**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q/A**

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

**For the quarterly period ended June 30, 2022**

**or**

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

**For the transition period from _________ to _________**

**Commission File Number: 001-39946**

**AGRIFY CORPORATION**
(Exact name of registrant as specified in its charter)

| **Nevada** | **30-0943453** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**2468 Industrial Row Dr.,**
**Troy, Michigan 48084**
(Address of principal executive offices, including zip code)

**(617) 896-5243**
(Registrant's phone number, including area code)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.001 per share | AGFY | NASDAQ Capital Market |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☐ NO ☒

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES ☐ NO ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☒ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of August 10, 2022 |
|---|---|
| Common Stock, $0.001 par value | 132,957 |

## EXPLANATORY NOTE

*References throughout this Amendment No. 1 to the Quarterly Report on Form 10-Q to "we," "us," the "Company" or "our company" are to Agrify Corporation.*

This Amendment No. 1 ("Amendment No. 1") to the Quarterly Report on Form 10-Q/A amends the Quarterly Report on Form 10-Q of Agrify Corporation for the quarter ended June 30, 2022, as filed with the Securities and Exchange Commission ("SEC") on August 15, 2022 (the "Original Filing").

On April 12, 2023, the Audit Committee of the Board of Directors (the "Audit Committee") of Agrify Corporation (the "Company"), in consultation with management of the Company and the Company's independent registered public accounting firm, Marcum LLP ("Marcum"), concluded that the Company's previously issued unaudited condensed consolidated interim financial statements as of and for the fiscal periods ended March 31, 2022, June 30, 2022 and September 30, 2022 included in the Company's Quarterly Reports on Form 10-Q for such periods should no longer be relied upon. Similarly, earnings releases, and investor communications describing the financial statements for the periods described above should no longer be relied upon. The Company identified errors in the accounting for warrants previously issued by the Company.

Specifically, the Audit Committee concluded 15,097 warrants issued in a private placement on January 28, 2022 and 34,423 warrants issued in a private placement on March 23, 2022 (collectively, the "Warrants") should have been classified as a liability measured at fair value, with changes in fair value each period reported in earnings, rather than as a component of equity. The change in fair value of the Warrants is a non-cash charge and will be reflected in the Company's statement of operations. Warrant amounts have been adjusted to reflect the 1-for-10 reverse stock split on October 18, 2022 and the 1-for-20 reverse stock split on July 5, 2023. Additional information regarding the reverse stock splits may be found in Note 1 – Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to the condensed consolidated financial statements.

As such, the Company is restating in this Form 10-Q/A the unaudited condensed consolidated interim financial statements for the six-month period ended June 30, 2022.

We are filing this Amendment No. 1 to amend and restate the Original Filing with modification as necessary to reflect the restatement. The following items have been amended to reflect the restatement:

Part I, Item 1, Financial Information
Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations
Part I, Item 4, Controls and Procedures
Part II, Item 1A, Risk Factors

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## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements**

**AGRIFY CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share and per share data)**

| | June 30, 2022 (As Restated) (Unaudited) | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 18,608 | $ 12,014 |
| Restricted cash and restricted marketable securities | 30,000 | — |
| Marketable securities | 11,323 | 44,550 |
| Accounts receivable, net of allowance for doubtful accounts of $2,740 and $1,415 at June 30, 2022 and December 31, 2021, respectively | 10,468 | 7,222 |
| Inventory, net of reserves of $1,871 and $942 at June 30, 2022 and December 31, 2021, respectively | 41,871 | 20,498 |
| Prepaid and refundable taxes | 210 | — |
| Prepaid expenses and other current assets | 5,925 | 2,452 |
| Total current assets | 118,405 | 86,736 |
| Loan receivable, net of allowance for doubtful accounts of $7,079 and $0 at June 30, 2022 and December 31, 2021, respectively | 35,090 | 22,255 |
| Property and equipment, net | 11,932 | 6,232 |
| Right-of-use assets, net | 2,866 | 1,479 |
| Goodwill | — | 50,090 |
| Intangible assets, net | — | 14,072 |
| Other non-current assets | 2,920 | 1,184 |
| Total assets | $ 171,213 | $ 182,048 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 4,157 | $ 9,151 |
| Accrued expenses and other current liabilities | 27,456 | 28,764 |
| Operating lease liabilities, current | 1,084 | 814 |
| Long-term debt, current | 4,079 | 1,089 |
| Deferred revenue | 3,753 | 3,772 |
| Total current liabilities | 40,529 | 43,590 |
| Warrant liabilities | 9,530 | — |
| Other non-current liabilities | 236 | 318 |
| Operating lease liabilities, non-current | 1,908 | 704 |
| Long-term debt | 35,788 | 12 |
| Total liabilities | 87,991 | 44,624 |
| Commitments and contingencies (Note 18) | | |
| Stockholders' equity: | | |
| Common Stock, $0.001 par value per share, 250,000 shares authorized, 132,957 and 111,035 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively (1) | — | — |
| Preferred Stock, $0.001 par value per share, 2,895,000 shares authorized, no shares issued or outstanding | — | — |
| Preferred A Stock, $0.001 par value per share, 105,000 shares authorized, no shares issued or outstanding | — | — |
| Additional paid-in capital (1) | 214,652 | 196,034 |
| Accumulated deficit | (131,799) | (58,975) |
| Total stockholders' equity attributable to Agrify | 82,853 | 137,059 |
| Non-controlling interests | 369 | 365 |
| Total liabilities and stockholders' equity | $ 171,213 | $ 182,048 |

(1) Periods presented have been adjusted to reflect the 1-for-10 reverse stock split on October 18, 2022 and the 1-for-20 reverse stock split on July 5, 2023. Additional information regarding the reverse stock splits may be found in Note 1 – Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to the condensed consolidated financial statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

**AGRIFY CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except share and per share data)**
**(Unaudited)**

| | Three Months ended June 30, | | Six Months ended June 30, | |
|---|---|---|---|---|
| | 2022 (As Restated) | 2021 | 2022 (As Restated) | 2021 |
| Revenue (including $1,140, $10,895, $2,411 and $16,413 from related parties, respectively) | $ 19,329 | $ 11,825 | $ 45,350 | $ 18,833 |
| Cost of goods sold | 17,717 | 11,298 | 39,568 | 18,846 |
| Gross profit (loss) | 1,612 | 527 | 5,782 | (13) |
| | | | | |
| General and administrative | 19,378 | 4,399 | 29,137 | 8,857 |
| Selling and marketing | 2,332 | 782 | 4,422 | 1,398 |
| Research and development | 2,438 | 774 | 4,522 | 1,656 |
| Change in contingent consideration | (907) | — | (907) | — |
| Impairment of goodwill and intangible assets | 69,904 | — | 69,904 | — |
| Total operating expenses | 93,145 | 5,955 | 107,078 | 11,911 |
| Loss from operations | (91,533) | (5,428) | (101,296) | (11,924) |
| Interest (expense) income, net | (3,311) | 55 | (2,752) | 23 |
| Other expenses | — | (63) | — | (63) |
| Change in fair value of warranty liabilities | 20,181 | — | 30,966 | — |
| Gain on extinguishment of notes payable | — | — | — | 2,685 |
| Other income (expense), net | 16,870 | (8) | 28,214 | 2,645 |
| Net loss before income taxes | (74,663) | (5,436) | (73,082) | (9,279) |
| Income tax benefit | (62) | — | (262) | — |
| Net loss | (74,601) | (5,436) | (72,820) | (9,279) |
| Income attributable to non-controlling interests | 3 | 200 | 4 | 167 |
| Net loss attributable to Agrify Corporation | $ (74,604) | $ (5,636) | $ (72,824) | $ (9,446) |
| Net loss per share attributable to Common Stockholders – basic and diluted (1) | $ (561.31) | $ (55.41) | $ (569.13) | $ (114.12) |
| Weighted-average common shares outstanding – basic and diluted (1) | 132,911 | 101,721 | 127,956 | 83,310 |

(1) Periods presented have been adjusted to reflect the 1-for-10 reverse stock split on October 18, 2022 and the 1-for-20 reverse stock split on July 5, 2023. Additional information regarding the reverse stock splits may be found in Note 1 – Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to the condensed consolidated financial statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

**AGRIFY CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(In thousands, except share data)**
**(Unaudited)**

| | Common Stock | | Preferred A Stock | | Additional Paid-In Capital(1) | Accumulated Deficit | Total Stockholders' Equity attributable to Agrify | Non-Controlling Interests | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares(1) | Amount(1) | Shares | Amount | | | | | |
| Balance at January 1, 2021 | 21,058 | $ — | 100,000 | $ — | $ 19,831 | $ (26,510) | $ (6,679) | $ 225 | $ (6,454) |
| Stock-based compensation | — | — | — | — | 2,135 | — | 2,135 | — | 2,135 |
| Beneficial conversion feature associated with amended Convertible Promissory Notes | — | — | — | — | 3,869 | — | 3,869 | — | 3,869 |
| Conversion of Convertible Notes | 8,485 | — | — | — | 13,100 | — | 13,100 | — | 13,100 |
| Issuance of Common Stock – Initial Public Offering ("IPO"), net of fees | 31,050 | — | — | — | 56,961 | — | 56,961 | — | 56,961 |
| Issuance of Common Stock – Secondary public offering, net of fees | 31,945 | — | — | — | 79,839 | — | 79,839 | — | 79,839 |
| Conversion of Preferred A Stock | 6,865 | — | (100,000) | — | — | — | — | — | — |
| Exercise of options | 872 | — | — | — | 439 | — | 439 | — | 439 |
| Exercise of warrants | 1,201 | — | — | — | 5 | — | 5 | — | 5 |
| Net loss | — | — | — | — | — | (3,810) | (3,810) | (33) | (3,843) |
| Balance at March 31, 2021 | 101,476 | $ — | — | $ — | $ 176,179 | $ (30,320) | $ 145,859 | $ 192 | $ 146,051 |
| Stock-based compensation | — | — | — | — | 931 | — | 931 | — | 931 |
| Exercise of options | 393 | — | — | — | 282 | — | 282 | — | 282 |
| Net loss | — | — | — | — | — | (5,636) | (5,636) | 200 | (5,436) |
| Balance at June 30, 2021 | 101,869 | $ — | — | $ — | $ 177,392 | $ (35,956) | $ 141,436 | $ 392 | $ 141,828 |

(1) Periods presented have been adjusted to reflect the 1-for-10 reverse stock split on October 18, 2022 and the 1-for-20 reverse stock split on July 5, 2023. Additional information regarding the reverse stock splits may be found in Note 1 – Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to the condensed consolidated financial statements.

| | Common Stock (As Restated) | | Preferred A Stock (As Restated) | | Additional Paid-In-Capital[(1)] | Accumulated Deficit | Total Stockholders' Equity attributable to Agrify | Non-Controlling Interests | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares[(1)] | Amount[(1)] | Shares | Amount | (As Restated) | (As Restated) | (As Restated) | (As Restated) | (As Restated) |
| Balance at January 1, 2022 | 111,035 | $ — | — | $ — | $ 196,034 | $ (58,975) | $ 137,059 | $ 365 | $ 137,424 |
| Stock-based compensation | — | — | — | — | 953 | — | 953 | — | 953 |
| Issuance of Common Stock and warrants in private placement | 12,252 | — | — | — | 14,800 | — | 14,800 | — | 14,800 |
| Issuance of debt and warrants in private placement | — | — | — | — | — | — | — | — | — |
| Acquisition of Lab Society | 1,490 | — | — | — | 1,903 | — | 1,903 | — | 1,903 |
| Exercise of options | 21 | — | — | — | 10 | — | 10 | — | 10 |
| Exercise of warrants | 7,916 | — | — | — | 1 | — | 1 | — | 1 |
| Net loss | — | — | — | — | — | 1,780 | 1,780 | 1 | 1,781 |
| Balance at March 31, 2022 | 132,714 | $ — | — | $ — | $ 213,701 | $ (57,195) | $ 156,506 | $ 366 | $ 156,872 |
| Stock-based compensation | — | — | — | — | 940 | — | 940 | — | 940 |
| Exercise of options | 21 | — | — | — | 10 | — | 10 | — | 10 |
| Exercise of warrants | 222 | — | — | — | 1 | — | 1 | — | 1 |
| Net loss | — | — | — | — | — | (74,604) | (74,604) | 3 | (74,601) |
| Balance at June 30, 2022, as restated | 132,957 | $ — | — | $ — | $ 214,652 | $ (131,799) | $ 82,853 | $ 369 | $ 83,222 |

(1) Periods presented have been adjusted to reflect the 1-for-10 reverse stock split on October 18, 2022 and the 1-for-20 reverse stock split on July 5, 2023. Additional information regarding the reverse stock splits may be found in Note 1 – Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to the condensed consolidated financial statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

**AGRIFY CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**
**(Unaudited)**

| | Six Months ended June 30, 2022 (As Restated) | Six Months ended June 30, 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss attributable to Agrify Corporation | $ (72,824) | $ (9,446) |
| Adjustments to reconcile net loss attributable to Agrify Corporation to net cash used in operating activities: | | |
| Depreciation and amortization | 2,193 | 313 |
| Impairment on goodwill and intangible assets | 69,904 | — |
| Amortization of premium on investment securities | 1,055 | 63 |
| Amortization of debt discount | 2,735 | — |
| Amortization of issuance costs | 370 | — |
| Interest on investment securities | (1,247) | (73) |
| Early termination of lease | 26 | — |
| Provision for doubtful accounts | 8,630 | — |
| Provision for slow-moving inventory | 929 | — |
| Deferred income taxes | (262) | — |
| Prepaid and refundable taxes | (16) | — |
| Compensation in connection with the issuance of stock options | 1,893 | 3,066 |
| Non-cash interest (income) expense | (1,010) | 46 |
| Gain on extinguishment of notes payable, net | — | (2,685) |
| Loss from disposal of fixed assets | 8 | 25 |
| Change in fair value of contingent consideration | (907) | — |
| Change in fair value of warrant liabilities | (30,966) | — |
| Income attributable to non-controlling interests | 4 | 167 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (4,305) | (11,122) |
| Inventory | (20,171) | (4,477) |
| Prepaid expenses and other current assets | 785 | (2,723) |
| Right-of-use assets, net | 60 | 25 |
| Accounts payable | (2,324) | 86 |
| Accrued expenses and other current liabilities | (4,049) | 12,841 |
| Deferred (expense) revenue, net | (1,002) | 57 |
| Net cash used in operating activities | (50,491) | (13,837) |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | (9,100) | (1,102) |
| Purchase of securities | (211,030) | (50,280) |
| Proceeds from the sale of securities | 214,449 | — |
| Issuance of loan receivables | (20,443) | (483) |
| Cash paid for business combination, net of cash acquired | (3,513) | — |
| Net cash used in investing activities | (29,637) | (51,865) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of debt and warrants in private placement, net | 62,405 | — |
| Proceeds from issuance of Common Stock and warrants in private placement, net of fees | 25,797 | — |
| Proceeds from IPO, net of fees | — | 56,961 |
| Proceeds from Secondary public offering, net of fees | — | 79,839 |
| Proceeds from exercise of options | 19 | 721 |
| Proceeds from exercise of warrants | 2 | 5 |
| Payments on other financing loans | (243) | — |
| Payments on insurance financing loans | (1,071) | — |
| Payments of financing leases | (187) | (94) |
| Net cash provided by financing activities | 86,722 | 137,432 |
| Net increase in cash and cash equivalents | 6,594 | 71,730 |
| Cash and cash equivalents at the beginning of period | 12,014 | 8,111 |
| Cash and cash equivalents at the end of period | $ 18,608 | $ 79,841 |
| **Cash, cash equivalents, and restricted cash and restricted marketable securities at end of period** | | |
| Cash and cash equivalents | 18,608 | 79,841 |
| Restricted cash and restricted marketable securities | 30,000 | — |
| Total cash, cash equivalents, and restricted cash and restricted marketable securities at the end of period | $ 48,608 | $ 79,841 |
| **Supplemental disclosures of non-cash investing activities** | | |
| Equipment sold for loan receivable to customer | $ — | $ 289 |
| **Supplemental disclosures of non-cash flow information** | | |
| Initial fair value of warrants | $ 40,496 | $ — |
| Financing of prepaid insurance | $ 1,928 | $ — |

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Note 1 — Overview, Basis of Presentation and Significant Accounting Policies**

**Description of Business**

Agrify Corporation ("Agrify" or the "Company") is one of the most innovative providers of advanced cultivation and extraction solutions for the cannabis industry, bringing data, science, and technology to the forefront of the market. The Company's proprietary micro-environment-controlled Agrify Vertical Farming Units (or "VFUs") enable cultivators to produce the highest quality products with what it believes to be an unmatched consistency, yield, and Return on Investment ("ROI") at scale. The Company's comprehensive extraction product line, which includes hydrocarbon, ethanol, solventless, post-processing, and lab equipment, empowers producers to maximize the quantity and quality of extract required for premium concentrates.

The Company believes it's the only company with an automated and fully integrated grow solution in the industry. The Company's cultivation and extraction solutions seamlessly combines its integrated hardware and software offerings with a broad range of associated services including consulting, engineering, and construction and is designed to deliver the most complete commercial indoor farming solution available from a single provider. The totality of its product offerings and service capabilities forms an unrivaled ecosystem in what has historically been a highly fragmented market. As a result, the Company believes it's well situated to create a dominant market position in the indoor agriculture sector.

The Company was formed in the State of Nevada on June 6, 2016 as Agrinamics, Inc., and subsequently changed its name to Agrify Corporation. The Company is sometimes referred to herein by the words "we," "us," "our," and similar terminology.

The Company has nine wholly-owned subsidiaries, which are collectively referred to as the "Subsidiaries":

- AGM Service Corp LLC (formerly AGM Service Corp Inc.);
- TriGrow Systems, LLC ("TriGrow", which acted as the Company's exclusive distributor and which was acquired in January 2020 as TriGrow Systems, Inc. and converted to TriGrow Systems, LLC in May 2020);
- Ariafy Finance, LLC;
- Agxiom, LLC;
- Harbor Mountain Holdings, LLC ("HMH") (acquired in July 2020);
- Cascade Sciences, LLC ("Cascade") (which was acquired by the Company on October 1, 2021);
- Precision Extraction NewCo, LLC ("Precision") (which was a newly formed subsidiary in connection with the October 1, 2021 acquisition of Mass2Media, LLC, d/b/a PX2 Holdings, LLC, d/b/a Precision Extraction Solutions and Cascade); and
- PurePressure, LLC ("PurePressure") (which was acquired by the Company on December 31, 2021); and
- Lab Society NewCo, LLC ("Lab Society") (which was a newly formed subsidiary in connection with the February 1, 2022 acquisition of LS Holdings Corp).

The Company also has ownership interests in the following companies:

- Teejan Podoponics International LLC (“TPI”) (the Company has owned 50% of TPI since December 2018);
- Agrify-Valiant, LLC (“Agrify-Valiant”) (the Company owns 60% of Agrify-Valiant, which was formed in December 2019); and
- Agrify Brands, LLC (“Agrify Brands”) (formerly TriGrow Brands, LLC) (the Company owns 75% of Agrify Brands, which ownership position was created as part of the January 2020 acquisition of TriGrow).

**Reverse Stock Split**

On January 12, 2021, the Company effected a 1-for-1.581804 reverse stock split (“Reverse Stock Split”) of its Common Stock, $0.001 par value per share (“Common Stock”). All share and per share information has been retroactively adjusted to give effect to the Reverse Stock Split for all periods presented unless otherwise indicated.

On October 18, 2022, the Company effected a 1-for-10 reverse stock split of its Common Stock. All share and per share information has been retroactively adjusted to give effect to the reverse stock split for all periods presented unless otherwise indicated.

On July 5, 2023, the Company effected a 1-for-20 reverse stock split of its Common Stock, All share and per share information has been retroactively adjusted to give effect to the reverse stock split for all periods presented unless otherwise indicated.

