-1	333-234349	10.2	10/28/2019	
10.12	First Amendment, dated June 10, 2019, to Registration Rights Agreement, dated May 6, 2019, by and among the Company and the stockholders party thereto	S-1	333-234349	10.3	10/28/2019	
10.13	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	
10.14	Registration Rights Agreement, dated as of May 6, 2019, by and among Better Choice Company Inc. and the former stockholders of Bona Vida listed on the signature pages thereto	8-K	333-161943	4.1	05/10/2019	
10.15	Registration Rights Agreement, dated as of May 6, 2019, by and among Better Choice Company Inc. and the former member of TruPet listed on the signature pages thereto	8-K	333-161943	4.2	05/10/2019	
10.16	Form of Registration Rights Agreement by and among the Company and the persons listed on the signature pages thereto in connection with the November 2019 private placement	8-K	333-161943	4.3	11/15/2019	
10.17	Form of Subscription Agreement in connection with the November 2019 private placement	8-K	333-161943	10.1	11/15/2019	
10.18	Business Loan Agreement, dated as of July 16, 2020, by and among the Company, Halo, TruPet, Bona Vida (the “Credit Parties”), and Citizens Bank	8-K	333-161943	10.1	07/21/2020	
10.19	Promissory Note, dated as of July 16, 2020, issued by the Credit Parties in favor of Citizens Bank	8-K	333-161943	10.2	07/21/2020	
10.20	Commercial Security Agreement, dated as of July 16, 2020, by and among the Credit Parties and Citizens Bank	8-K	333-161943	10.3	07/21/2020	
10.21	Commercial Guaranty, dated as of July 16, 2020, by and between Citizens Bank and John M. Word, III	8-K	333-161943	10.4	07/21/2020	

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
10.22†	Better Choice Company Inc. Amended and Restated 2019 Incentive Award Plan	10-K	333-161943	10.19	05/04/2020	
10.23†	Form of 2019 Incentive Aware Plan Stock Option Agreement	S-1	333-234349	10.7	10/28/2019	
10.24†	Form of Indemnification Agreement by and among the Company and its officers and directors	S-1	333-234349	10.8	10/28/2019	
10.25†	Independent Contractor Agreement, dated September 17, 2019, by and between the Company and Bruce Linton	8-K	333-161943	10.1	09/23/2019	
10.26†	Employment Agreement, dated February 1, 2019, for David Lelong	8-K	333-161943	10.1	02/07/2019	
10.27†	Employment Agreement, dated as of May 6, 2019, by and between the Company and Damian Dalla-Longa	10-Q	333-161943	10.6	10/09/2019	
10.28†	Resignation Letter from Damian Dalla-Longa, dated February 5, 2020	8-K	333-161943	10.3	02/11/2020	
10.29†	Amendment to Employment Agreement, dated February 10, 2020, by and between Damian Dalla-Longa and the Company	8-K	333-161943	10.4	02/11/2020	
10.30†	Employment Agreement, dated as of May 6, 2019, by and between the Company and Lori Taylor	10-Q	333-161943	10.7	10/09/2019	
10.31†	Separation Agreement, dated as of September 13, 2019, by and between the Company and Lori Taylor	10-K	333-161943	10.28	05/04/2020	
10.32†	Employment Agreement, dated May 6, 2019, by and among the Company and Anthony Santarsiero	S-1	333-234349	10.11	10/28/2019	
10.33†	Employment Agreement, dated June 29, 2019, by and among the Company and Andreas Schulmeyer	S-1	333-234349	10.12	10/28/2019	
10.34†	Employment Agreement, dated December 19, 2019, by and between the Company, Werner von Pein, and Halo	8-K	333-161943	10.1	02/11/2020	
10.35†	Amendment to Employment Agreement, dated February 10, 2020, by and between Werner von Pein and the Company	8-K	333-161943	10.2	02/11/2020	

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
10.36	Form of Securities Purchase Agreement in connection with the October 2020 Series F Private Placement	8-K	333-161943	10.1	10/2/2020	
10.37	Form of Registration rights Agreement in connection with the October 2020 Series F Private Placement	8-K	333-161943	10.2	10/2/2020	
10.38	Exchange Agreement by and between the Company and Cavalry Fund LP dated September 30, 2020	8-K	333-161943	10.3	10/2/2020	
10.39	Limited Consent and Second Amendment to Loan Facilities Letter Agreement by and among the Company, Halo, Purely for Pets, Inc., a Delaware limited liability company, Bona Vida, Inc., a Delaware corporation, and TruPet LLC, a Delaware limited liability company	8-K	333-161943	10.4	10/2/2020	
10.40	Form of First Amendment to Registration Rights Agreement in connection with the October 2020 Series F Private Placement	8-K				*
21.1	Subsidiaries of the Company	10-K	333-161943	21.1	5/4/2020	
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.INS	iXBRL Instance Document					*
101.SCH	iXBRL Taxonomy Extension Schema Document					*

Exhibit	Exhibit Description	Form	File No.	Exhibit	Filing date	Filed / Furnished Herewith
101.CAL	iXBRL Taxonomy Extension Calculation Document					*
101.DEF	iXBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	iXBRL Taxonomy Extension Labels Linkbase Document					*
101.PRE	iXBRL Taxonomy Extension Presentation Link Document					*
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document)					*

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

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.