No fractional shares of Common Stock were issued as a result of these reverse stock splits. Any fractional shares in connection with these reverse stock splits were rounded up to the nearest whole share and no stockholders received cash in lieu of fractional shares. The reverse stock splits had no impact on the number of shares of Common Stock that the Company is authorized to issue pursuant to its articles of incorporation or on the par value per share of the Common Stock. Proportional adjustments were made to the number of shares of Common Stock issuable upon exercise or conversion of the Company’s outstanding stock options and warrants, the exercise price or conversion price (as applicable) of the Company’s outstanding stock options and warrants, and the number of shares reserved for issuance under the Company’s equity incentive plan. All share and per share information included in this Quarterly Report on Form 10-Q has been retroactively adjusted to reflect the impact of these reverse stock splits.

**Initial Public Offering and Secondary Public Offering**

On February 1, 2021, the Company closed its initial public offering, or (“IPO”), of 31,050 shares of its Common Stock (inclusive of 4,050 shares of Common Stock from the full exercise of the over-allotment option of shares granted to the underwriters). The offer and sale of all of the shares in the IPO were registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form S-1 (File Nos. 333- 251616 and 333-252490), which was declared effective by the SEC on January 27, 2021. In the IPO, Maxim Group LLC and Roth Capital Partners acted as the underwriters. The IPO price for shares of Common Stock was $2,000 per share. The total gross proceeds from the IPO were $62.1 million.

After deducting underwriting discounts and commissions of $4 million and offering expenses paid or payable by us of approximately $1 million, the net proceeds from the IPO were approximately $57 million. The Company used the net proceeds from the IPO for its current working capital needs, to support revenue growth, to increase inventory to meet customer demand forecasts, and to support operational growth.

On February 19, 2021, the Company consummated a secondary public offering (the “February Offering”) of 27,778 shares of its Common Stock for a price of $2,700.00 per share, less certain underwriting discounts, and commissions. On March 22, 2021, the Company closed on the sale of an additional 4,167 shares of Common Stock on the same terms and conditions pursuant to the exercise of the underwriters’ over-allotment option. The exercise of the over-allotment option brought the total number of shares of Common Stock sold by the Company in connection with the February Offering to 31,944 shares and the total net proceeds received in connection with the February Offering to approximately $80 million, after deducting underwriting discounts and estimated offering expenses. The Company used the net proceeds from the IPO for its current working capital needs, to support revenue growth, to increase inventory, to meet customer demand forecasts, and to support operational growth.

**Coronavirus (“COVID-19”) Pandemic Impact and Uncertainties**

The COVID-19 pandemic has created significant public health concerns as well as economic disruption, uncertainty, and volatility that may negatively affect its business operations and financial results. As a result, if the pandemic or its effects persist or worsen, its accounting estimates and assumptions could be impacted in subsequent interim reports and upon final determination at year-end, and it is reasonably possible such changes could be significant (although the potential effects cannot be estimated at this time). The Company has experienced minimal business interruption as a result of the COVID-19 pandemic. The COVID-19 pandemic to date has resulted in supply chain delays of its inventory, higher operating costs and increased shipping costs, among other impacts. As events surrounding the COVID-19 pandemic can change rapidly, the Company cannot predict how it may disrupt its operations or the full extent of the disruption.

**The Paycheck Protection Program**

In May 2020, the Company received an unsecured Paycheck Protection Program Loan (“PPP Loan”) from the Bank of America pursuant to the Paycheck Protection Program (the “PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), administered by the U.S. Small Business Administration (the “SBA”). The Company received total loan proceeds of approximately $779 thousand from the PPP Loan. The Company’s application for the forgiveness of the outstanding balance of the PPP Loan was denied by the SBA. On June 23, 2022, the Company received a letter from Bank of America agreeing to extend the maturity date to May 7, 2025 and bears interest at a rate of 1.00% per year. The PPP loan is payable in 34 equal combined monthly principal and interest payments of approximately $24 thousand commencing August 7, 2022.

**Preparation of Condensed Consolidated Financial Statements**

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), and on the same basis as the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 and filed with the SEC (“Form 10-K”), except for the recently adopted accounting pronouncements described below.

The condensed consolidated financial statements included herein reflect all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the Company’s condensed consolidated statements of operations for the three and six months ended June 30, 2022 and 2021, condensed consolidated statements of stockholders’ equity for the three and six months ended June 30, 2022 and 2021, and the condensed consolidated cash flows for the six months ended June 30, 2022 and 2021.

The condensed consolidated balance sheet as of December 31, 2021 is derived from the audited consolidated financial statements presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. Certain information and disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on March 31, 2022. The results for interim periods are not necessarily indicative of a full year’s results.

**Basis of Presentation and Principles of Consolidation**

***Accounting for Wholly-Owned Subsidiaries***

The accompanying condensed consolidated financial statements have been prepared in accordance with GAAP and include the accounts of Agrify Corporation and its wholly-owned subsidiaries, as described above in Note 1 – Overview, Basis of Presentation and Significant Accounting Policies, in accordance with the provisions required by the Consolidation Topic 810 of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The Company includes results of operations of acquired companies from the date of acquisition. All significant intercompany transactions and balances are eliminated.

***Accounting for Less Than Wholly-Owned Subsidiaries***

For the Company's less than wholly-owned subsidiaries, which include TPI, Agrify-Valiant, and Agrify Brands, the Company first analyzes whether these entities are a variable interest entity (a "VIE") in accordance with ASC Topic 810 Consolidation ("ASC 810"), and if so, whether the Company is the primary beneficiary requiring consolidation. A VIE is an entity that has (i) insufficient equity to permit it to finance its activities without additional subordinated financial support or (ii) equity holders that lack the characteristics of a controlling financial interest. The financial results of a VIE are consolidated by the primary beneficiary, which is the entity that has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that potentially could be significant to the entity. Variable interests in a VIE are contractual, ownership or other financial interests in a VIE that change with changes in the fair value of the VIE's net assets. The Company continuously re-assesses (i) whether the joint venture is a VIE, and (ii) if the Company is the primary beneficiary of the VIE. If it is determined that the joint venture qualifies as a VIE and the Company is the primary beneficiary, the Company's financial interest in the VIE is consolidated.

Based on the Company's analysis of these entities, the Company has determined that Agrify-Valiant, LLC and Agrify Brands, LLC are each a VIE, and that the Company is the primary beneficiary. While the Company owns 60% of Agrify-Valiant, LLC's equity interests and 75% of Agrify Brands, LLC's equity interests, the remaining equity interests in Agrify-Valiant, LLC and Agrify Brands, LLC are owned by unrelated third parties, and the agreement with these third parties provides the Company with greater voting rights. Accordingly, the Company consolidates its interest in the financial statements of Agrify-Valiant, LLC and Agrify Brands, LLC under the VIE rules, and reflects the third parties' interests in the condensed consolidated financial statements as a non-controlling interest. The Company records this non-controlling interest at its initial fair value, adjusting the basis prospectively for the third parties' share of the respective consolidated investments' net income or loss or equity contributions and distributions. These non-controlling interests are not redeemable by the equity holders and are presented as part of permanent equity. Income and losses are allocated to the non-controlling interest holders based on its economic ownership percentage. The investment in 50% of the shares of TPI is treated as an equity investment as the Company cannot exercise significant influence.

**Going Concern**

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-15, "Presentation of Financial Statements - Going Concern", the Company's management evaluated whether there are conditions or events that raise substantial doubt about its ability to continue as a going concern within one year after the financial statements' issuance date. The following matters raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued.

The Company has incurred operating losses since its inception and has negative cash flows from operations. The Company also has an accumulated deficit of $131.8 million as of June 30, 2022. In addition, for the quarter ending June 30, 2022, the Company will recognize significant impairment charges to the carrying value of its goodwill and intangible assets and will be in default of certain financial debt covenants associated with its $65 million senior secured promissory note (the "SPA Note"). As a result of its default, the Company is actively working to restructure its existing SPA Note in order to avoid having the note called by the lender. If the lender were to call the debt instrument due to the default, the Company would not have sufficient cash on hand as of June 30, 2022 to pay off the existing debt and default penalty amounts. Cash on hand is approximately $59.9 million, while the debt liability, including the potential default penalty, would be approximately $75.0 million as of June 30, 2022.

Subsequent to the end of the second quarter of 2022, the Company reached an agreement in principle with its institutional lender to amend its existing SPA Note and to modify certain financial covenants which, once complete, should give the Company additional flexibility to operate and meet its long-term strategic goals while also allowing it to responsibly adjust to the many challenges currently facing the cannabis industry.

These financial statements have been prepared on a going concern basis, which implies the Company believes these conditions raise substantial doubt about its ability to continue as a going concern within the next twelve-months from the date these financial statements are available to be issued. The Company's continuation as a going concern is dependent upon its ability to obtain necessary debt or equity financing to continue operations until the Company begins generating sufficient cash flows from operations to meet its obligations.

There is no assurance that the Company will ever be profitable. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

**Use of Estimates**

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of expenses during the reporting period. Significant estimates and assumptions reflected in these condensed consolidated financial statements include, but are not limited to, the accrual of expenses. The Company bases its estimates on historical experience, known trends and other market-specific, other relevant factors that it believes to be reasonable under the circumstances and management's judgement. On an ongoing basis, management evaluates its estimates when there are changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual financial results could differ from those estimates.

**Fiscal Year**

For the Company and its Subsidiaries, the fiscal year ends on December 31, each year.

**Emerging Growth Company**

The Company qualifies as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, which we refer to as the JOBS Act. As a result, the Company is permitted to, and intends to, rely on exemptions from certain disclosure requirements that are applicable to companies that are not emerging growth companies.

In addition, the JOBS Act provides that an "emerging growth company" can use the extended transition period for complying with new or revised accounting standards.

The Company will remain an "emerging growth company" until the earliest to occur of:

- reporting $1.0 billion or more in annual gross revenues;
- the issuance, in a three-year period, of more than $1.0 billion in non-convertible debt;
- the end of the fiscal year in which the market value of Common Stock held by non-affiliates exceeds $700 million on the last business day of our second fiscal quarter; or
- December 31, 2026.

As of June 30, 2022, the market value of Common Stock held by non-affiliates did not exceed $700 million.

**Reclassifications**

Certain amounts in the Company’s prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. In this Form 10-Q, the Company has reclassified selling, general and administrative expenses to two separate line items in the accompanying condensed consolidated statement of operations as general and administrative expenses and selling and marketing expenses for the three and six months ended June 30, 2022 and 2021.

**Cash, Cash Equivalents, and Restricted Cash and Restricted Marketable Securities**

Cash and cash equivalents consist principally of cash and deposits with maturities of three months or less as of June 30, 2022 and December 31, 2021. All cash equivalents are carried at cost, which approximates fair value. Restricted cash and restricted marketable securities represent cash required to be held as collateral for the Company’s SPA Note. Accordingly, these balances contain restrictions as to their availability and usage and are classified as restricted cash and restricted marketable securities in the condensed consolidated balance sheets. Additional information relating to the Company’s SPA Note may be found in Note 10 – Debt, included elsewhere in the notes to the condensed consolidated financial statements.

Cash deposits with financial institutions, including restricted cash and restricted marketable securities, generally exceed federally insured limits. Management believes minimal credit risk exists with respect to these financial institutions and the Company has not experienced any losses on such amounts. Balances held in a brokerage account are disclosed on the balance sheet as restricted cash.

**Marketable Securities**

The Company’s marketable security investments primarily include investments held in mutual funds, municipal bonds, and corporate bonds. The mutual funds are recorded at fair value in the accompanying condensed consolidated balance sheets as part of cash and cash equivalents. The municipal and corporate bonds are considered to be held-to-maturity securities and are recorded at amortized cost in the accompanying condensed consolidated balance sheets. The fair value of these investments was estimated using recently executed transactions and market price quotations. The Company considers current assets to be those investments which will mature within the next 12 months, including interest receivable on the long-term bonds.

**Accounts Receivable, Net**

Accounts receivable, net, primarily consists of amounts for goods and services that are billed and currently due from customers. Accounts receivable balances are presented net of an allowance for credit losses, which is an estimate of billed amounts that may not be collectible. In determining the amount of the allowance at each reporting date, management makes judgments about general economic conditions, historical write-off experience, and any specific risks identified in customer collection matters, including the aging of unpaid accounts receivable and changes in customer financial conditions. Accounts receivable balances are written off after all means of collection are exhausted and the potential for non-recovery is determined to be probable. Adjustments to the allowance for credit losses are recorded as general and administrative expenses in the condensed consolidated statements of operations.

**Concentration of Credit Risk and Significant Customer**

Financial instruments that potentially subject the Company to a concentration of credit risk primarily consist of cash, cash equivalents, restricted cash and restricted marketable securities, and accounts receivable. Cash equivalents primarily consist of money market funds with original maturities of three months or less, which are invested primarily with U.S. financial institutions. Cash deposits with financial institutions, including restricted cash and restricted marketable securities, generally exceed federally insured limits. Management believes minimal credit risk exists with respect to these financial institutions and the Company has not experienced any losses on such amounts.

The tables below show customers who account for 10% or more of the Company's total revenues and 10% or more of the Company's accounts receivable for the periods presented:

***Revenue***

For the three months ended June 30, 2022 and 2021, the Company's customers that accounted for 10% or more of the total revenue were as follows:

| | Three Months ended June 30, 2022 | | Three Months ended June 30, 2021 | |
|---|---|---|---|---|
| **(In thousands)** | **Amount** | **% of Total Revenue** | **Amount** | **% of Total Revenue** |
| New England Innovation Academy ("NEIA") – Related Party | * | * | $ 10,895 | 92.1% |
| Company Customer Number – 139 | $ 4,835 | 25.0% | * | * |

* Customer revenue, as a percentage of total revenue, was less than 10%

For the six months ended June 30, 2022 and 2021, the Company's customers that accounted for 10% or more of the total revenue were as follows:

| | Six Months ended June 30, 2022 | | Six Months ended June 30, 2021 | |
|---|---|---|---|---|
| **(In thousands)** | **Amount** | **% of Total Revenue** | **Amount** | **% of Total Revenue** |
| New England Innovation Academy ("NEIA") – Related Party | * | * | $ 16,355 | 86.8% |
| Company Customer Number – 139 | $ 8,628 | 19.0% | * | * |
| Company Customer Number – 136 | $ 6,146 | 13.6% | * | * |

* Customer revenue, as a percentage of total revenue, was less than 10%

***Accounts Receivable, Net***

As of June 30, 2022 and December 31, 2021, the Company's customers that accounted for 10% or more of the total accounts receivable, net, were as follows:

| | As of June 30, 2022 | | As of December 31, 2021 | |
|---|---|---|---|---|
| **(In thousands)** | **Amount** | **% of Total Accounts Receivable** | **Amount** | **% of Total Accounts Receivable** |
| NEIA – Related Party | $ 2,414 | 23.1% | $ 3,498 | 48.4% |
| Company Customer Number – 126 | $ 1,541 | 14.7% | $ 1,541 | 21.3% |

* Customer accounts receivable balance, as a percentage of total accounts receivable balance, was less than 10%

**Inventories**

The Company values all of its inventories, which consist primarily of significant raw material hardware components, at the lower of cost or net realizable value, with cost principally determined by the weighted-average cost method on a First-In, First-Out basis. Write-offs of potentially slow-moving or damaged inventory are recorded through specific identification of obsolete or damaged material. The company takes physical inventory at least once annually at all inventory locations.

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expenses are recognized using the straight-line method over the estimated useful life of each asset, as follows:

| | **Estimated Useful Life (Years)** |
|---|---|
| Computer and office equipment | 2 to 3 |
| Furniture and fixtures | 2 |
| Software | 3 |
| Vehicles | 5 |
| Research and development of laboratory equipment | 5 |
| Machinery and equipment | 3 to 5 |
| Leased equipment at customer | 5 to 13 |
| Trade show assets | 3 to 5 |
| Leasehold improvements | Lower of estimated useful life or remaining lease term |

The estimated useful lives of the Company's property and equipment are periodically assessed to determine if changes are appropriate. The Company charges maintenance and repairs to expenses as incurred. When the Company retires or disposes of assets, the carrying cost of these assets and related accumulated depreciation or amortization are eliminated from the condensed consolidated balance sheet and any resulting gain or loss are included in the condensed consolidated statement of operations in the period of retirement or disposal. Costs for capital assets not yet placed into service are capitalized as construction-in-progress and depreciated once placed into service.

**Goodwill**

Goodwill is defined as the excess of cost over the fair value of assets acquired and liabilities assumed in a business combination. Goodwill is tested for impairment annually, and more frequently if events and circumstances indicate that the asset might be impaired. The Company has determined that it is a single reporting unit for the purpose of conducting the goodwill impairment assessment. A goodwill impairment charge is recorded if the amount by which the Company's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Factors that could lead to a future impairment include material uncertainties such as a significant reduction in projected revenues, a deterioration of projected financial performance, future acquisitions and/or mergers, and/or a decline in the Company's market value as a result of a significant decline in the Company's stock price.

During the three-month period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in the Company's stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, the Company deemed that there may be an impairment to the carrying value of its long-lived assets and accordingly performed interim testing to determine the proper fair value of its long-lived assets as of June 30, 2022.

Based on its interim testing, the Company noted that the carrying value of equity exceeded the calculated fair value by an amount greater than the aggregate value of our goodwill and intangible assets. Accordingly, the Company concluded that the entire carrying value of its goodwill and intangible assets should be impaired, resulting in a second-quarter impairment charge of $69.9 million. Additional information regarding the Company's interim testing on goodwill may be found in Note 8 – Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

**Intangible Assets**

The Company initially records intangible assets at their estimated fair values and reviews these assets periodically for impairment. Identifiable intangible assets, which consist principally of acquired customer-related acquired assets, acquired and/or developed technology, non-compete agreements, and trade names, are reported net of accumulated amortization, and are being amortized over their estimated useful lives at amortization rates that are proportional to each asset's estimated economic benefit. The Company's intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets. The Company reviews the carrying value of these intangible assets annually, or more frequently if indicators of impairment are present.

The finite-lived useful lives are as follows:

| | |
|---|---|
| Trade names | 5 to 7 years |
| Acquired developed technology | 5 to 8 years |
| Non-compete agreements | 5 years |
| Customer relationships | 5 to 8 years |
| Capitalized website costs | 3 to 5 years |

In performing the review of the recoverability of intangible assets, the Company considers several factors, including whether there have been significant changes in legal factors or the overall business climate that could affect the underlying value of an asset. The Company also considers whether there is an expectation that the asset will be sold or disposed of before the end of its remaining estimated useful life. If, as the result of examining any of these factors, the Company concludes that the carrying value of the intangible asset exceeds its estimated fair value, the Company recognizes an impairment charge and reduces the carrying value of the asset to its estimated fair value.

During the three-month period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in the Company's stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, the Company deemed that there may be an impairment to the carrying value of its long-lived assets and accordingly performed interim testing to determine the proper fair value of its long-lived assets as of June 30, 2022.

Based on its interim testing, the Company noted that the carrying value of equity exceeded the calculated fair value by an amount greater than the aggregate value of our goodwill and intangible assets. Accordingly, the Company concluded that the entire carrying value of its goodwill and intangible assets should be impaired, resulting in a second-quarter impairment charge of $69.9 million. Additional information regarding the Company's interim testing on intangible assets may be found in Note 8 – Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

**Convertible Notes Payable**

The Company evaluates its convertible instruments to determine if those contracts or embedded components of those contracts qualify as derivative financial instruments to be separately accounted for in accordance with ASC Topic 815 Derivatives and Hedging ("ASC815"). The accounting treatment of derivative financial instruments requires that the Company identify and record certain embedded conversion options ("ECOs"), certain variable-share settlement features, and any related freestanding instruments at their fair values as of the inception date of the agreement and at fair value as of each subsequent balance sheet date. Any change in fair value is recorded as non-operating, non-cash income or expense for each reporting period at each balance sheet date. The Company reassesses the classification of its derivative instruments at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification. Bifurcated embedded conversion options, variable-share settlement features and any related freestanding instruments are recorded as a discount to the host instrument which is amortized to interest expense over the life of the respective note using the effective interest method.

If the Company determines that an instrument is not a derivative liability, it then evaluates whether there is a beneficial conversion feature ("BCF"), by comparing the commitment date fair value to the effective current conversion price of the instrument. The Company records a BCF as a debt discount which is amortized to interest expense over the life of the respective note using the effective interest method. BCFs that are contingent upon the occurrence of a future event are recognized when the contingency is resolved.

**Debt Issue Costs and Debt Discount**

The Company may record debt issuance costs and/or debt discounts in connection with issuing of debt. The Company may cover these costs by paying cash or issuing equity (such as warrants). These costs are amortized to interest expense over the expected life of the debt. If a conversion of the underlying debt occurs, a proportionate share of the unamortized amounts is immediately expensed.

**Original Issue Discount**

For certain convertible debt issued by the Company, it may provide the debt holder with an original issue discount. The Company would record the original issue discount to debt discount, reducing the face amount of the note, and is then amortized to interest expense over the life of the debt.

**Distinguishing Liabilities from Equity**

The Company relies on the guidance provided by ASC Topic 480, Distinguishing Liabilities from Equity and ASC 815-40, *Derivatives and Hedging: Contracts in Entity's Own Equity* ("ASC 815-40"), to classify certain redeemable and/or convertible instruments. The Company first determines whether a financial instrument should be classified as a liability. The Company will determine the liability classification if the financial instrument is mandatorily redeemable, or if the financial instrument, other than outstanding shares, embodies a conditional obligation that the Company must or may settle by issuing a variable number of its equity shares.

Once the Company determines that a financial instrument should not be classified as a liability, the Company determines whether the financial instrument should be presented between the liability section and the equity section of the balance sheet ("temporary equity"). The Company will determine temporary equity classification if the redemption of the financial instrument is outside the control of the Company (i.e. at the option of the holder). Otherwise, the Company accounts for the financial instrument as permanent equity.

*Initial Measurement*

The Company records its financial instruments classified as liability, temporary equity or permanent equity at issuance at the fair value, or cash received.

*Subsequent Measurement – Financial instruments classified as liabilities*

The Company records the fair value of its financial instruments classified as liabilities at each subsequent measurement date. The changes in fair value of its financial instruments classified as liabilities are recorded as other income, net.

**Leases**

The Company determines at the inception of a right-of-use asset contract if such arrangement is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company classifies leases at the lease commencement date as operating or finance leases and records a right-of-use asset and a lease liability on its condensed consolidated balance sheet for all leases with an initial lease term of greater than 12 months. A lease with an initial term of 12 months or less is not recorded on the balance sheet, but related payments are recognized as an expense on a straight-line basis over the lease term.

The Company's right-of-use asset contracts may contain both lease and non-lease components. Non-lease components may include maintenance, utilities, and other operating costs. The Company combines the lease and non-lease components of fixed costs in its lease arrangements as a single lease component. Variable costs, such as utilities or maintenance costs, are not included in the measurement of right-of-use assets and lease liabilities, but rather are expensed when the event determining the amount of variable consideration to be paid occurs.

Lease liabilities and their corresponding right-of-use assets are recorded based on the present value of future lease payments over the expected lease term. The Company determines the present value of future lease payments by using its estimated secured incremental borrowing rate for that lease term as the interest rate implicit in the lease is not readily determinable. The Company estimates its secured incremental borrowing rate for each lease based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term.

Certain of the Company's right-of-use asset leases include options to extend or terminate the lease. The amounts determined for the Company's right-of-use assets and lease liabilities generally do not assume that renewal options or early-termination provisions, if any, are exercised unless it is reasonably certain that the Company will exercise such options.

**Deferred Revenue**

Deferred revenue includes amounts collected or billed in excess of revenue that it can recognize. The Company recognizes deferred revenue as revenue as the related performance obligation is satisfied. The Company records deferred revenue that will be recognized during the succeeding twelve-month period as a current liability on the condensed consolidated balance sheet.

**Fair Value of Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable, warrants, accounts payable and accrued expenses. The estimated fair value of the accounts receivable and accounts payable approximates their carrying value due to the short-term nature of these instruments.

**Stock-Based Compensation**

The Company measures all stock options and other stock-based awards granted to employees and directors based on the fair value on the date of the grant and recognizes compensation expense of those awards, net of estimated forfeitures, over the requisite service period, which is generally the vesting period of the respective award. Historically, the Company has issued stock options to employees, directors and consultants with only service-based vesting conditions and records the expense for these awards using the straight-line method.

The Company classifies stock-based compensation expense in its condensed consolidated statements of operations in the same manner in which the award recipient's payroll costs are classified.

The Company estimates the fair value of each stock option grant on the date of grant using the Black-Scholes option-pricing model. Before the IPO, the Company was a private company and therefore lacks company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of similar publicly-traded companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The expected term of the Company's stock options has been determined utilizing the "simplified" method for awards that qualify as "plain-vanilla" options. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. The expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future.

**Business Combinations**

The Company accounts for business acquisitions using the purchase method of accounting, in accordance with which assets acquired and liabilities assumed are recorded at their respective fair values at the acquisition date. The fair value of the consideration paid, including contingent consideration, is assigned to the assets acquired and liabilities assumed based on their respective fair values. Goodwill represents excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed.

The Company's management exercises significant judgments in determining the fair value of assets acquired and liabilities assumed, as well as intangibles and their estimated useful lives. Fair value and useful life determinations are based on, among other factors, estimates of future expected cash flows, royalty cost savings and appropriate discount rates used in computing present values. These judgments may materially impact the estimates used in allocating acquisition date fair values to assets acquired and liabilities assumed, as well as the Company's current and future operating results. Actual results may vary from these estimates which may result in adjustments to goodwill and acquisition date fair values of assets and liabilities during a measurement period or upon a final determination of asset and liability fair values, whichever occurs first. Adjustments to the fair value of assets and liabilities made after the end of the measurement period are recorded within the Company's operating results.

For contingent consideration arrangements, the Company recognizes a liability at fair value as of the acquisition date with subsequent fair value adjustments recorded in operations. Additional information regarding the Company's contingent consideration arrangements may be found in Note 5 – Fair Value Measures, included elsewhere in the notes to the condensed consolidated financial statements.

**Revenue Recognition**

***Overview***

The Company generates revenue from the following sources: (1) equipment sales, (2) providing services and (3) construction contracts.

In accordance with ASC 606 "Revenue Recognition", the Company recognizes revenue from contracts with customers using a five-step model, which is described below:

- identify the customer contract;
- identify performance obligations that are distinct;
- determine the transaction price;
- allocate the transaction price to the distinct performance obligations; and
- recognize revenue as the performance obligations are satisfied.

***Identify the customer contract***

A customer contract is generally identified when there is approval and commitment from both the Company and its customer, the rights have been identified, payment terms are identified, the contract has commercial substance and collectability, and consideration is probable. Specifically, the Company obtains written/electronic signatures on contracts and a purchase order, if said purchase orders are issued in the normal course of business by the customer.

***Identify performance obligations that are distinct***

A performance obligation is a promise by the Company to provide a distinct good or service or a series of distinct goods or services. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and a company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

***Determine the transaction price***

The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer, excluding sales taxes that are collected on behalf of government agencies.

***Allocate the transaction price to distinct performance obligations***

The transaction price is allocated to each performance obligation based on the relative standalone selling prices ("SSP") of the goods or services being provided to the customer. The Company's contracts typically contain multiple performance obligations, for which the Company accounts for individual performance obligations separately, if they are distinct. The standalone selling price reflects the price the Company would charge for a specific piece of equipment or service if it was sold separately in similar circumstances and to similar customers.

***Recognize revenue as the performance obligations are satisfied***

Revenue is recognized when, or as, performance obligations are satisfied by transferring control of a promised product or service to a customer.

***Significant Judgments***

The Company enters into contracts that may include various combinations of equipment, services and construction, which are generally capable of being distinct and accounted for as separate performance obligations. Contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once the Company determines the performance obligations, it determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. The Company then allocates the transaction price to each performance obligation in the contract based on the SSP. The corresponding revenue is recognized as the related performance obligations are satisfied.

Judgment is required to determine the SSP for each distinct performance obligation. The Company determines SSP based on the price at which the performance obligation is sold separately and the methods of estimating SSP under the guidance of ASC 606-10-32-33. If the SSP is not observable through past transactions, the Company estimates the SSP, taking into account available information such as market conditions, expected margins, and internally approved pricing guidelines related to the performance obligations. The Company licenses its software as a SaaS type subscription license, whereby the customer only has a right to access the software over a specified time period. The full value of the contract is recognized ratably over the contractual term of the SaaS subscription, adjusted monthly if tiered pricing is relevant. The Company typically satisfies its performance obligations for equipment sales when equipment is made available for shipment to the customer; for services sales as services are rendered to the customer and for construction contracts both as services are rendered and when contract is completed.

The Company utilizes the cost-plus margin method to determine the SSP for equipment and build-out services. This method is based on the cost of the services from third parties, plus a reasonable markup that the Company believes is reflective of a market-based reseller margin.

The Company determines the SSP for services in time and materials contracts by observable prices in standalone services arrangements.

The Company estimates variable consideration in the form of royalties, revenue share, monthly fees, and service credits at contract inception and updated at the end of each reporting period if additional information becomes available. Variable consideration is typically not subject to constraint. Changes to variable consideration were not material for the periods presented.

If a contract has payment terms that differ from the timing of revenue recognition, the Company will assess whether the transaction price for those contracts include a significant financing component. The Company has elected the practical expedient that permits an entity to not adjust for the effects of a significant financing component if the Company expects that at the contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service, will be one year or less. For those contracts in which the period exceeds the one-year threshold, this assessment, as well as the quantitative estimate of the financing component and its relative significance, requires judgment. Accordingly, the Company imputes interest on such contracts at an agreed-upon interest rate and will present the financing components separately as financial income. For the three months and six months ended June 30, 2022 and 2021, the Company did not have any such financial income.

Payment terms with customers typically require payment 30 days from the invoice date. The Company's agreements with its customers do not provide for any refunds for services or products and therefore no specific reserve for such is maintained. In the infrequent instances where customers raise concern over delivered products or services, the Company has endeavored to remedy the concern and all costs related to such matters have been insignificant in all periods presented.

The Company has elected to treat shipping and handling activities after the customer obtains control of the goods as a fulfillment cost and not as a promised good or service. Accordingly, the Company will accrue all fulfillment costs related to the shipping and handling of consumer goods at the time of shipment. The Company has payment terms with its customers of one year or less and has elected the practical expedient applicable to such contracts not to consider the time value of money. Sales, value add, and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

The Company receives payment from customers based on specified terms that are generally less than 30 days from the satisfaction of performance obligations. There are no contract assets related to performance under the contract. The difference in the opening and closing balances of the Company's deferred revenue primarily results from the timing difference between the Company's performance and the customer's payment. The Company fulfills obligations under a contract with a customer by transferring products and services in exchange for consideration from the customer. Accounts receivables are recorded when the customer has been billed or the right to consideration is unconditional. The Company recognizes deferred revenue when consideration has been received or an amount of consideration is due from the customer, and the Company has a future obligation to transfer certain proprietary products.

In accordance with ASC 606-10-50-13, the Company is required to include disclosure on its remaining performance obligations as of the end of the current reporting period. Due to the nature of the Company's contracts, these reporting requirements are not applicable. The majority of the Company's remaining contracts meet certain exemptions as defined in ASC 606-10-50-14 through 606-10-50-14A, including (i) performance obligation is part of a contract that has an original expected duration of one year or less and (ii) the right to invoice practical expedient.

The Company generally provides a one-year warranty on its products for materials and workmanship but may provide multiple-year warranties as negotiated, and will pass on the warranties from its vendors, if any, which generally covers this one-year period. In accordance with ASC 450-20-25, the Company accrues for product warranties when the loss is probable and can be reasonably estimated. The reserve for warranty returns is included in accrued expenses and other current liabilities in the Company's condensed consolidated balance sheets.

**Research and Development Costs**

The Company expenses research and development costs as incurred. Research and development expenses include payroll, employee benefits and other expenses associated with product development. The Company incurs research and development costs associated with the development and enhancement of both hardware and software products associated with its cultivation and extraction equipment, as well as its SaaS-based software offering, Agrify Insights™ cultivation software.

**Capitalization of Internal Software Development Costs**

The Company capitalizes certain software engineering efforts related to the continued development of Agrify Insights™ cultivation software under ASC 985-20. Costs incurred during the application development phase are only capitalized once technical feasibility has been established and the work performed will result in new or additional functionality. The types of costs capitalized during the application development phase include employee compensation, as well as consulting fees for third-party software developers working on these projects. Costs related to the research and development are expensed as incurred until technical feasibility is established as well as post-implementation activities. Internal-use software is amortized on a straight-line basis over the estimated useful life of the asset, which ranges from two to five years.

**Shipping and Handling Charges**

The Company incurs costs related to shipping and handling of its manufactured products. These costs are expensed as incurred as a component of cost of goods sold. Shipping and handling charges related to the receipt of raw materials are also incurred, which are recorded as a cost of the related inventory.

**Equity Method Investments**

Investments in affiliates that are 50% or less owned by the Company for which the Company exercises significant influence but does not have control are accounted for using the equity method. The Company has investments in equity investments without readily determinable fair values, which represents investments in entities where the Company does not have the ability to significantly influence the operations of the entities.

An assessment of whether or not the Company (as a holder of 50% of TPI) has the power to direct activities that most significantly impact TPI's economic performance and to identify the party that obtains the majority of the benefits of the investment was performed as of June 30, 2022 and December 31, 2021 and will be performed as of each subsequent reporting date. After each of these assessments, the Company concluded that the activities that most significantly impact TPI's economic performance are the growth, marketing, sale, and distribution of products using TPI's technology and IP, each of which are solely directed by TPI. Based on the consideration of these assessments, the Company concluded that the Company's investment in TPI should be accounted for under the equity method.

The carrying value of the Company's investment in TPI was $0 as of June 30, 2022 and December 31, 2021. The Company did not recognize revenue from TPI for the three and six months ended June 30, 2022 and June 30, 2021.

**Income Taxes**

The Company accounts for income taxes pursuant to the provisions of ASC Topic 740, "Income Taxes," which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provisions of ASC 740-10-25-5, "Basic Recognition Threshold." When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10-25-6, the benefit of a tax position is recognized in the condensed consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for unrecognized tax benefits. As of June 30, 2022, tax years 2016 through 2021 remain open for IRS audit. The Company has received no notice of audit from the IRS for any of the open tax years.

The Company recognizes the benefit of a tax position when it is effectively settled. ASC 740-10-25-10, "Basic Recognition Threshold" provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. ASC 740-10-25-10 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority. For tax positions considered effectively settled, the Company recognizes the full amount of the tax benefit.

**Net Loss Per Share**

The Company presents basic and diluted net loss per share attributable to Common Stockholders in conformity with the two-class method required for participating securities. We compute basic loss per share by dividing net loss available to Common Stockholders by the weighted-average number of common shares outstanding. Net loss available to Common Stockholders represents net loss attributable to Common Stockholders reduced by the allocation of earnings to participating securities. Diluted income per share adjusts basic income per share for the potentially dilutive impact of stock options and warrants. For periods during which the Company recorded a net loss, diluted net loss per share is equal to basic net loss per share because the effect of dilutive securities outstanding is anti-dilutive.

Net loss per share calculations for all periods have been adjusted to reflect the Reverse Stock Split effected on January 12, 2021. Net loss per share was calculated based on the weighted-average number of Common Stock outstanding.

**Recently Adopted Accounting Pronouncements**

In August 2020, the FASB issued Accounting Standards Update ("ASU") No. 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. The amendments in ASU No. 2020-06 simplify the complexity associated with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. More specifically, the amendments focus on the guidance for convertible instruments and derivative scope exceptions for contracts in an entity's own equity. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The adoption of this new accounting guidance had no impact on the Company's consolidated financial position.

**Pending Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326), which introduces a new methodology for accounting for credit losses on financial instruments, including available-for-sale debt securities and accounts receivable. The guidance establishes a new "expected loss model" that requires entities to estimate current expected credit losses on financial instruments by using all practical and relevant information. Any expected credit losses are to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. ASU 2016-13 is effective in the first quarter of fiscal 2024. The Company is currently evaluating the potential impact of this adoption on its condensed consolidated financial statements and related disclosures.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 606): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which requires that an entity recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 as if it had originated the contracts. Generally, this should result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements, if the acquiree prepared financial statements in accordance with U.S. GAAP. The amendment in this update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The guidance should be applied prospectively to business combinations occurring on or after the effective date of the amendment in this update. The Company is currently evaluating the potential impact of this adoption on its condensed consolidated financial statements and related disclosures.

The Company does not believe that any other ASU issued but not yet effective, if adopted, will have a material effect on the Company's future financial statements.

**Note 2 — Restatement of Current Period**

The Company's financial statements as of and for the three and six-months ended June 30, 2022 have been restated due to the following errors:

***PIPE Warrants/SPA Warrants Classification and Measurement***

During the six months ended June 30, 2022 the Company entered into several debt and equity financing transactions including i) the issuance of common stock and warrants in a private placement on January 25, 2022 (the "PIPE Warrants") and ii) the issuance of a note payable with associated warrants on March 14, 2022 (the "SPA Warrants").

The Company determined that the PIPE Warrants and the SPA Warrants were incorrectly classified as equity and must be reclassified to a liabilities measured at fair value upon issuance and remeasured to fair value at each reporting date. In addition, the Company used an incorrect volatility percentage when calculating the value of the PIPE Warrants and the SPA Warrants upon issuance. As a result of these errors:

- Additional paid-in capital was overstated by $24.2 million as of June 30, 2022 due to the incorrect classification of the SPA Warrants and the PIPE Warrants as equity rather than liabilities;

- Warrant liabilities was understated by the fair value of the PIPE Warrants and the SPA Warrants of $9.5 million as of June 30, 2022;

- Long-term debt and Long-term debt, current was overstated by $9.2 million and $5.5 millions, respectively, as of June 30, 2022 due to the incorrect allocation of the debt discount in connection with the issuance of debt and SPA Warrants, as a result of the improper classification of the SPA Warrants as equity rather than liabilities;

- Accumulated deficit as of June 30, 2022 was overstated by $29.5 million as a result of the net impact of the following errors in the condensed consolidated statement of operations:

  - The change in fair value of warrant liabilities was understated by $20.2 million and $31.0 million for the three and six-months ended June 30, 2022, respectively, due to the fact that the Company did not appropriately remeasure the fair value of the warrant liabilities through earnings;

  - Interest expense, net was understated by $1.4 million and $1.5 million for the three and six-months ended June 30, 2022 due to incorrect debt discount amortization in connection with the issuance of debt and SPA Warrants, as a result of the improper classification of the SPA Warrants as equity rather than liabilities.

The impact of these/this adjustment(s) is/are shown below in the restated and reclassified condensed consolidated balance sheet, condensed consolidated statement of operations, and condensed consolidated statement of cash flows for the three and six-months ended June 30, 2022.