SIGNATURE

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 16, 2020

By: /s/ WERNER VON PEIN

Werner von Pein
Chief Executive Officer
(Principal Executive Officer)

Date: November 16, 2020

By: /s/ SHARLA COOK

Sharla Cook
Principal Financial and Accounting Officer

Exhibit 10.40

FIRST AMENDMENT
TO THE
REGISTRATION RIGHTS AGREEMENT

This First Amendment (this "Amendment") is made this ___ day of October, 2020 (the "Effective Date") to the Registration Rights Agreements dated as of October 1, 2020, October 13, 2020 and October 23, 2020, respectively (each together with all amendments, exhibits, annexes and/or schedules thereto, collectively, the "Original Agreement"), between Better Choice Company Inc., a Delaware corporation (the "Company"), and each of the several purchasers signatory thereto (each such purchaser, a "Purchaser" and, collectively, the "Purchasers"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Original Agreement.

WITNESSETH:

WHEREAS, Section 6(f) of the Original Agreement provides that the provisions of the Original Agreement may not be amended, modified or supplemented unless the same shall be in writing and signed by the Company and the Holders of 51% or more of the then outstanding Registrable Securities (which includes any Registrable Securities issuable upon exercise or conversion of any Security);

WHEREAS, the Company and the undersigned Purchasers, which constitute Holders of 51% or more of the current outstanding Registrable Securities (which includes any Registrable Securities issuable upon exercise or conversion of any Security), have agreed to modify the Original Agreement in certain respects, all as more particularly set forth in this Amendment (the Original Agreement as amended by this Amendment being hereinafter referred to as the "Agreement").

NOW, THEREFORE, in consideration of the covenants and conditions set forth herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, it is hereby agreed to as follows:

a. The definition of "Effectiveness Date" in Section 1 of the Original Agreement is hereby deleted and replaced in its entirety as follows:

"Effectiveness Date" means, with respect to the Initial Registration Statement required to be filed hereunder, the 60th calendar day following the Filing Date (or, in the event of a "full review" by the Commission, the 90th calendar day following the Filing Date) and with respect to any additional Registration Statements which may be required pursuant to Section 2(c) or Section 3(c), the 30th calendar day following the date on which an additional Registration Statement is required to be filed hereunder (or, in the event of a "full review" by the Commission, the 60th calendar day following the date such additional Registration Statement is required to be filed hereunder); provided, however, that in the event the Company is notified by the Commission that one or more of the above Registration Statements will not be reviewed or is no longer subject to further review and comments, the Effectiveness Date as to such Registration Statement shall be the fifth Trading Day following the date on which the Company is so notified if such date precedes the dates otherwise required above; provided, further, if such Effectiveness Date falls on a day that is not a Trading Day, then the Effectiveness Date shall be the next succeeding Trading Day.

a. The definition of "Filing Date" in Section 1 of the Original Agreement is hereby deleted and replaced in its entirety as follows:

"Filing Date" means, with respect to the Initial Registration Statement required hereunder, December 1, 2020 and, with respect to any additional Registration Statements which may be required pursuant to Section 2(c) or Section 3(c), the earliest practical date on which the Company is permitted by SEC Guidance to file such additional Registration Statement related to the Registrable Securities.

a. Except as modified herein, the terms and conditions of the Original Agreement shall remain in full force and effect.

b. Upon and after the effectiveness of this Amendment, each reference in the Original Agreement to "this Agreement," "hereunder," "hereof," or words of like import referring to the Original Agreement shall mean and be a reference to the Original Agreement as modified hereby. Except as modified in this Amendment, the Original Agreement is and shall continue to be in full force and effect and is hereby in all respects, ratified and confirmed. The execution, delivery and effectiveness of this Amendment shall not, except as previously provided herein, operate as a waiver of any right, power or remedy of any party under the Original Agreement, nor, except as expressly provided herein, constitute a waiver or amendment of any provision of the Original Agreement.

c. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REFERENCE TO SUCH STATES'S PRINCIPLES OF CONFLICT OF LAWS.

d. This Agreement may be executed simultaneously in one or more counterparts, each one of which shall be deemed an original, but all of which together shall constitute one and the same instrument. All such counterparts may be delivered by facsimile or other electronic means and each such electronically delivered counterpart shall be deemed an original and shall be binding upon the parties for all purposes herein.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this First Amendment to Registration Rights Agreement as of the date first written above.

Company BETTER CHOICE COMPANY INC. By: ____________________________ Name:
Title:

[Signature pages of Purchasers follows]

SIGNATURE PAGE OF purchasers TO first amenment to rEGISTRATION rIGHTS aGREEMENT

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Name of Purchaser: __________________________

Signature of Authorized Signatory of Purchaser: __________________________

Name of Authorized Signatory: _________________________

Title of Authorized Signatory: __________________________

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, Werner von Pein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Better Choice Company Inc.;

2. Based on my knowledge, this quarterly 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;l

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 16, 2020

/s/ WERNER VON PEIN
Werner von Pein
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, Sharla Cook, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 16, 2020

/s/ SHARLA COOK
Sharla Cook
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 Quarterly Report of Better Choice Company Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officers hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes- Oxley Act of 2002, that to my 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: November 16, 2020

/s/ WERNER VON PEIN

Werner von Pein
Chief Executive Officer
(Principal Executive Officer)

/s/ SHARLA COOK

Sharla Cook
Principal Financial and Accounting Officer