The following is a summary of the impact of the restatement and reclassifications on the Company's condensed consolidated balance sheet:

| | June 30, 2022 | | | |
|---|---|---|---|---|
| | | Adjustments | | |
| | Previously Reported | Warrants | Reverse Stock Split | Restated |
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 18,608 | — | | $ 18,608 |
| Restricted cash and restricted marketable securities | 30,000 | — | | 30,000 |
| Marketable securities | 11,323 | — | | 11,323 |
| Accounts receivable, net of allowance for doubtful accounts of $2,740 | 10,468 | — | | 10,468 |
| Inventory, net of reserves of $1,871 | 41,871 | — | | 41,871 |
| Prepaid and refundable taxes | 210 | — | | 210 |
| Prepaid expenses and other current assets | 5,925 | — | | 5,925 |
| Total current assets | 118,405 | | | 118,405 |
| Loan receivable, net of allowance for doubtful accounts of $7,079 | 35,090 | — | | 35,090 |
| Property and equipment, net | 11,932 | — | | 11,932 |
| Right-of-use assets, net | 2,866 | — | | 2,866 |
| Goodwill | — | — | | — |
| Intangible assets, net | — | — | | — |
| Other non-current assets | 2,920 | — | | 2,920 |
| Total assets | $ 171,213 | | | $ 171,213 |
| **Liabilities and Stockholders' Equity** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 4,157 | — | | $ 4,157 |
| Accrued expenses and other current liabilities | 27,456 | — | | 27,456 |
| Operating lease liabilities, current | 1,084 | — | | 1,084 |
| Long-term debt, current | 9,615 | (5,536) | | 4,079 |
| Deferred revenue | 3,753 | — | | 3,753 |
| Total current liabilities | 46,065 | | | 40,529 |
| Warrant liabilities | — | 9,530 | | 9,530 |
| Other non-current liabilities | 236 | — | | 236 |
| Operating lease liabilities, non-current | 1,908 | — | | 1,908 |
| Long-term debt | 45,014 | (9,226) | | 35,788 |
| Total liabilities | 93,223 | | | 87,991 |
| | | | | |
| Commitments and Contingencies (Note 18) | | | | |
| | | | | |
| Stockholders' equity: | | | | |
| Common Stock, $0.001 par value per share, 250,000 shares authorized, 132,957 shares issued and outstanding | 25 | — | (25) | — |
| Preferred Stock, $0.001 par value per share, 2,895,000 shares authorized, no shares issued or outstanding | — | — | | — |
| Preferred A Stock, $0.001 par value per share, 105,000 shares authorized, no shares issued or outstanding | — | — | | — |
| Additional paid-in capital | 238,854 | (24,227) | 25 | 214,652 |
| Accumulated deficit | (161,258) | 29,459 | | (131,799) |
| Total stockholders' equity attributable to Agrify | 77,621 | | | 82,853 |
| Non-controlling interests | 369 | — | | 369 |
| Total liabilities and stockholders' equity | $ 171,213 | | | $ 171,213 |

The following is a summary of the impact of the restatement and reclassifications on the Company's condensed consolidated statement of operations:

| | Three Months ended June 30, 2022 | | | | Six Months ended June 30, 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Adjustment | | | | Adjustment | | |
| | Previously Reported | Warrants | Reverse Stock Split | Restated | Previously Reported | Warrants | Reverse Stock Split | Restated |
| Revenue including $1,140 and $2,411from related parties, respectively) | $ 19,329 | — | — | $ 19,329 | $ 45,350 | — | — | $ 45,350 |
| Cost of goods sold | 17,717 | — | — | 17,717 | 39,568 | — | — | 39,568 |
| Gross profit (loss) | 1,612 | | | 1,612 | 5,782 | | — | 5,782 |
| General and administrative | 19,378 | — | — | 19,378 | 29,137 | — | — | 29,137 |
| Selling and marketing | 2,332 | — | — | 2,332 | 4,422 | — | — | 4,422 |
| Research and development | 2,438 | — | — | 2,438 | 4,522 | — | — | 4,522 |
| Change in contingent consideration | (907) | — | — | (907) | (907) | — | — | (907) |
| Impairment of goodwill and intangible assets | 69,904 | — | — | 69,904 | 69,904 | — | — | 69,904 |
| Total operating expenses | 93,145 | | | 93,145 | 107,078 | | | 107,078 |
| Loss from operations | (91,533) | | | (91,533) | (101,296) | | | (101,296) |
| Interest (expense) income, net | (1,927) | (1,384) | — | (3,311) | (1,245) | (1,507) | | (2,752) |
| Other expenses | — | — | — | — | — | — | — | — |
| Change in fair value of warrant liabilities | — | 20,181 | — | 20,181 | — | 30,966 | — | 30,966 |
| Gain on extinguishment of notes payable | — | — | — | — | — | — | — | — |
| Other (expense) income, net | (1,927) | 18,797 | | 16,870 | (1,245) | 29,459 | | 28,214 |
| Net loss before income taxes | (93,460) | 18,797 | | (74,663) | (102,541) | 29,459 | | (73,082) |
| Income tax benefit | (62) | — | — | (62) | (262) | — | — | (262) |
| Net loss | (93,398) | 18,797 | | (74,601) | (102,279) | 29,459 | | (72,820) |
| Income (loss) attributable to non-controlling interest | 3 | — | — | 3 | 4 | — | — | 4 |
| Net loss attributable to Agrify Corporation | $ (93,401) | $ 18,797 | | $ (74,604) | $ (102,283) | $ 29,459 | | $ (72,824) |
| Net loss per share attributable to Common Stockholders – basic and diluted | $ (3.51) | $ 0.71 | $ (558.50) | $ (561.31) | $ (4.00) | $ 1.15 | $ (566.28) | $ (569.13) |
| Weighted-average common shares outstanding – basic and diluted | 26,582,104 | — | (26,449,193) | 132,911 | 25,591,114 | — | (25,463,158) | 127,956 |

The following is a summary of the impact of the restatement and reclassifications on the Company's condensed consolidated statement of cash flows:

| | Six Months ended June 30, 2022 | | |
|---|---|---|---|
| **Cash flows from operating activities** | **Previously Reported** | **Adjustment Warrants** | **Restated** |
| Net loss attributable to Agrify Corporation | $ (102,283) | 29,459 | $ (72,824) |
| Adjustments to reconcile net loss attributable to Agrify Corporation to net cash used in operating activities: | | | |
| Depreciation and amortization | 2,193 | — | 2,193 |
| Impairment on goodwill and intangible assets | 69,904 | — | 69,904 |
| Amortization of premium on investment securities | 1,055 | — | 1,055 |
| Amortization of debt discount | 1,228 | 1,507 | 2,735 |
| Amortization of issuance costs | — | 370 | 370 |
| Interest on investment securities | (1,247) | — | (1,247) |
| Early termination of lease | — | 26 | 26 |
| Provision for doubtful accounts | 8,630 | — | 8,630 |
| Provision for slow-moving inventory | 929 | — | 929 |
| Prepaid and refundable taxes | — | (16) | (16) |
| Debt issuance costs | 2,422 | (2,422) | — |
| Deferred income taxes | (262) | — | (262) |
| Compensation in connection with the issuance of stock options | 1,893 | — | 1,893 |
| Non-cash interest (income) expense | (1,010) | — | (1,010) |
| Gain on extinguishment of notes payable, net | — | — | — |
| Loss from disposal of fixed assets | 8 | — | 8 |
| Change in fair value of contingent consideration | (907) | — | (907) |
| Change in fair value of warrant liabilities | — | (30,966) | (30,966) |
| Income (loss) attributable to non-controlling interests | 4 | — | 4 |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable | (4,305) | — | (4,305) |
| Inventory | (20,171) | — | (20,171) |
| Prepaid expenses and other current assets | (2,714) | 3,499 | 785 |
| Prepaid and refundable taxes | (16) | 16 | — |
| Right-of-use assets, net | 86 | (26) | 60 |
| Other non-current assets | (1,514) | 1,514 | — |
| Accounts payable | (4,943) | 2,619 | (2,324) |
| Accrued expenses and other current liabilities | (4,000) | (49) | (4,049) |
| Deferred (expense) revenue, net | (2,560) | 1,558 | (1,002) |
| Net cash used in operating activities | (57,580) | 7,089 | (50,491) |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchases of property and equipment | (6,398) | (2,702) | (9,100) |
| Purchase of securities | (211,030) | — | (211,030) |
| Proceeds from the sale of securities | 214,449 | — | 214,449 |
| Issuance of loan receivable | (20,443) | — | (20,443) |
| Cash paid for business combination, net of cash acquired | (3,513) | | (3,513) |
| Net cash used in investing activities | (26,935) | (2,702) | (29,637) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of debt and warrants in private placement | 65,000 | (2,595) | 62,405 |
| Proceeds from issuance of Common Stock and warrants in private placement, net of fees | 25,770 | 27 | 25,797 |
| Proceeds from IPO, net of fees | — | — | — |
| Proceeds from Secondary public offering, net of fees | — | — | — |
| Proceeds from exercise of options | 19 | — | 19 |
| Proceeds from exercise of warrants | 2 | — | 2 |
| Short-term loan payable | 2,513 | (2,513) | — |
| Repayments of debt | (2,008) | 2,008 | — |
| Payments on other finance loans | — | (243) | (243) |
| Payments on insurance financing loans | — | (1,071) | (1,071) |
| Payments of financing leases | (187) | — | (187) |
| Net cash provided by financing activities | 91,109 | (4,387) | 86,722 |
| Net increase in cash and cash equivalents | 6,594 | | 6,594 |
| Cash and cash equivalents at the beginning of period | 12,014 | | 12,014 |
| Cash and cash equivalents at the end of period | $ 18,608 | | $ 18,608 |
| **Cash, cash equivalents, and restricted cash and restricted marketable securities at end of period** | | | |
| Cash and cash equivalents | $ 18,608 | | $ 18,608 |
| Restricted cash and restricted marketable securities | 30,000 | | 30,000 |
| Total cash, cash equivalents, and restricted cash and restricted marketable securities at the end of period | $ 48,608 | | $ 48,608 |
| **Supplemental disclosures of non-cash investing activities** | | | |
| Initial fair value of warrants | $ — | $ 40,496 | $ 40,496 |
| Financing prepaid insurance | $ — | $ 1,928 | $ 1,928 |

The following is a summary of the impact of the restatement and reclassifications on the Company's condensed consolidated statement of stockholders' equity as of June 30, 2022:

| | Common Stock (Previously Reported) | | Common Stock (Restated) | | Additional Paid-In Capital (Previously Reported) | Additional Paid-In Capital Restated) | Accumulated Deficit (Previously Reported) | Accumulated Deficit (Restated) | Total Stockholders' Equity attributable to Agrify (Previously Reported) | Total Stockholders' Equity attributable to Agrify (Restated) | Non-Controlling Interests (Previously Reported) | Non-Controlling Interests (Restated) | Total Stockholders' Equity (Previously Reported) | Total Stockholders' Equity (Restated) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | | | | | | |
| **Balance at January 1, 2022** | 22,207,103 | $ 21 | 111,035 | $ — | $ 196,013 | $ 196,034 | $ (58,975) | $ (58,975) | $ 137,059 | $ 137,059 | $ 365 | $ 365 | $ 137,424 | $ 137,424 |
| Stock-based compensation | — | — | — | — | 953 | 953 | — | — | 953 | 953 | — | — | 953 | 953 |
| Issuance of Common Stock and warrants in private placement | 2,450,350 | 2 | 12,252 | — | 25,795 | 14,800 | — | — | 25,797 | 14,800 | — | — | 25,797 | 14,800 |
| Issuance of debt and warrants in private placement | — | — | — | — | 13,230 | — | — | — | 13,230 | — | — | — | 13,230 | — |
| Acquisition of Lab Society | 297,929 | — | 1,490 | — | 1,903 | 1,903 | — | — | 1,903 | 1,903 | — | — | 1,903 | 1,903 |
| Exercise of options | 4,220 | — | 21 | — | 10 | 10 | — | — | 10 | 10 | — | — | 10 | 10 |
| Exercise of warrants | 1,583,288 | 2 | 7,916 | — | (1) | 1 | — | — | 1 | 1 | — | — | 1 | 1 |
| Net loss | — | — | — | — | — | 0 | (8,882) | 1,780 | (8,882) | 1,780 | 1 | 1 | (8,881) | 1,781 |
| **Balance at March 31, 2022** | 26,542,890 | $ 25 | 132,714 | $ — | $ 237,903 | $ 213,701 | $ (67,857) | $ (57,195) | $ 170,071 | $ 156,506 | $ 366 | $ 366 | $ 170,437 | $ 156,872 |
| Stock-based compensation | — | — | — | — | 940 | 940 | — | — | 940 | 940 | — | — | 940 | 940 |
| Exercise of options | 4,286 | — | 21 | — | 10 | 10 | — | — | 10 | 10 | — | — | 10 | 10 |
| Exercise of warrants | 44,254 | — | 222 | — | 1 | 1 | — | — | 1 | 1 | — | — | 1 | 1 |
| Net loss | — | — | — | — | — | — | (93,401) | (74,604) | (93,401) | (74,604) | 3 | 3 | (93,398) | (74,601) |
| **Balance at June 30, 2022** | 26,591,430 | $ 25 | 132,957 | $ — | $ 238,854 | $ 214,652 | $ (161,258) | $ (131,799) | $ 77,621 | $ 82,853 | $ 369 | $ 369 | $ 77,990 | $ 83,222 |

The related notes to the condensed consolidated financial statements have also been restated to reflect the error corrections described above.

**Note 3 — Revenue and Deferred Revenue**

***Revenue***

During the three and six months ended June 30, 2022 and 2021, the Company generated revenue from the following sources: (1) equipment sales, (2) services sales and (3) construction contracts.

The Company sells its equipment and services to customers under a combination of a contract and purchase order. Equipment revenue includes sales from proprietary products designed and engineered by the Company such as Agrify Vertical Farming Units ("VFUs"), container farms, integrated grow racks, and LED grow lights, and non-proprietary products designed, engineered, and manufactured by third parties such as air cleaning systems and pesticide-free surface protection.

Construction contracts normally provide for payment upon completion of specified work or units of work as identified in the contract. Although there is considerable variation in the terms of these contracts, they are primarily structured as time-and-material contracts. The Company enters into time-and-materials contracts under which the Company is paid for labor and equipment at negotiated hourly billing rates and other expenses, including materials, as incurred at rates agreed to in the contract. The Company uses three main sub-contractors to execute the construction contracts.

The following table provides the Company's revenue disaggregated by the timing of revenue recognition:

| | Three Months ended June 30, | | Six Months ended June 30, | |
|---|---|---|---|---|
| **(In thousands)** | **2022** | **2021** | **2022** | **2021** |
| Transferred at a point in time | $ 10,244 | $ 1,124 | $ 23,018 | $ 1,353 |
| Transferred over time | 9,085 | 10,701 | 22,332 | 17,480 |
| Total revenue | $ 19,329 | $ 11,825 | $ 45,350 | $ 18,833 |

In accordance with ASC 606-10-50-13, the Company is required to include disclosure on its remaining performance obligations as of the end of the current reporting period. Due to the nature of the Company's contracts, these reporting requirements are not applicable, because the majority of the Company's remaining contracts meet certain exemptions as defined in ASC 606-10-50-14 through 606-10-50-14A, including (i) performance obligation is part of a contract that has an original expected duration of one year or less and (ii) the right to invoice practical expedient.

The Company generally provides a one-year warranty on its products for materials and workmanship but may provide multiple year warranties as negotiated, and generally transfers to its customers the warranties it receives from its vendors, if any, which generally cover this one-year period. In accordance with ASC 450-20-25, the Company accrues for product warranties when the loss is probable and can be reasonably estimated. The Company maintains a reserve for warranty returns of $579 thousand and $398 thousand for June 30, 2022 and December 31, 2021, respectively. The Company's reserve for warranty returns is included in accrued expenses and other current liabilities in its condensed consolidated balance sheets. Additional information regarding the Company's warranty reserve may be found in Note 4 – Supplemental Condensed Consolidated Balance Sheet Information, included elsewhere in the notes to the condensed consolidated financial statements.

*Deferred Revenue*

Changes in the Company's current deferred revenue balance for the six months ended June 30, 2022 and the year ended December 31, 2021 were as follows:

| (In thousands) | Six Months ended June 30, 2022 | Year ended December 31, 2021 |
|---|---|---|
| Deferred revenue – beginning of period | $ 3,772 | $ 152 |
| Additions | 7,493 | 3,758 |
| Interest income on deferred revenue | — | 4 |
| Recognized | (7,512) | (142) |
| Deferred revenue – end of period | $ 3,753 | $ 3,772 |

Deferred revenue balances primarily consist of customer deposits on its cultivation and extraction solutions equipment. As of June 30, 2022 and December 31, 2021, all of the Company's deferred revenue balances were reported as current liabilities in the accompanying condensed consolidated balance sheets.

**Note 4 – Supplemental Condensed Consolidated Balance Sheet Information**

**Accounts Receivable**

Accounts receivable consisted of the following as of June 30, 2022 and December 31, 2021:

| (In thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Accounts receivable, gross | $ 13,208 | $ 8,637 |
| Less allowance for doubtful accounts | (2,740) | (1,415) |
| Accounts receivable, net | $ 10,468 | $ 7,222 |

NEIA, a related party, accounted for $2.4 million and $3.5 million of the Company's accounts receivable, net as of June 30, 2022 and December 31, 2021, respectively.

The changes in the allowance for doubtful accounts consisted of the following:

| (In thousands) | Six Months ended June 30, 2022 | Year ended December 31, 2021 |
|---|---|---|
| Allowance for doubtful accounts – beginning of period | $ 1,415 | $ 54 |
| Provision for doubtful accounts | 1,553 | 1,187 |
| Other adjustments | (228) | 174 |
| Allowance for doubtful accounts – end of period | $ 2,740 | $ 1,415 |

Bad debt expense was $1.6 million and $0 for the three months ended June 30, 2022 and 2021, respectively, and $1.6 million and $0 for the six months ended June 30, 2022 and 2021, respectively.

**Prepaid Expenses and Other Current Receivables**

Prepaid expenses and other current receivables consisted of the following as of June 30, 2022 and December 31, 2021:

| (In thousands) | June 30, 2022 (As Restated) | December 31, 2021 |
|---|---|---|
| Prepaid insurance | $ 1,645 | $ 492 |
| Prepaid materials | 208 | — |
| Prepaid software | 210 | 173 |
| Prepaid expenses, other | 1,680 | 541 |
| Deferred costs | — | 353 |
| Other note receivables (1) | 1,612 | 807 |
| Other receivables, other | 570 | 86 |
| Total prepaid expenses and other current assets | $ 5,925 | $ 2,452 |

(1) Other note receivables relate to the current portion of one of its loan receivable balances related to the total turn-key solution ("TTK Solution") program.

**Property and Equipment, Net**

Property and equipment, net consisted of the following as of June 30, 2022 and December 31, 2021:

| (In thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Computer and office equipment | $ 572 | $ 473 |
| Furniture and fixtures | 505 | 385 |
| Leasehold improvements | 1,000 | 841 |
| Machinery and equipment | 990 | 898 |
| Software | 308 | 174 |
| Vehicles | 143 | 143 |
| Research and development of laboratory equipment | 254 | 163 |
| Leased equipment at customer | 602 | 619 |
| Trade show assets | 80 | 80 |
| Total property and equipment, gross | 4,454 | 3,776 |
| Accumulated depreciation | (1,530) | (780) |
| Construction in progress | 9,008 | 3,236 |
| Total property and equipment, net | $ 11,932 | $ 6,232 |

Depreciation expense for the three months ended June 30, 2022 and 2021 was $438 thousand and $109 thousand, respectively, and $817 thousand and $199 thousand for the six months ended June 30, 2022 and 2021, respectively.

**Other Non-Current Assets**

Other non-current assets consisted of the following as of June 30, 2022 and December 31, 2021:

| (In thousands) | June 30, 2022 (As Restated) | December 31, 2021 |
|---|---|---|
| Long-term deferred commissions expense | $ 2,758 | $ 1,101 |
| Security deposits | 162 | 83 |
| Total other non-current assets | $ 2,920 | $ 1,184 |

**Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consisted of the following as of June 30, 2022 and December 31, 2021:

| (In thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Accrued acquisition liability (1) | $ 10,579 | $ 9,198 |
| Sales tax payable (2) | 5,724 | 5,290 |
| Accrued construction costs | 5,155 | 8,803 |
| Compensation related fees | 3,180 | 3,491 |
| Accrued professional fees | 1,348 | 1,104 |
| Accrued warranty costs | 579 | 398 |
| Accrued consulting fees | 133 | 75 |
| Accrued inventory purchases | 586 | 201 |
| Financing lease liabilities | 166 | 156 |
| Accrued non-income taxes | — | 48 |
| Other current liabilities | 6 | — |
| Total accrued expenses and other current liabilities | $ 27,456 | $ 28,764 |

(1) Accrued acquisition liabilities include both the contingent consideration and the value of held back Common Stock associated with the 2022 acquisition of Lab Society and the 2021 acquisitions of Precision, Cascade and PurePressure.

(2) Sales tax payable primarily represents identified sales and use tax liabilities arising from the acquisition of Precision and Cascade. These amounts are included as part of the initial purchase price allocations and are the subject matter of an indemnification claim under the Precision and Cascade acquisition agreement.

**Warranty Accrual**

The following table summarizes the activity related to the Company's accrued liability for estimated future warranty costs:

| (In thousands) | Six Months ended June 30, 2022 | Year ended December 31, 2021 |
|---|---|---|
| Warranty accrual – beginning of period | $ 398 | $ — |
| Liabilities accrued for warranties issued during period | 181 | 398 |
| Warranty accrual – end of period | $ 579 | $ 398 |

**Note 5 — Fair Value Measures**

***Fair Values of Assets and Liabilities***

In accordance with ASC Topic 820 "Fair Value Measurement", the Company measures fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the assumptions that market participants would use in pricing an asset or liability (the inputs) are based on a tiered fair value hierarchy consisting of three levels, as follows:

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.

Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar instruments in active markets or for similar markets that are not active.

Level 3: Unobservable inputs for which there is little or no market data which require the Company to develop its own assumptions about how market participants would price the asset or liability.

Valuation techniques for assets and liabilities include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available or cost-effective to obtain.

At June 30, 2022 and December 31, 2021, the Company's assets and liabilities measured at fair value on a recurring basis were as follows:

| | June 30, 2022 (As Restated) | | | | December 31, 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value Measurements Using Input Types | | | | Fair Value Measurements Using Input Types | | | |
| (In thousands) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | | | | | |
| Mutual funds (included in cash and cash equivalents) | $ — | $ — | $ — | $ — | $ 178 | $ — | $ — | $ 178 |
| Municipal bonds | 4,683 | — | — | 4,683 | 9,961 | — | — | 9,961 |
| Corporate bonds | 6,640 | — | — | 6,640 | 34,589 | — | — | 34,589 |
| Total assets | $ 11,323 | $ — | $ — | $ 11,323 | $ 44,728 | $ — | $ — | $ 44,728 |
| **Liabilities** | | | | | | | | |
| Contingent consideration | $ — | $ — | $ 6,766 | $ 6,766 | $ — | $ — | $ 6,137 | $ 6,137 |
| Warrant liabilities | — | — | 9,530 | 9,530 | — | — | — | — |
| Total liabilities | $ — | $ — | $ 16,296 | $ 16,296 | $ — | $ — | $ 6,137 | $ 6,137 |

***Fair Value of Financial Instruments***

The Company has certain financial instruments which consist of cash and cash equivalents, marketable securities, contingent consideration, and warrant liabilities. Fair value information for each of these instruments is as follows:

- Cash and cash equivalents, accounts receivable, accounts payable and deferred revenue liabilities fair values approximate their carrying values, due to the expected duration of these instruments.
- Marketable securities classified as current held-to-maturity securities are recorded at amortized cost, which at June 30, 2022, approximated fair value.
- The Company's deferred consideration was recorded in connection with acquisitions during the first quarter of 2022 and fiscal 2021 using an estimated fair value discount at the time of the transaction. As of June 30, 2022 and December 31, 2021, the carrying value of the deferred consideration approximated fair value, respectively.
- Warrant liabilities were recorded in connection with the issuance of warrants to purchase the Company's common stock during the first quarter of 2022. As of June 30, 2022 the warrant liabilities were recorded at fair value.

***Marketable Securities***

As of June 30, 2022, the Company held investments in mutual funds, municipal bonds and corporate bonds. The Company records mutual funds at fair value in the accompanying condensed consolidated balance sheet as part of cash and cash equivalents. The municipal and corporate bonds are considered held-to-maturity securities and are recorded at amortized cost in the accompanying condensed consolidated balance sheet. The fair values of these investments were estimated using recently executed transactions and market price quotations. The Company considers current assets those investments which will mature within the next 12 months including, interest receivable on the long-term bonds.

The composition of the Company's marketable securities are as follows:

| **(In thousands)** | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| **Current marketable securities** | | |
| Municipal bonds | $ 4,683 | $ 9,961 |
| Corporate bonds | 6,640 | 34,589 |
| | $ 11,323 | $ 44,550 |

The amortized cost and estimated fair value of marketable securities as of June 30, 2022, are as follows:

| **(In thousands)** | **Amortized Cost** | **Unrealized Loss** | **Estimated Fair Value** |
|---|---|---|---|
| **Current marketable securities** | | | |
| Municipal bonds | $ 4,683 | $ (6) | $ 4,677 |
| Corporate bonds | 6,640 | (3) | 6,637 |
| | $ 11,323 | $ (9) | $ 11,314 |

***Contingent Consideration***

The Company has classified its net liability for contingent earn-out considerations to the sellers relating to one acquisition completed during the first quarter of 2022 and two acquisitions completed during fiscal 2021. The fair value for the contingent consideration associated with these acquisitions is within Level 3 of the fair value hierarchy because the associated fair value is determined using significant unobservable inputs, which included the key assumptions to model future revenue, costs of goods sold and operating expense projections. A description of the Company's acquisitions completed during the first quarter of 2022 and fiscal 2021 are included within Note 9 – Business Combinations, included elsewhere in the notes to the condensed consolidated financial statements.

| **(In thousands)** | **Six Months ended June 30, 2022** | **Year ended December 31, 2021** |
|---|---|---|
| Contingent consideration – beginning of period | $ 6,137 | $ — |
| Accrued contingent consideration | 1,420 | 4,725 |
| Accretion of contingent consideration | 116 | — |
| Change in estimated fair value | (907) | 1,412 |
| Contingent consideration – end of period | $ 6,766 | $ 6,137 |

The Company included contingent consideration within accrued expenses and other current liabilities in its condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021, respectively.

See below for additional information related to each acquisition's contingent consideration.

***Contingent Consideration – Lab Society***

The Company, in its review of actual revenue performance as compared to its originally projected revenue estimates, noted that Lab Society's revenue trend is materially below the originally estimated revenue trends incorporated into the Company's original fair value estimates at the time of the acquisition. As a result, the Company has reduced its fair value estimate of achievement for Lab Society's first earn-out period. During the second quarter ended June 30, 2022, the Company reduced the estimated fair value of the contingent consideration liability associated with Lab Society's first earn-out period by approximately $1.0 million. As required by ASC 805, the change in contingent consideration was recorded as a reduction in operating expenses during the second quarter of 2022.

***Contingent Consideration – Precision and Cascade***

The earn-out period for the potential contingent consideration to be earned by the former members of Precision and Cascade concluded on December 31, 2021. The Company, during the second quarter of 2022, increased the amount of the contingent consideration earned by the former members of Precision and Cascade by approximately $121 thousand, to reflect the final contingent consideration amount due. This amount, as required by ASC 805, was recorded as an increase in operating expenses during the second quarter of 2022. The Company has not yet paid the $5.6 million in total contingent consideration to the members of Precision and Cascade as of June 30, 2022. The Company expects to make payment on the contingent consideration in August 2022.

***Warrant Liabilities***

In January, 2022, the Company issued warrants to purchase up to an aggregate of 15,078 shares of Common Stock in connection with a private placement transaction (the "PIPE Warrants"). The warrants have an exercise price of $1,496.00. In March, 2022, the Company issued warrants to purchase up to an aggregate of 34,406 shares of Common Stock in connection with the issuance of debt (the "SPA Warrants").

The Company determined that the PIPE Warrants and SPA Warrants did not meet the criteria for permanent equity accounting. As a result, the Company allocated a portion of the offering proceeds to warrant liabilities at its fair value. The fair value was calculated using the Black-Scholes option valuation model using significant inputs.

The grant date fair value of the PIPE Warrants and the SPA Warrants issued during the six months ended June 30, 2022 was calculated used a Black-Scholes model and was determined to be $40.5 million using the following inputs:

| | PIPE Warrants | SPA Warrants |
|---|---|---|
| Stock price | $ 1,100.00 | $ 1,228.00 |
| Exercise price | $ 1,496.00 | $ 1,350.00 |
| Expected term (in years) | 5.5 | 5.5 |
| Annualized volatility | 87.53% | 87.60% |
| Annual rate of quarterly dividends | 0.0% | 0.0% |
| Discount rate -bond equivalent yield | 1.65% | 2.12% |

The fair value of the PIPE Warrants and the SPA Warrants was remeasured and was determined to be $9.5 million at June 30, 2022, using a Black-Scholes model using the following inputs:

| | PIPE Warrants | SPA Warrants |
|---|---|---|
| Stock price | $ 394.00 | $ 394.00 |
| Exercise price | $ 1,496.00 | $ 1,350.00 |
| Expected term (in years) | 5.08 | 5.20 |
| Annualized volatility | 88.00% | 87.80% |
| Annual rate of quarterly dividends | 0.0% | 0.0% |
| Discount rate -bond equivalent yield | 3.01% | 3.02% |

The following table sets forth a summary of the changes in the fair value of the Level 3 Warrant Liabilities for the six months ended June 30, 2022:

| **(In thousands)** | **Six Months Ended June 30, 2022** |
|---|---|
| Warrant liabilities – beginning of period | $ — |
| Initial fair value of warrant liabilities | 40,496 |
| Change in estimated fair value | (30,966) |
| Warrant liabilities – end of period | $ 9,530 |

**Note 6 — Loan Receivable**

A portion of the capital raised from the Company's IPO has been allocated to launch the Company's TTK Solution program. The TTK Solution is the industry's first-of-its-kind program in which the Company engages with qualified cannabis operators in the early phases of their business plans and provides critical support, typically over a 10-year period, which includes: access to capital for construction costs, the design and build-out of their cultivation and extraction facilities, state-of-the-art cultivation and extraction equipment, subscription to the Company's Agrify Insights™ cultivation software, process design, training, implementation, proven grow recipes, product formulations, data analytics, and consumer branding, which will enable the Company's customers to go to market faster and better.

During the quarter ended June 30, 2022, the Company established a reserve of approximately $7.1 million specifically related to Greenstone Holdings ("Greenstone"). The Company established the reserve based upon its review of Greenstone's financial stability, which would impact collectability, which is primarily the result of unfavorable market conditions within the Colorado market. The Company will continue to monitor the operations of Greenstone in an effort to collect all outstanding receivables but due to the uncertain nature of Greenstone's business at this time the Company has made the decision to place a reserve against the receivables. Greenstone is a related party as of June 30, 2022 and December 31, 2021.

The loan agreements entered into with customers receiving the TTK Solution generally provide for loans with maturity dates of approximately two to three years after the completion of the construction projects. Typically, the TTK Solution construction loans have interest rates ranging from 12% to 18% per year.

The breakdown of loans receivable by customer as of June 30, 2022 and December 31, 2021 is as follows:

| (In thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Company Customer Number 139 – TTK Solution | $ 14,730 | $ 5,542 |
| Greenstone – TTK Solution – Related Party | 12,457 | 11,177 |
| Company Customer Number 136 – TTK Solution | 8,691 | 2,439 |
| Company Customer Number 125 – TTK Solution | 4,809 | 1,105 |
| Company Customer Number 140 – TTK Solution | 46 | 46 |
| Company Customer Number 71 – Non-TTK Solution (1) | 1,401 | 1,946 |
| Other – Non-TTK Solutions | 35 | — |
| Greenstone – TTK Solution – Related Party – Allowance for doubtful accounts (2) | (7,079) | — |
| Total loan receivable | $ 35,090 | $ 22,255 |

(1) The current portion of loan receivable are included within Note 4 – Supplemental Condensed Consolidated Balance Sheet Information, included elsewhere in the notes to the condensed consolidated financial statements.

(2) The Greenstone allowance for doubtful accounts balance consisted of capital advances, accrued interest and VFUs sales. See below for more detailed information about the Greenstone TTK Solution transaction and the current reserve balance.

At this time, the Company is not aware of, nor has it identified any risk or potential performance failure associated with any of its other TTK Solution arrangements with the noted exception of the Greenstone TTK Solution, as described above.

The Company analyzed whether any of the above customers are a VIE in accordance with ASC 810 and if so, whether the Company is the primary beneficiary requiring consolidation. Based on the Company's analysis, the Company has determined that Greenstone is a VIE. As of June 30, 2022, two of the Company's employees own approximately 36.6% of the equity of Greenstone, however, since the Company is not the primary beneficiary and does not hold significant influence over Greenstone business decisions, the Company is not required to consolidate Greenstone.

**Note 7 — Inventory**

Inventories are stated at the lower of cost or net realizable value, with cost principally determined by the weighted-average cost method on a First-In, First-Out basis. Such costs include the acquisition cost for raw materials and operating supplies. The Company's standard payment terms with suppliers may require making payments in advance of delivery of the Company's products. The Company's prepaid inventory is a short-term, non-interest-bearing asset that is applied to the purchase of products once they are delivered.

Inventory consisted of the following as of June 30, 2022 and December 31, 2021:

| (In thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Raw materials | $ 16,405 | $ 6,393 |
| Prepaid inventory | 9,429 | 2,237 |
| Finished goods | 17,908 | 12,810 |
| Inventory, gross | 43,742 | 21,440 |
| Inventory reserves | (1,871) | (942) |
| Total inventory, net | $ 41,871 | $ 20,498 |

*Inventory Reserves*

The Company establishes an inventory reserve for obsolete, slow-moving, and defective inventory. The Company calculates inventory reserves for obsolete, slow-moving, or defective items as the difference between the cost of inventory and its estimated net realizable value. The reserves are based upon management's expected method of disposition.

Changes in the Company's inventory reserve are as follows:

| (In thousands) | Six Months ended June 30, 2022 | Year ended December 31, 2021 |
|---|---|---|
| Inventory reserves – beginning of period | $ 942 | $ — |
| Increase in inventory reserves | 929 | 942 |
| Inventory reserves – end of period | $ 1,871 | $ 942 |

**Note 8 — Intangible Assets, Net and Goodwill**

Intangible assets are initially recorded at fair value and tested periodically for impairment. Goodwill represents the excess of the purchase price over the fair value of identifiable tangible and intangible assets acquired and liabilities assumed in a business combination and is tested at least annually for impairment. The Company performs its goodwill impairment testing annually during the fourth quarter, or sooner if indicators or if circumstances were to occur that would more likely than not reduce the fair value of the Company's reporting unit below its carrying amount. The Company would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill.

The Company has concluded that there was an impairment triggering event during the three months ended June 30, 2022 that required the Company to perform a detailed analysis of the current carrying value of its goodwill and intangible assets. For intangible asset and goodwill impairment testing purposes, the Company has one reporting unit.

During the three-month period ended June 30, 2022, the Company's market capitalization fell below total net assets. In addition, financial performance continued to weaken during the quarter, which is contrary to prior experience. Management reassessed business performance expectations, following persistent adverse developments in equity markets, deterioration in the environment in which the Company operates, lower than expected sales, and an increase in operating expenses. These indicators, in the aggregate, required impairment testing for intangible assets and goodwill.

Based on the results of this testing, the Company determined that the carrying values of the aggregate value of its goodwill and intangible assets were not recoverable. The Company recorded impairment charges during the second quarter of 2022, representing a full impairment of the carrying value of its goodwill and intangible assets. The Company recorded an impairment charge of approximately $69.9 million, representing the carrying values of intangible assets and goodwill, which totaled $15.2 million and $54.7 million, respectively.

Goodwill consisted of the following:

| (In thousands) | Six Months ended June 30, 2022 | Year ended December 31, 2021 |
|---|---|---|
| Goodwill – beginning of period | $ 50,090 | $ 632 |
| Goodwill acquired during period | 4,368 | 49,458 |
| Goodwill impairment loss | (54,747) | — |
| Goodwill purchase accounting adjustment | 289 | — |
| Goodwill – end of period | $ — | $ 50,090 |

Intangible assets, net as of June 30, 2022 was as follows:

| | Intangible Assets, Gross | | | Accumulated Amortization and Impairment | | | Intangible Assets, Net | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | January 1, 2022 | Additions and Retirements, net | June 30, 2022 | January 1, 2022 | Expense and Retirements, net | June 30, 2022 | January 1, 2022 | June 30, 2022 |
| Trade names | $ 2,418 | $ 317 | $ 2,735 | $ (227) | $ (2,508) | $ (2,735) | $ 2,191 | $ — |
| Customer relationships | 6,176 | 713 | 6,889 | (302) | (6,587) | (6,889) | 5,874 | — |
| Acquired developed technology | 4,911 | 1,432 | 6,343 | (191) | (6,152) | (6,343) | 4,720 | — |
| Non-compete agreements | 1,202 | — | 1,202 | (60) | (1,142) | (1,202) | 1,142 | — |
| Capitalized website costs | 245 | — | 245 | (100) | (145) | (245) | 145 | — |
| Total intangible assets, net | $ 14,952 | $ 2,462 | $ 17,414 | $ (880) | $ (16,534) | $ (17,414) | $ 14,072 | $ — |

Intangible assets, net as of December 31, 2021 was as follows:

| | Intangible Assets, Gross | | | Accumulated Amortization | | | Intangible Assets, Net | |
|---|---|---|---|---|---|---|---|---|
| **(In thousands)** | **January 1, 2021** | **Additions and Retirements, net** | **December 31, 2021** | **January 1, 2021** | **Expense and Retirements, net** | **December 31, 2021** | **January 1, 2021** | **December 31, 2021** |
| Trade names | $ 930 | $ 1,488 | $ 2,418 | $ (88) | $ (139) | $ (227) | $ 842 | $ 2,191 |
| Customer relationships | 850 | 5,326 | 6,176 | (89) | (213) | (302) | 761 | 5,874 |
| Acquired developed technology | — | 4,911 | 4,911 | — | (191) | (191) | — | 4,720 |
| Non-compete agreements | — | 1,202 | 1,202 | — | (60) | (60) | — | 1,142 |
| Capitalized website costs | 139 | 106 | 245 | (48) | (52) | (100) | 91 | 145 |
| Total intangible assets, net | $ 1,919 | $ 13,033 | $ 14,952 | $ (225) | $ (655) | $ (880) | $ 1,694 | $ 14,072 |

Amortization expense recorded in general and administrative in the condensed consolidated statements of operations were $1.4 million and $57 thousand for the three months ended June 30, 2022 and 2021, respectively, and $703 thousand and $115 thousand for the six months ended June 30, 2022 and 2021, respectively.

**Note 9 — Business Combination**

**Acquisition of Lab Society**

On February 1, 2022, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Lab Society, a newly-formed wholly-owned subsidiary of the Company (“Merger Sub”), Michael S. Maibach Jr., as the Owner Representative thereunder, and each of the shareholders of Lab Society (collectively, the “Owners”), pursuant to which the Company agreed to acquire Lab Society. Concurrently with the execution of the Merger Agreement, the Company consummated the merger of Lab Society with and into Merger Sub, with Merger Sub surviving such merger as a wholly-owned subsidiary of the Company (the “Lab Society Acquisition”).

The aggregate consideration for the Lab Society Acquisition consisted of: (a) $4.0 million in cash, subject to certain adjustments for working capital, cash, and indebtedness of Lab Society at closing; (b) 2,128 shares of Common Stock (the “Buyer Shares”); and (c) the Earn-out Consideration (as defined below), to the extent earned.

The Company withheld 638 of the Buyer Shares issuable to the Owners (the “Holdback Lab Buyer Shares”) for the purpose of securing any post-closing adjustment owed to the Company and any claim for indemnification or payment of damages to which the Company may be entitled under the Merger Agreement. The Holdback Lab Buyer Shares will be released following the twelve-month anniversary of the Closing Date in accordance with and subject to the conditions of the Merger Agreement.

The Merger Agreement includes customary post-closing adjustments, representations and warranties, and covenants of the parties. The Owners may become entitled to additional consideration with a value of up to $3.5 million based on the eligible net revenues achieved by the Lab Society business during the fiscal years ending December 31, 2022 and December 31, 2023, of which 50% will be payable in cash and the remaining 50% will be payable by issuing shares of Common Stock. Additional information regarding the Company’s contingent consideration arrangements may be found in Note 5 – Fair Value Measures, included elsewhere in the notes to the condensed consolidated financial statements.

Transaction and related costs, consisting primarily of professional fees, directly related to the acquisition, totaled approximately $38 and $66 thousand for the three months and six months ended June 30, 2022, respectively. All transaction and related costs were expensed as incurred and are included in general and administrative expenses.

The Company has prepared purchase price allocations for the business combination with Lab Society on a preliminary basis. Changes to those allocations may occur as additional information becomes available during the respective measurement period (up to one year from the acquisition date).

The following table sets forth the components and the allocation of the purchase price for the business combination:

| (In thousands) | |
|---|---|
| **Purchase price consideration** | |
| Estimated closing proceeds | $ 4,002 |
| Transaction expenses | 80 |
| Closing buyer shares | 1,904 |
| Holdback buyer shares | 816 |
| Earn-out consideration | 1,420 |
| Estimated working capital adjustment | (255) |
| Fair value of total consideration transferred | 7,967 |
| Total purchase price, net of cash acquired | $ 7,402 |
| | |
| **Fair value allocation of purchase price** | |
| Cash and cash equivalents | $ 565 |
| Accounts receivable | 511 |
| Inventory | 2,130 |
| Prepaid expenses and other current receivables | 55 |
| Right-- of-use assets, net | 304 |
| Property and equipment, net | 177 |
| Prepaid and refundable taxes | 194 |
| Accounts payable, accrued expenses, and other current liabilities | (1,244) |
| Deferred revenue | (963) |
| Deferred tax liability | (237) |
| Finance lease liabilities, current | (36) |
| Finance lease liabilities, non-current | (35) |
| Operating lease liabilities, current | (112) |
| Operating lease liabilities, non-current | (192) |
| Acquired intangible assets | 2,462 |
| Goodwill | 4,388 |
| Total purchase price | $ 7,967 |

Identified intangible assets consist of trade names, technology, and customer relationships. The fair value of intangible assets and the determination of their respective useful lives were made in accordance with ASC 805 and are outlined in the table below:

| (In thousands) | | Asset Value | Useful Life |
|---|---|---|---|
| **Identified intangible assets** | | | |
| Trade names | $ | 317 | 5 years |
| Acquired developed technology | | 1,432 | 8 years |
| Customer relationships | | 713 | 6 years |
| Total identified intangible assets | $ | 2,462 | |

The Company's initial fair value estimates related to the various identified intangible assets of Lab Society were determined under various valuation approaches including the Income Approach, Relief-from-Royalty Method, and Discounted Cash Flow Method. These valuation methods require management to project revenues, operating expenses, working capital investment, capital spending, and cash flows for the reporting unit over a multiyear period, as well as determine the weighted-average cost of capital to be used as a discount rate.

During the three-month period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in the Company's stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, the Company deemed that there may be an impairment to the carrying value of its long-lived assets and accordingly performed interim testing to determine the proper fair value of its long-lived assets as of June 30, 2022. Based on its interim testing, the Company noted that the entire carrying value of its goodwill and intangible assets should be impaired. Additional information regarding the Company's interim testing on goodwill and intangible assets may be found in Note 8 – Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

The amount of revenue of Lab Society included in the condensed consolidated statement of operations from the acquisition date of February 1, 2022 to June 30, 2022 was $3.1 million.

**Acquisition of Precision and Cascade**

On September 29, 2021 (the "Execution Date"), the Company entered into a Plan of Merger and Equity Purchase Agreement, as amended by an amendment dated as of October 1, 2021 (as amended, the "Purchase Agreement"), with Sinclair Scientific, LLC, a Delaware limited liability company ("Sinclair"), Mass2Media, LLC, Precision, a Michigan limited liability company; and each of the equity holders of Sinclair named therein (collectively, the "Sinclair Members"). On October 1, 2021, the Company consummated the transactions contemplated by the Purchase Agreement.

Subject to the terms and conditions set forth in the Purchase Agreement, (1) Sinclair transferred, to the Company, and the Company purchased (the "Interest Purchase") from Sinclair, 100% of the equity interests of Cascade, a Delaware limited liability company, such that immediately after the consummation of such Interest Purchase, Cascade became a wholly-owned subsidiary of the Company, and (2) Precision merged (the "Merger") with and into a newly-formed wholly-owned subsidiary of the Company, Precision Extraction NewCo, LLC.

The aggregate consideration for the Interest Purchase and the Merger consisted of: (a) the sum of $30 million in cash, plus consideration payable to holders of outstanding Sinclair equity awards, subject to certain adjustments for working capital, cash and indebtedness, payable in connection with the Interest Purchase; (b) the number of shares of Common Stock, subject to adjustment, equal to the quotient of (i) $20.0 million divided by (ii) the volume weighted-average price per share of Common Stock on The Nasdaq Capital Market for the 30 consecutive trading days ending on the Execution Date (the "VWAP Price"), issuable in connection with the Merger; and (c) the True-Up Buyer Shares, if any (as defined below), issuable in connection with the Merger.

The Purchase Agreement includes customary post-closing adjustments, representations and warranties and covenants of the parties. The Sinclair Members may become entitled to additional shares of Common Stock (the "True-Up Buyer Shares") and cash (together with the True-Up Buyer Shares, the "Aggregate True-Up Payment) based on the eligible net revenues (as defined in the Purchase Agreement) achieved by the Cascade and Precision businesses during the fiscal year ending December 31, 2021. However, in no event shall the aggregate purchase price paid by the Company pursuant to the terms of the Purchase Agreement, taking into account any Aggregate True-Up Payment in favor of the Sinclair Members, exceed $65.0 million. As of June 30, 2022, the fair value of the contingent earn-out consideration totaled $5.6 million based on Sinclair Members achieving certain revenue targets. Additional information regarding the Company's contingent consideration arrangements may be found in Note 5 – Fair Value Measures and Note 20 – Subsequent Events, included elsewhere in the notes to the condensed consolidated financial statements.

Transaction and related costs, consisting primarily of professional fees, directly related to the acquisition, totaled approximately $25 thousand and $63 thousand for the three and six months ended June 30, 2022, respectively. All transaction and related costs were expensed as incurred and are included in selling, general and administrative expenses. The purchase price allocation for the business combination has been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available during the measurement period (up to one year from the acquisition date).

The following table sets forth the components and the allocation of the purchase price for the business combination:

| **(In thousands)** | | |
|---|---|---|
| **Purchase price consideration** | | |
| Cash paid to Sinclair Members at the close | $ | 23,000 |
| Cash contributed to escrow accounts at the close | | 7,000 |
| Cash paid for excess net working capital | | 1,430 |
| Stock issued at the close | | 14,535 |
| Fair value of contingent consideration to be achieved | | 3,953 |
| Fair value of total consideration transferred | | 49,918 |
| Total purchase price, net of cash acquired | $ | 48,630 |
| | | |
| **Fair value allocation of purchase price** | | |
| Cash and cash equivalents | $ | 1,288 |
| Accounts receivable | | 897 |
| Inventory | | 6,761 |
| Prepaid expenses and other current receivables | | 1,736 |
| Property and equipment, net | | 970 |
| Right-of-use assets, net | | 730 |
| Capitalized web costs, net | | 2 |
| Accounts payable and accrued expenses | | (9,223) |
| Deferred revenue | | (5,419) |
| Long-term debt | | (1,961) |
| Operating lease liabilities, current | | (392) |
| Operating lease liabilities, non-current | | (362) |
| Acquired intangible assets | | 9,889 |
| Goodwill | | 45,002 |
| Total purchase price | $ | 49,918 |

Identified intangible assets consist of trade names, technology, non-compete agreements, and customer relationships. The fair value of intangible assets and the determination of their respective useful lives were made in accordance with ASC 805 and are outlined in the table below:

| (In thousands) | | Asset Value | Useful Life |
|---|---|---|---|
| **Identified intangible assets** | | | |
| Trade names | $ | 1,260 | 6 to 7 years |
| Acquired developed technology | | 3,818 | 5 years |
| Non-compete agreements | | 1,202 | 5 years |
| Customer relationships | | 3,609 | 7 to 8 years |
| Total identified intangible assets | $ | 9,889 | |

The Company's initial fair value estimates related to the various identified intangible assets were determined under various valuation approaches including the Income Approach, Relief-from-Royalty Method, and Discounted Cash Flow Method. These valuation methods require management to project revenues, operating expenses, working capital investment, capital spending and cash flows for the reporting unit over a multiyear period, as well as determine the weighted-average cost of capital to be used as a discount rate.

During the three-month period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in the Company's stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, the Company deemed that there may be an impairment to the carrying value of its long-lived assets and accordingly performed interim testing to determine the proper fair value of its long-lived assets as of June 30, 2022. Based on its interim testing, the Company noted that the entire carrying value of its goodwill and intangible assets should be impaired. Additional information regarding the Company's interim testing on goodwill and intangible assets may be found in Note 8 – Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

**Acquisition of PurePressure**

On December 31, 2021, the Company entered into a Membership Interest Purchase Agreement (the "Pure Purchase Agreement") with PurePressure, LLC, a Colorado Limited liability company ("PurePressure"), and the members of PurePressure (collectively, the "Members"), Benjamin Britton as the Member Representative thereunder, and each of the Members. Concurrently with the execution of the Pure Purchase Agreement, the Company consummated the acquisition of all the outstanding equity interests of PurePressure, such that immediately after the consummation of such purchase, PurePressure became a wholly-owned subsidiary of the Company (the "Acquisition").

The aggregate consideration for the Acquisition consisted of: (a) $4.0 million in cash, subject to certain adjustments for working capital, cash and indebtedness of PurePressure at closing; (b) 1,646 shares of Common Stock (the "Buyer Shares"); and (c) the Earn-out Consideration (as defined below), to the extent earned.

The Company withheld 444 of the Buyer Shares issuable to certain Members (the "Holdback Buyer Shares") for the purpose of securing any post-closing adjustment owed to the Company and any claim for indemnification or payment of damages to which the Company may be entitled under the Pure Purchase Agreement. The Holdback Buyer Shares will be released following the twelve-month anniversary of the Closing Date in accordance with and subject to the conditions of the Pure Purchase Agreement.

The Pure Purchase Agreement includes customary post-closing adjustments, representations and warranties and covenants of the parties. The Members may become entitled to additional consideration with a value of up to $3.0 million based on the eligible net revenues achieved by the PurePressure business during the fiscal years ending December 31, 2022 and December 31, 2023, of which 40% will be payable in cash and the remaining 60% will be payable by issuing shares of Common Stock (collectively, the "Earn-out Consideration"). Additional information regarding the Company's contingent consideration arrangements may be found in Note 5 – Fair Value Measures, included elsewhere in the notes to the condensed consolidated financial statements.

Subject to certain customary limitations, (i) the Members will indemnify the Company and its affiliates, officers, directors and other agents against certain losses related to, among other things, breaches of the Members' and PurePressure's representations and warranties, indebtedness, transaction expenses, pre-closing taxes and the failure to perform covenants or obligations under the Pure Purchase Agreement, and (ii) the Company will indemnify the Members and their respective affiliates, officers, directors and other agents against certain losses related to, among other things, breaches of the Company's representations and warranties and the failure to perform covenants or obligations under the Pure Purchase Agreement.

Transaction and related costs, consisting primarily of professional fees, directly related to the acquisition, totaled approximately $1 thousand and $563 thousand for the three and six months ended June 30, 2022, respectively. All transaction and related costs were expensed as incurred and are included in general and administrative expenses.

The purchase price allocation for the business combination has been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available during the respective measurement period (up to one year from the acquisition date).

The following table sets forth the components and the allocation of the purchase price for the business combination:

| **(In thousands)** | | |
|---|---|---|
| **Purchase price consideration** | | |
| Estimated closing proceeds | $ | 3,613 |
| Indebtedness paid | | 320 |
| Transaction expenses | | 115 |
| Closing buyer shares | | 2,211 |
| Holdback buyer shares | | 654 |
| Earn-out consideration | | 707 |
| Estimated working capital adjustments | | 330 |
| Fair value of total consideration transferred | | 7,950 |
| Total purchase price, net of cash acquired | $ | 7,647 |
| | | |
| **Fair value allocation of purchase price** | | |
| Cash and cash equivalents | $ | 303 |
| Accounts receivable, net | | 48 |
| Inventory | | 1,537 |
| Property and equipment, net | | 219 |
| Right-of-use assets, net | | 191 |
| Prepaid expenses and other current receivables | | 61 |
| Other non-current assets | | 16 |
| Accounts payable and accrued expenses | | (765) |
| Deferred revenue | | (762) |
| Operating lease liabilities, current | | (117) |
| Operating lease liabilities, non-current | | (74) |
| Finance lease liabilities, current | | (4) |
| Finance lease liabilities, non-current | | (10) |
| Notes payable, current | | (260) |
| Notes payable, non-current | | (12) |
| Acquired intangible assets | | 3,037 |
| Goodwill | | 4,542 |
| Total purchase price | $ | 7,950 |

Identified intangible assets consist of trade names, technology, and customer relationships. The fair value of intangible assets and the determination of their respective useful lives were made in accordance with ASC 805 and are outlined in the table below:

| (In thousands) | Asset Value | Useful Life |
|---|---|---|
| **Identified intangible assets** | | |
| Trade name | $ 227 | 5 years |
| Acquired developed technology | 1,093 | 8 years |
| Customer relationships | 1,717 | 5 years |
| Total identified intangible assets | $ 3,037 | |

During the three-month period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in the Company's stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, the Company deemed that there may be an impairment to the carrying value of its long-lived assets and accordingly performed interim testing to determine the proper fair value of its long-lived assets as of June 30, 2022. Based on its interim testing, the Company noted that the entire carrying value of its goodwill and intangible assets should be impaired. Additional information regarding the Company's interim testing on goodwill and intangible assets may be found in Note 8 – Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

**Note 10 – Debt**

The Company's debt consisted of:

| | June 30, 2022 (As Restated) | December 31, 2021 |
|---|---|---|
| Note payable – SPA Note | $ 65,000 | $ — |
| PPP Loan | 779 | 804 |
| Navitas Loan | 32 | — |
| Other notes payable (1) | 848 | 297 |
| Total debt | 66,659 | 1,101 |
| Less: unamortized debt discount | (26,792) | — |
| Total debt, net of debt discount | 39,867 | 1,101 |
| Less: current portion, net of current unamortized debt discount | (4,079) | (1,089) |
| Long-term debt | $ 35,788 | $ 12 |

(1) Other notes payable relate to a one-year insurance premium that was financed over nine months.

***Note Payable***

***Securities Purchase Agreement***

On March 14, 2022, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with an accredited investor (the "Investor"), pursuant to which the Company agreed to issue and sell to the Investor, in a private placement transaction, in exchange for the payment by the Investor of $65 million, less applicable expenses, as set forth in the Securities Purchase Agreement, (i) a SPA Note in an aggregate principal amount of $65 million, and (ii) a warrant (the "SPA Warrant") to purchase up to an aggregate of 34,406 shares of Common Stock.

The SPA Note is a senior secured obligation of the Company and ranks senior to all indebtedness of the Company. The Company will be required to make amortization payments equal to 4.0% of the original principal amount of the SPA Note on the first day of each calendar month starting on February 1, 2023 and extending through the maturity date of March 1, 2026 (the "Maturity Date"), at which time all remaining outstanding principal and accrued but unpaid interest will be due. The SPA Note has a stated interest rate of 6.75% per year, and the Company is required to pay interest on March 1, June 1, September 1, and December 1 of each calendar year through the Maturity Date. Following the one-year anniversary of the SPA Note's issuance, the Company may, in lieu of paying interest in cash, pay such interest in kind, in which case interest on the SPA Note will be calculated at the rate of 8.75% per year and will be added to the principal amount of the SPA Note.

At any time following the one-year anniversary of the SPA Note's issuance, the Company may prepay all (but not less than all) of the SPA Note by redemption at a price equal to 106.75% of the then-outstanding principal amount under the SPA Note, plus accrued but unpaid interest. The Investor will also have the option of requiring the Company to redeem the SPA Note if the Company undergoes a fundamental change at a price equal to 107% of the then-outstanding principal amount under the SPA Note, plus any accrued interest.

The Securities Purchase Agreement provides for up to two additional closings subject to certain conditions set forth in the Securities Purchase Agreement and on substantially the same terms as the initial closing. Each subsequent closing would result in the issuance of a senior secured note with an original principal amount of $35.0 million and warrants to purchase shares of Common Stock for up to 65% of such principal amount divided by the closing price of Common Stock on the trading day immediately prior to such subsequent closing.

The SPA Note imposes certain customary affirmative and negative covenants upon the Company, as well as covenants that (i) restrict the Company and its subsidiaries from incurring any additional indebtedness or suffering any liens, subject to specified exceptions, (ii) restrict the ability of the Company and its subsidiaries from making certain investments, subject to specified exceptions, (iii) restrict the declaration of any dividends or other distributions, subject to specified exceptions, (iv) require the Company to maintain specified earnings and adjusted EBITDA targets, and (v) require the Company to maintain minimum amounts of cash on hand. If an event of default under the SPA Note occurs, the Investor can elect to redeem the SPA Note for cash equal to 115% of the then-outstanding principal amount of the SPA Note (or such lesser principal amount accelerated by the Investor), plus accrued and unpaid interest, including default interest, which accrues at a rate per year equal to 15% from the date of a default or event of default.

For the quarter ending June 30, 2022, the Company is in default of certain of financial debt covenants associated with its SPA Note. As a result of this default, the lender would have the ability to call the balance of the note, along with a 115% penalty, amounting to a total repayment obligation of approximately $75.0 million ($65.0 million in principal and $9.8 million of default penalty), plus increase the interest due on the outstanding unpaid balance(s) from 6.75% to 15%. All amounts due would immediately become a current liability in the event the lender were to call the note. If the lender were to call the debt instrument due to the default, the Company would not have sufficient cash on hand as of June 30, 2022 to pay off the existing debt and default penalty amounts. As of June 30, 2022, cash, restricted cash, cash equivalents, and marketable securities were approximately $59.9 million, which would be insufficient to cover the combined amount of debt liability, including the default penalty amount.

Subsequent to the end of the second quarter of 2022, the Company reached an agreement in principle with its institutional lender to amend its existing SPA Note and to modify certain financial covenants which, once complete, should give the Company additional flexibility to operate and meet its long-term strategic goals while also allowing it to responsibly adjust to the many challenges currently facing the cannabis industry.

Until the date the SPA Note is fully repaid, the Investor has, subject to certain exceptions, the right to participate for up to 30% of any debt, Preferred Stock, or equity-linked financing of the Company or its subsidiaries.

Each SPA Warrant issued in the initial closing has an exercise price of $1,350.00 per share, subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions, is immediately exercisable, and has a term of five and one-half years from the date of issuance and is exercisable on a cash basis, unless there is not an effective registration statement covering the resale of the shares issuable upon exercise of the SPA Warrant (the "SPA Warrant Shares"), in which case the SPA Warrant is also exercisable on a cashless exercise basis at the Investor's election. The Securities Purchase Agreement requires the Company to file resale registration statements with respect to the SPA Warrant Shares as soon as practicable and in any event within 45 days following the initial closing and any subsequent closings.

The SPA Warrant provides that in no event will the number of shares of Common Stock issued upon exercise of the SPA Warrant result in the Investor's beneficial ownership exceeding 4.99% of the Company's shares outstanding at the time of exercise (which percentage may be decreased or increased by the Investor, but to no greater than 9.99%, and provided that any increase above 4.99% will not be effective until the sixty-first day after notice of such request by the Investor to increase its beneficial ownership limit has been delivered to the Company).

The Securities Purchase Agreement also contains customary representations and warranties of the Company and the Investor. There is no material relationship between the Company or its affiliates and the Investor other than in respect of the Securities Purchase Agreement, the SPA Note and the SPA Warrant.

The following table provides a breakdown of the SPA Note balances as of June 30, 2022:

| (In thousands) | Balance at January 1, 2022 | Additions | Payments | Amortization of Debt Discount | Balance at June 30, 2022 |
|---|---|---|---|---|---|
| Accrued interest expense | $ — | (1,195) | 829 | — | $ (366) |
| | | | | | |
| Principal | $ — | $ 65,000 | $ — | $ — | $ 65,000 |
| Notes payable, discount | — | (32,196) | — | 2,984 | (29,212) |
| Net carrying amount | $ — | $ 32,804 | $ — | $ 2,984 | $ 35,788 |

The following table summarizes the short-term and long-term portions of the SPA Note as of June 30, 2022:

| (In thousands) | Short-Term | Long-Term | Notes Payable, Net |
|---|---|---|---|
| Principal | $ 13,000 | $ 52,000 | $ 65,000 |
| Unamortized discount | (10,953) | (18,259) | (29,212) |
| Net carrying amount | $ 2,047 | $ 33,741 | $ 35,788 |

As of June 30, 2022, future minimum principal payments of the SPA Note were as follows:

| Years ending December 31 (In thousands), | |
|---|---|
| Remaining 2022 | $ — |
| 2023 | 28,600 |
| 2024 | 31,200 |
| 2025 | 5,200 |
| 2026 and thereafter | — |
| Total future payments | $ 65,000 |

**Paycheck Protection Program Loan**

***Paycheck Protection Program Loans under the Coronavirus Aid, Relief, and Economic Security Act***

In May 2020, the Company entered into a PPP Loan with Bank of America pursuant to the PPP under the CARES Act administered by the SBA.

The Company received total proceeds of approximately $779 thousand from the unsecured PPP Loan, which was originally scheduled to mature on May 7, 2022. The Company's submission to have the remaining $779 thousand PPP Loan forgiven was denied by the SBA. On June 23, 2022, the Company received a letter from Bank of America agreeing to extend the maturity date to May 7, 2025 and bears interest at a rate of 1.00% per year. The PPP loan is payable in 34 equal combined monthly principal and interest payments of approximately $24 thousand commencing August 7, 2022.

The breakdown of PPP Loan balances by current and non-current as of June 30, 2022 and December 31, 2021 were as follows:

| (In thousands) | Balance Sheet Location | June 30, 2022 | December 31, 2021 |
|---|---|---|---|
| PPP Loan, current | Long-term debt, current | $ 255 | $ 792 |
| PPP Loan, non-current | Long-term debt | 524 | 12 |
| Total PPP Loan outstanding | | $ 779 | $ 804 |

***PurePressure SBA Debt***

As part of the acquisition of PurePressure, $159 thousand of debt remained outstanding from a standard SBA loan as of December 31, 2021. This debt has subsequently been paid as a part of the PurePressure acquisition.

**Note 11 — Leases**

***Leases***

The determination if any arrangement contained a lease at its inception was done based on whether or not the Company has the right to control the asset during the contract period. The lease term was determined assuming the exercise of options that were reasonably certain to occur. Leases with a lease term of 12 months or less at inception were not reflected in the Company's balance sheet and those lease costs are expensed on a straight-line basis over the respective term. Leases with a term greater than 12 months were reflected as non-current right-of-use assets and current and non-current lease liabilities in the Company's condensed consolidated balance sheets.

As the implicit interest rate in its leases was generally not known, the Company's used its incremental borrowing rate as the discount rate for purposes of determining the present value of its lease liabilities. At June 30, 2022 and December 31, 2021, the Company's weighted-average discount rate utilized for its leases was 7.35% and 7.16%, respectively.

When a contract contained lease and non-lease elements, both were accounted as a single lease component.

The Company had several non-cancelable finance leases for machinery and equipment. The Company's finance leases have remaining lease terms of one year to five years.

The Company had several non-cancelable operating leases for corporate offices, warehouses, showrooms, research and development facilities and vehicles. The Company's leases have remaining lease terms of one year to five years, some of which include options to extend. Some leases include payment for common area maintenance associated with the property.

Additional information on the Company's operating and financing lease activity is as follows:

| (In thousands) | Three Months ended June 30, 2022 | Three Months ended June 30, 2021 | Six Months ended June 30, 2022 | Six Months ended June 30, 2021 |
|---|---|---|---|---|
| Operating lease cost | $ 291 | $ 70 | $ 536 | $ 84 |
| Finance lease cost: | | | | |
| Amortization of right-of-use assets | 46 | 45 | 94 | 90 |
| Interest on lease liabilities | 9 | 11 | 18 | 22 |
| Total lease cost | $ 346 | $ 126 | $ 648 | $ 196 |

| (In thousands) | Balance Sheet Location | June 30, 2022 | December 31, 2021 |
|---|---|---|---|
| **Assets** | | | |
| Right-of-use assets, net | Right-of-use, net | $ 2,866 | $ 1,479 |
| Finance lease assets | Property and equipment, net | 344 | 380 |
| Total lease assets | | $ 3,210 | $ 1,859 |
| | | | |
| **Liabilities** | | | |
| Current: | | | |
| Operating | Operating lease liabilities, current | $ 1,084 | $ 814 |
| Financing | Accrued expenses and other current liabilities | 166 | 156 |
| Non-current: | | | |
| Operating | Operating lease liabilities, non-current | 1,908 | 704 |
| Financing | Other non-current liabilities | 236 | 293 |
| Total lease liabilities | | $ 3,394 | $ 1,967 |
| Weighted-average remaining lease term – operating leases | | 3.64 years | 3.11 years |
| Weighted-average remaining lease term – finance leases | | 2.60 years | 2.36 years |
| Weighted-average discount rate – operating leases | | 6.72% | 8.03% |
| Weighted-average discount rate – finance leases | | 7.97% | 6.29% |

Maturities of operating and finance lease liabilities as of June 30, 2022 are as follows:

| Years ending December 31 (In thousands), | Operating Lease | Finance Lease |
|---|---|---|
| Remaining 2022 | $ 649 | $ 89 |
| 2023 | 971 | 199 |
| 2024 | 614 | 97 |
| 2025 | 493 | 51 |
| 2026 | 461 | 11 |
| Thereafter | 200 | — |
| Total minimum lease payments | 3,388 | 447 |
| Less imputed interest | (396) | (45) |
| Total lease liabilities | $ 2,992 | $ 402 |

**Note 12 — Convertible Promissory Notes**

On January 11, 2021, the Company's Board of Directors and shareholders approved the amendment to the conversion formula of the Convertible Promissory Notes (the "Convertible Notes") issued by the Company on dates between August 2020 and November 2020. Pursuant to the amendment, immediately prior to the consummation of a public transaction, the outstanding principal amount of the Convertible Notes, together with all accrued and unpaid interest, shall convert into a number of fully paid and non-assessable shares of Common Stock, at a conversion price of $1,544.00.

While the original conversion feature was bifurcated from the host instrument, the Company determined that the amended conversion feature would not require bifurcation. Since the accounting for the conversion feature changed because of the amendment, the Company applied extinguishment accounting pursuant to its accounting policy.

Accordingly, the Company recognized a gain on extinguishment of $2.7 million in connection with the derecognition of the net carrying amount of the extinguished debt of $19.6 million (inclusive of $13.1 million of principal, $7.1 million of derivative liabilities, less $587 thousand of debt discount) and the recognition of the $16.9 million fair value of the new convertible notes (including the same principal amount of $13.1 million plus the $3.8 million fair value of the beneficial conversion feature).

On February 1, 2021, in conjunction with the closing of the Company's IPO, the Convertible Notes in the aggregate principal amount of $13.1 million were converted into 8,485 shares of Common Stock at the election of the Company at a conversion price of $1,544.00 per share.

**Note 13 — Stockholders' Equity**

On January 9, 2020, the Company increased its authorized number of shares of Common Stock to 265,000, consisting of: 250,000 shares of Common Stock, and 3,000,000 shares of Preferred Stock. Additional information regarding the Company's amendment to the Articles of Incorporation may be found in Note 20–- Subsequent Events, included elsewhere in the notes to the condensed consolidated financial statements. On January 9, 2020, the Company designated 100,000 shares of the 3,000,000 authorized shares of Preferred Stock, as Series A Convertible Preferred Stock ("Series A Preferred Stock").

***Series A Convertible Preferred Stock***

Beginning in the first quarter of 2020, the Company issued an aggregate of 60,000 shares of Series A Preferred Stock, for an aggregate purchase price of $6.0 million. In May 2020, the Company completed an offering of Series A Preferred Stock with the issuance of an additional 40,000 shares of Series A Preferred Stock for an aggregate purchase price of $4.0 million.

**Amendment of Conversion Formulas**

On January 11, 2021, the Company's Board of Directors approved the amendment to the conversion formula of the Series A Preferred Stock and Convertible Notes. After the amendment:

1. the Series A Preferred Stock is convertible, at any time after the issuance or immediately prior to the closing of a public transaction, into Common Stock in an amount of shares equal to (i) the product of the Series A Preferred Stock original price plus accrued but unpaid dividends on the shares being converted, multiplied by the number of shares of Series A Preferred Stock being converted, divided by (ii) a conversion price of $7.72 per share (after the reverse split taking effect); and

2. immediately prior to the consummation of a public transaction, the outstanding principal amount of the Convertible Notes together with all accrued and unpaid interest shall convert into a number of fully paid and non-assessable shares of Common Stock equal to the quotient of (i) the outstanding principal amount of the Convertible Notes together with all accrued and unpaid interest thereunder immediately prior to such public transaction divided by (ii) a conversion price of $7.72 (after the reverse split taking effect).

On January 11, 2021, the Company's shareholders approved the amendment to the Series A Preferred Stock.

**Initial Public Offering**

On February 1, 2021, the Company completed an IPO for the sale of 27,000 shares of Common Stock at a price of $2,000.00 per share. The Company also granted the underwriters: (a) a 45-day option to purchase up to 4,050 additional shares of Common Stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the IPO, and (b) warrants to purchase 810 shares of Common Stock (equal to 3% of the aggregate number of shares of Common Stock issued in the IPO) at an exercise price of $2,500.00 per share (which is equal to 125% of the IPO price). Subsequently, the underwriters exercised the over-allotment option, and on February 4, 2021, the Company closed on the sale of an additional 4,050 shares of Common Stock for a price of $2,000.00 per share and granted to the underwriters warrants to purchase 121 additional shares of Common Stock (equal to 3% of the amount of shares issued as part of the exercised of the over-allotment option) at an exercise price of $2,500.00 per share. The exercise of the over-allotment option brought the total number of shares of Common Stock sold by the Company in connection with the IPO to 31,050 shares and the total net proceeds received in connection with the IPO to approximately $57.0 million, after deducting underwriting discounts and estimated offering expenses.

Immediately prior to the closing of the Company's IPO, all outstanding shares of Series A Preferred Stock and Convertible Notes were converted into 6,865 shares of Common Stock and 8,485 shares of Common Stock, respectively, at a conversion price of $1,544.00 per share.

**Subsequent Public Offering**

On February 19, 2021, the Company consummated a secondary public offering (the "February Offering") for the sale of 27,778 shares of Common Stock for a price of $2,700.00 per share. The Company also granted the underwriters: (a) a 45-day option to purchase up to 4,167 additional shares of Common Stock on the same terms and conditions for the purpose of covering any over-allotments in connection with the February Offering, and (b) warrants to purchase 833 shares of Common Stock (equal to 3% of the aggregate number of shares of Common Stock issued in the February Offering) at an exercise price of $3,375.00 per share (which is equal to 125% of the February Offering). Subsequently, the underwriters exercised the over-allotment option, and on March 22, 2021, the Company closed on the sale of an additional 4,167 shares of Common Stock for a price of $2,700.00 per share and granted to the underwriters warrants to purchase 125 additional shares of Common Stock (equal to 3% of the amount of shares issued as part of the exercised of the over-allotment option) at an exercise price of $3,375 per share. The exercise of the over-allotment option brought the total number of shares of Common Stock sold by the Company in connection with the February Offering to 31,944 shares and the total net proceeds received in connection with the February Offering to approximately $80.0 million, after deducting underwriting discounts and estimated offering expenses.

**Private Placement**

On January 25, 2022, the Company entered into a Securities Purchase Agreement (the "Securities Agreement") with an institutional investor and other accredited investors for the sale by the Company of (i) 12,252 shares (the "SA Shares") of Common Stock, (ii) pre-funded warrants (the "Pre-Funded Warrants") to purchase up to an aggregate of 7,853 shares of Common Stock and (iii) warrants to purchase up to an aggregate of 15,079 shares of Common Stock (the "Common Warrants" and, collectively with the Pre-Funded Warrants, the "SA Warrants"), in a private placement offering. The combined purchase price for one share of Common Stock (or one Pre-Funded Warrant) and accompanying fraction of a Common Warrant was $1,360.

Subject to certain ownership limitations, the SA Warrants are exercisable six months from issuance. Each Pre-Funded Warrant was exercisable into one share of Common Stock at a price per share of $0.00001 (as adjusted from time to time in accordance with the terms thereof). Each Common Warrant is exercisable into one share of Common Stock at a price per share of $1,496 (as adjusted from time to time in accordance with the terms thereof) and will expire on the fifth anniversary of the initial exercise date. The institutional investor that received the Pre-Funded Warrants fully exercised such warrants in March 2022.

Raymond Chang, Chairman and Chief Executive Officer of the Company, and Stuart Wilcox, who is currently our Chief Operating Officer, and at the time was a member of the Company's Board of Directors, participated in the private placement on essentially the same terms as other investors, except for having a combined purchase price of $1,380.00 per share.

The gross proceeds to the Company from the private placement were approximately $27.3 million, before deducting the placement agent's fees and other offering expenses, and excluding the proceeds, if any, from the exercise of the SA Warrants.

**Issuance of Common Stock in Connection with Acquisitions**

On October 1, 2021, the Company issued an aggregate of 3,332 shares of its Common Stock to the Precision and Cascade shareholders in connection with the Company's acquisition of Precision and Cascade. Refer to Note 9 – Business Combinations, included elsewhere in the notes to the condensed consolidated financial statements.

On December 31, 2021, the Company issued an aggregate of 1,202 shares of its Common Stock to the PurePressure shareholders in connection with the Company's acquisition of PurePressure. Refer to Note 9 – Business Combinations, included elsewhere in the notes to the condensed consolidated financial statements.

On February 1, 2022, the Company issued an aggregate of 1,491 shares of its Common Stock to the Lab Society shareholders in connection with the Company's acquisition of Lab Society. Refer to Note 9 – Business Combinations, included elsewhere in the notes to the condensed consolidated financial statements.

**Note 14 — Stock-Based Compensation and Employee Benefit Plans**

**2022 Omnibus Equity Incentive Plan**

On April 29, 2022, the Company's Board of Directors, and on June 8, 2022, the Company's stockholders, adopted and approved the 2022 Omnibus Equity Incentive Plan (the "2022 Plan"), which replaced the 2020 Stock Option Plan (the "2020 Plan"). The 2022 Plan provides for the grant of stock options, stock appreciation right awards, performance share awards, restricted stock awards, restricted stock unit awards, other stock-based awards and cash-based awards. The aggregate number of shares of Common Stock that may be reserved and available for grant and issuance under the 2022 Plan is 26,483 shares, which includes the 10,000 shares authorized under the 2022 Plan, plus the rollover of 16,483 issued and outstanding awards under the 2020 Plan. Shares will be deemed to have been issued under the 2022 Plan solely to the extent actually issued and delivered pursuant to an award. If any award granted under the 2020 Plan or the 2022 Plan expires, is canceled, or terminates unexercised or is forfeited, the number of shares subject thereto is again available for grant under the 2022 Plan. The 2022 Plan shall continue in effect, unless sooner terminated, until the tenth anniversary of the date on which it is adopted by the Board of Directors.

***Stock-based Compensation***

The Company's stock option compensation expense was $940 thousand and $931 thousand for the three months ended June 30, 2022 and 2021, respectively, and $1.9 million and $3.1 million for the six months ended June 30, 2022 and 2021, respectively. There was $3.4 million of total unrecognized compensation cost related to unvested options granted under the Company's options plans as of June 30, 2022. This stock option expense will be recognized through 2025.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. This model incorporates certain assumptions for inputs including a risk-free market interest rate, expected dividend yield of the underlying Common Stock, expected option life, and expected volatility in the market value of the underlying Common Stock. No stock options were granted during the six months ended June 30, 2022.

The following table summarizes the Company's assumptions used in the valuation of options granted during the year ended December 31, 2021:

| | |
|---|---|
| Volatility | 40% |
| Risk-free interest rate | 1.10% – 1.63% |
| Dividend yield | 0.00% |
| 0% Expected life (years) | 10 |
| Forfeiture rate | 0.00% |

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options and warrants have characteristics different from those of its traded stock, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of such stock options. The risk-free interest rate is based upon quoted market yields for United States Treasury debt securities with a term similar to the expected term. The expected dividend yield is based upon the Company's history of having never issued a dividend and management's current expectation of future action surrounding dividends. The Company calculates the expected volatility of the stock price based on the corresponding volatility of the Company's peer group stock price for a period consistent with the underlying instrument's expected term. The expected lives for such grants were based on the simplified method for employees and directors.

In arriving at stock-based compensation expense, the Company estimates the number of stock-based awards that will be forfeited due to employee turnover. The Company's forfeiture assumption is based primarily on its employee turnover historical experience. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the Company's financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to expense recognized in the Company's financial statements. The expense the Company recognizes in future periods will be affected by changes in the estimated forfeiture rate and may differ significantly from amounts recognized in the current period.

***Stock Option Activity***

As of June 30, 2022, there were 10,029 shares of Common Stock available to be granted under the Company's 2022 Plan.

The following table presents option activity under the Company's stock option plans for the six months ended June 30, 2022 and the year ended December 31, 2021:

| **(In thousands, except share and per share data)** | **Number of Options** | **Weighted-Average Exercise Price** | **Aggregate Intrinsic Value** |
|---|---|---|---|
| Options outstanding at December 31, 2020 | 15,666 | $ 702.00 | $ — |
| Granted | 7,600 | 2,426.00 | |
| Exercised | (3,288) | 646.00 | |
| Forfeited | (2,151) | 796.00 | |
| Canceled | (5) | 886.00 | |
| Options outstanding at December 31, 2021 | 17,822 | 1,436.00 | $ 62.86 |
| Granted | — | — | |
| Exercised | (43) | 458.00 | |
| Forfeited | (759) | 1,362.00 | |
| Canceled | (565) | 2,330.00 | |
| Options outstanding at June 30, 2022 | 16,455 | $ 1,410.00 | $ — |
| | | | |
| Options vested and exercisable as of June 30, 2022 | 11,384 | $ 1,152.00 | |
| Options vested and expected to vest as of June 30, 2022 | 15,795 | $ 1,386.00 | |

***2022 Employee Stock Purchase Plan***

On April 29, 2022, the Company's Board of Directors, and on June 8, 2022, the Company's stockholders, adopted and approved the 2022 Employee Stock Purchase Plan (““ESPP””). The Company has initially reserved 2,500 shares of Common Stock for issuance under the ESPP. On June 30, 2022, 2,500 shares were available for future issuance.

Under the ESPP, eligible employees are granted options to purchase shares of Common Stock at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares are granted twice yearly on or about August 1 and February 1 and are exercisable on or about the succeeding January 31 and July 31, respectively, of each year. No participant may purchase more than $25,000 worth of Common Stock annually. No Common Stock was granted under the 2022 ESPP during the six months ended June 30, 2022.

**Employee Benefit Plan**

The Company maintains an employee's savings and retirement plan under Section 401(k) of the Internal Revenue Code (the "401k Plan"). All full-time U.S. employees become eligible to participate in the 401k Plan. The Company's contribution to the 401k Plan is discretionary. During the three and six months ended June 30, 2022 and 2021, the Company did not contribute to the 401k Plan.

**Note 15 — Stock Warrants**

The following table presents all warrant activity of the Company for the six months ended June 30, 2022 and the year ended December 31, 2021:

| | Number of Warrants | Weighted-Average Exercise Price |
|---|---|---|
| Warrants outstanding at December 31, 2020 | 4,140 | $ 4.00 |
| Granted | 1,890 | 4.00 |
| Exercised | (4,672) | 4.00 |
| Warrants outstanding at December 31, 2021 | 1,358 | 4.00 |
| Granted | 57,339 | 1,204.00 |
| Exercised | (8,138) | 4.00 |
| Warrants outstanding at June 30, 2022 | 50,559 | $ 1,364.00 |

The Company received proceeds from the exercise of warrants of less than $1 thousand for both the three months ended June 30, 2022 and June 30, 2021, and $2 thousand and $5 thousand for the six months ended June 30, 2022 and 2021, respectively.

**Note 16 — Income Taxes**

The Company's effective income tax rate was 0.1% and 0.0% for the three months ended June 30, 2022 and 2021, respectively. The income tax benefit was $(62) thousand and $0 for the three months ended June 30, 2022 and 2021, respectively. The difference between the Company's effective tax rates for the 2022 and 2021 periods and the U.S. statutory tax rate of 21% was primarily due to a valuation allowance recorded against certain deferred tax assets. The change in income tax benefit for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 was primarily due to a goodwill impairment charge recorded during the second quarter of 2022 which resulted in a $(62) thousand benefit related to the reversal of the Company's deferred tax liability on indefinite-lived assets.

The Company's effective income tax rate was 0.3% and 0.0% for the six months ended June 30, 2022 and 2021, respectively. The income tax benefit was $(262) thousand and $0 for the six months ended June 30, 2022 and 2021, respectively. The difference between the Company's effective tax rates for the 2022 and 2021 periods and the U.S. statutory tax rate of 21% was primarily due to a valuation allowance recorded against certain deferred tax assets. The change in the income tax benefit for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 was primarily due to a discrete income tax benefit of $(200) thousand recorded during the first quarter of 2022, which is attributable to a non-recurring partial release of the Company's U.S. valuation allowance as a result of the Lab Society acquisition. Additionally, as a result of the goodwill impairment charge recorded during the second quarter of 2022, the Company recognized a small benefit related to the reversal of its opening deferred tax liability on indefinite-lived assets.

**Note 17 — Net Loss Per Share**

Net income (loss) per share calculations for all periods have been adjusted to reflect the Company's Reverse Stock Split. Net income (loss) per share was calculated based on the weighted-average number of its Common Stock then outstanding.

Basic net income (loss) per share is calculated using the weighted-average number of Common Stock outstanding during the periods. Net income (loss) per share, assuming dilution, is calculated using the weighted-average number of common shares outstanding and the dilutive effect of all potentially dilutive securities, including Common Stock equivalents and convertible securities. For periods during which the Company recorded a net loss, diluted net income (loss) per share is equal to basic net income loss per share because the effect of dilutive securities outstanding during the periods, including options and warrants computed using the treasury stock method, is anti-dilutive.

The components of basic and diluted net income (loss) per share were as follows:

| (In thousands, except share and per share data) | Three Months ended June 30, 2022 | Three Months ended June 30, 2021 | Six Months ended June 30, 2022 | Six Months ended June 30, 2021 |
|---|---|---|---|---|
| **Numerator:** | | | | |
| Net loss attributable to Agrify Corporation | $ (74,604) | $ (5,636) | $ (72,824) | $ (9,446) |
| Accrued dividend attributable to Preferred A Stockholders | — | — | — | (61) |
| Net loss available for Common Stockholders | $ (74,604) | $ (5,636) | $ (72,824) | $ (9,507) |
| **Denominator:** | | | | |
| Weighted-average common shares outstanding – basic and diluted | 132,911 | 101,721 | 127,956 | 83,310 |
| Net loss per share attributable to Common Stockholders – basic and diluted | $ (561.31) | $ (55.41) | $ (569.13) | $ (114.12) |

The Company's potential dilutive securities, which include stock options and warrants, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the weighted-average number of common shares outstanding used to calculate both basic and diluted net loss per share attributable to common stockholders is the same. The Company excluded the following potential common shares equivalents presented based on amounts outstanding at each period end, from the computation of diluted net loss per share attributable to common stockholders for the periods indicated because including them would have had an anti-dilutive effect:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Options outstanding | 16,455 | 19,848 |
| Warrants outstanding | 50,559 | 4,830 |
| | 67,014 | 24,678 |

**Note 18 — Commitments and Contingencies**

***Legal* Matters**

***Cooper and Weinstein Matter***

On January 5, 2021, the Company received a demand letter from Nicholas Cooper and Richard Weinstein, (two of the Company's former employees), and one of Mr. Cooper's affiliated entities, asserting that Messrs. Cooper and Weinstein were entitled to compensation arising out of their employment by the Company, and their partial ownership of TriGrow Systems, LLC which had been acquired by the Company. The demand letter asserts that Messrs. Cooper and Weinstein are due certain sales commissions under their applicable bonus plan, equity earn-outs based on certain sales targets, and various equity purchases through the Company's employee stock ownership plan. The demand letter also asserts various employment claims, including but not limited to, statutory wage withholding violations, wrongful termination, breach of contract, breach of the duty of good faith and fair dealing, fraud in the inducement, promissory estoppel, minority shareholder oppression, breach of fiduciary duty, unjust enrichment, and violations of state and federal securities laws.

On January 19, 2021, Messrs. Cooper and Weinstein filed a lawsuit against the Company in the United States District Court for the Western District of Washington, alleging the same claims made in their demand letter based on the facts disclosed above. The plaintiffs are seeking relief in the form of monetary damages in an amount to be determined. Messrs. Cooper and Weinstein are also seeking relief in the form of reinstatement and Mr. Weinstein is seeking rescission of his previously executed Release of Claims Agreement. On March 10, 2021, the Company moved to dismiss all Messrs. Cooper and Weinstein's claims, asserting that the claims failed to allege legal grounds for relief. On May 12, 2021, a Magistrate issued a preliminary Report and Recommendation, which recommended dismissal of certain of Messrs. Cooper and Weinstein's claims, and recommended others for additional factual discovery. On July 27, 2021, a District Judge entered an order partially adopting the Report and Recommendation, dismissing one claim with prejudice, dismissing a second claim with leave to amend, and permitting the remaining claims to proceed.

Additionally, on July 29, 2021, the Company filed a separate arbitration in Boston, Massachusetts against Messrs. Cooper and Weinstein, in which the Company alleges that Messrs. Cooper and Weinstein were liable for certain conduct during the time they were TriGrow employees, including breach of fiduciary duty, unjust enrichment, usurpation of corporate opportunity, conversion, fraudulent concealment, and false representation. Also on July 29, 2021, the Company submitted a claim for indemnification to certain legacy TriGrow Systems, LLC. shareholders. The claim for indemnification relates to conduct by Messrs. Cooper and Weinstein during the time they were TriGrow employees. During the second quarter of 2022, the Company and Messrs. Cooper and Weinstein tentatively agreed to settle all claims and potential claims between themselves and any affiliated entities by the Company to Messrs. Cooper, Weinstein, and a related entity, subject to negotiation of a final settlement agreement, for approximately $800 thousand, which has been accrued as a liability as of June 30, 2022.

***United States Customs Seizure Matter***

On June 28, 2022, the Company was notified by the United States Customs and Border Protection ("CBP") that they seized 123 cartons of horticulture grow lights appraised at approximately $623 thousand at the Port of Savannah, Georgia based on CBP's interpretation of certain importation laws which prohibit the importation of certain goods that are subject to health and safety legal restrictions, including a prohibition on the importation of drug paraphernalia, in accordance with 21 U.S.C. § 863(a). The Company will dispute the seizure. The Company does not believe these claims have any merit and intends to vigorously defend its position.

**Commitments**

***Supply Agreement with Mack Molding Co.***

In December 2020, the Company entered into a five-year supply agreement with Mack Molding Co. ("Mack") pursuant to which Mack will become a key supplier of VFUs. In February 2021, the Company placed a purchase order with Mack amounting to approximately $5.2 million towards the initial production of VFUs during 2021. In September 2021, the Company increased the purchase order with Mack to approximately $11.5 million towards production of VFUs during 2021 and 2022. The Company believes the supply agreement with Mack will provide the Company with increased scaling capabilities and the ability to meet the potential future demand of its customers more efficiently. The supply agreement contemplates that, following an introductory period, the Company will negotiate a minimum percentage of the VFU requirements that the Company will purchase from Mack each year based on the agreed-upon pricing formula. The introductory period is not time-based but rather refers to the production of an initial number of units after which the parties have rights to adjust pricing and negotiate a certain minimum requirements percentage. The Company believes this approach will result in both parties making a more informed decision with respect to the pricing and other terms of the supply agreement with Mack.

***Distribution Agreements with Related Party***

On September 7, 2019, the Company entered into a distribution agreement with Bluezone Products, Inc. ("Bluezone") for distribution rights to the Bluezone products with certain exclusivity rights. The agreement requires minimum purchases amounting to $480 thousand and $600 thousand for the first and second contract anniversary years. The agreement auto-renews for successive one-year periods unless earlier terminated. In March 2021, the Company notified Bluezone of the non-renewal of the agreement which means it ended on May 31, 2021. The Company exceeded the minimum purchase amount for the first year and purchased approximately $309 thousand of the committed $660 thousand second-year purchases through December 31, 2021. Bluezone is a related party to the Company.

***Committed Purchase Agreement with Related Party – Greenstone***

On December 29, 2021, Greenstone purchased 239 VFUs from the Company of which 60 VFUs were already in Greenstone possession under a lease agreement. Under the lease agreement, Greenstone owed the Company a production service fee of $300 per pound of flower produced and contained an option to purchase the equipment within the lease agreement. The term of this agreement was for ten years, but it was terminated upon signing the purchase agreement for the 239 VFUs. There is no remaining obligation under the lease agreement. The remaining 179 VFUs were shipped to Greenstone storage facility on December 30, 2021 and December 31, 2021. Greenstone is a related party to the Company. Additional information regarding recent developments with Greenstone may be found in Note 6 – Loan Receivable, included elsewhere in the notes to the condensed consolidated financial statements.

***Committed Purchase Agreement with Related Party – Ora Pharm***

In June 2022, the Company entered into an agreement with Ora Pharm (“Ora”) pursuant to which Ora will purchase approximately $1.6 million in equipment from the Company, and Ora may purchase software services from the Company in the future. Mr. Wilcox is the Chairman of Ora. Mr. Wilcox has not had an interest in any transaction since the beginning of the Company’s last fiscal year, or any currently proposed transaction. There are no family relationships among any of the Company’s directors or executive officers and Mr. Wilcox.

**Other Commitments and Contingencies**

The Company is potentially subject to claims related to various non-income taxes (such as sales, value-added, consumption, and similar taxes) from various tax authorities, including in jurisdictions in which the Company already collects and remits such taxes. If the relevant taxing authorities successfully pursue these claims, the Company could be subject to additional tax liabilities.

Refer to Note 10 – Debt, included elsewhere in the notes to the condensed consolidated financial statements for details of the Company’s future minimum debt payments. Refer to Note 11 – Leases, included elsewhere in the notes to the condensed consolidated financial statements for details of the Company’s future minimum lease payments under operating and financing lease liabilities. Refer to Note 16 – Income Taxes, included elsewhere in the notes to the condensed consolidated financial statements for information regarding income tax contingencies.

**Note 19 — Related Parties**

Some of the officers and directors of the Company are involved in other business activities and may, in the future, become involved in other business opportunities that become available.

The following table describes the net purchasing (sales) activity with entities identified as related parties to the Company:

| | Three Months ended June 30, | | Six Months ended June 30, | |
|---|---|---|---|---|
| **(In thousands)** | **2022** | **2021** | **2022** | **2021** |
| Bluezone | $ — | $ 93 | $ 5 | $ 93 |
| 4D Bios (1) | — | — | — | 447 |
| Cannae Policy Group | — | — | 25 | — |
| Topline Performance Group | 38 | — | 70 | — |
| NEIA | (1,129) | (10,895) | (1,763) | (16,355) |
| Greenstone | 409 | — | 180 | — |
| Valiant Americas, LLC | 4,855 | 640 | 9,805 | 1,717 |
| Living Greens Farm | — | — | — | (58) |

(1) Purchases from 4D Bios for the six months ended June 30, 2021 include $384 thousand for a down payment on inventory orders.

The following table summarizes net related party receivable (payable) as of June 30, 2022 and December 31, 2021:

| (In thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Cannae Policy Group | $ — | $ (8) |
| Cannaquip | — | (21) |
| Greenstone (net of allowance for doubtful accounts of $7,079 and $0 at June 30, 2022 and December 31, 2021, respectively) (1) | 5,378 | 11,177 |
| Living Greens Farm (2) | — | 34 |
| NEIA | 2,415 | 3,500 |
| Valiant Americas, LLC | 98 | (922) |
| Topline Performance Group | (9) | — |

(1) The Greenstone allowance for doubtful accounts balance consisted of capital advances, accrued interest and VFUs sales. Additional information regarding recent developments with Greenstone may be found in Note 6 – Loan Receivable, included elsewhere in the notes to the condensed consolidated financial statements.

(2) The balance was fully reserved at June 30, 2022 due to an ongoing dispute with the customer.

**Note 20 — Subsequent Events**

**Bud & Mary's Litigation**

On September 15, 2022, the Company provided a notice of default to Bud & Mary's and certain related parties notifying such parties that Bud & Mary's was in default of its obligations under the Bud & Mary TTK Agreement. On October 5, 2022, Bud & Mary's filed a complaint in the Superior Court of Massachusetts in Suffolk County naming the Company as defendant. Bud & Mary's is seeking, among other relief, monetary damages in connection with alleged unfair or deceptive trade practices, breach of contract and conversion arising from the Agreement. While the Company believes the claim is without merit and will continue to vigorously defend itself against Bud & Mary's allegations, litigation is inherently unpredictable and there can be no assurance that the Company will prevail in this matter.

During the third quarter of 2022, the Company deemed it necessary to fully reserve for the outstanding $14.7 million note receivable balance outstanding due to the current litigation and the uncertainty of the customer's ability to repay the outstanding balance. The $14.7 million represents the amount of the contingent loss that the Company has determined to be reasonably possible and estimable. The actual cost of resolving this matter may be higher or lower than the amount the Company has reserved. In addition, $5.3 million of the notes receivable balance for work performed during the third quarter of 2022 has been recorded as an unbilled note receivable and deferred the revenue to a future period. The Company has recognized the expenses associated with the work completed in the current period due to the uncertainty of the Company's ability to recover the funds owed by the customer and its obligations to the vendors that have performed this work. The Company determined that it will only recognize unbilled notes receivable revenue if cash is collected from the customer in a future period.

**Approval of Issuance of Shares Upon Exercise of Warrants**

On October 14, 2022, the Company received approval for the issuance of up to 105,544 shares of Common Stock upon the exercise of the SPA Warrant and Note Exchange Warrant in connection with the issuance of a senior secured note and the exchange of previously issued warrants in August 2022, and the reduction of the exercise price of certain of those warrants under certain circumstances, was approved. Additional information regarding the Warrant Liabilities may be found in Note 10 – Debt, included elsewhere in the notes to the consolidated financial statements.

**At The Marketing Offering**

In October 2022, the Company entered into the ATM Program with the Agent. The ATM Program allows the Company to sell shares of Common Stock pursuant to specific parameters defined by the Company as well as those defined by the SEC and the ATM Program agreement. Subsequent to the quarter ended September 30, 2022, as of November 7, 2022, the Company sold 306,628 shares of Common Stock, under the ATM at an average price of $50.80 per share, resulting in gross proceeds to the Company of $15.6 million, and net proceeds of $15.1 million after commissions and fees to the Agent totaling $468 thousand. $3.1 million of the proceeds under the ATM Program were used to repay amounts due to the Investor under the Exchange Note. The ATM allows for quick and agile sales of Common Stock to interested investors and provides an opportunity to raise additional capital for working capital requirements or to fund strategic opportunities that may present themselves from time to time. The Company has used, and intends to continue to use, the net proceeds generated from the ATM Program for working capital and general corporate purposes, including repayment of indebtedness, funding its transformation initiatives and product category expansion efforts and capital expenditures.

**Nasdaq Deficiency Notices**

On October 4, 2022, the Company received a deficiency letter (the "Notice") from the Listing Qualifications Department (the "Staff") of The Nasdaq Stock Market, LLC ("Nasdaq") notifying the Company that, for the last 30 consecutive business days, the bid price for the Company's Common Stock had closed below $1.00 per share, which is the minimum closing price required to maintain a continued listing on The Nasdaq Capital Market under Nasdaq Listing Rule 5550(a)(2) (the "Minimum Bid Requirement"). In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company had 180 calendar days to regain compliance with the Minimum Bid Requirement. To regain compliance with the Minimum Bid Requirement, the closing bid price of the Company's Common Stock must be at least $1.00 per share for a minimum of 10 consecutive trading days during this 180-day compliance period, unless the Staff exercises its discretion to extend the minimum trading day period pursuant to Nasdaq Listing Rule 5810(c)(3)(G). On October 28, 2022, the Staff notified the Company that the closing bid price for its Common Stock was more than $1.00 for 10 consecutive trading days, and that the Company therefore regained compliance with the Minimum Bid Requirement.

On April 18, 2023, the Company received a notice from Nasdaq stating that because the Company had not yet filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2022, the Company is no longer in compliance with Nasdaq Listing Rule 5250(c)(1). Nasdaq Listing Rule 5250(c)(1) requires listed companies to timely file all required periodic financial reports with the Securities and Exchange Commission.

As disclosed by the Company on Form 8-K filed on April 17, 2023, the Company's audit committee concluded that, as a result of inadvertent errors in the accounting for warrants previously issued by the Company, it was appropriate to restate the Company's previously issued unaudited condensed consolidated interim financial statements as of and for the quarterly periods ended March 31, 2022, June 30, 2022 and September 30, 2022. Given the scope of the process for preparing the Amended 10-Qs, the Company was unable to complete and file the Form 10-K by the required due date of March 31, 2023. The Notice states that the Company has 60 calendar days from April 18, 2023, or until June 20, 2023, to regain compliance by filing the Form 10-K or to submit to Nasdaq a plan to regain compliance with the Nasdaq Listing Rules.

On May 17, 2023, the Company received a second notice from Nasdaq that the Company remains noncompliant with the Nasdaq Listing Rule 5250(c)(1) as a result of its failure to file its Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 with the SEC by the required due date. This notice requires the Company to submit a plan to regain compliance with the continued listing requirements by June 20, 2023. If Nasdaq accepts the Company's plan, then Nasdaq may, in its discretion, grant the Company up to 180 days from the prescribed due date for filing the Form 10-K, or until October 16, 2023, to regain compliance.

On August 16, 2023, the Company received a third notice from Nasdaq that the Company remains noncompliant with the Nasdaq Listing Rule 5250(c)(1) as a result of its failure to file its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2023 with the SEC by the required filing date. This notice noted that Nasdaq has previously granted the Company an exception until September 30, 2023, to file its Form 10-K and First Quarter Form 10-Q. This notice also requires the Company to update its original plan to regain compliance with the filing requirement, including the Company's plans to file the Second Quarter Form 10-Q, and indicate the progress the Company has made towards implementing the plan submitted in connection with the Initial Delinquent Filing.

**Agrify-Valiant**

On October 27, 2022, the Company provided notice to Valiant-America, LLC that the Company intended to begin the winding up of Agrify-Valiant.

**Appointment of Raymond Chang as principal financial and accounting officer and Resignation of Timothy Oakes and Chief Financial Officer**

On January 6, 2023, Timothy Oakes, the Chief Financial Officer of Agrify Corporation (the "Company"), resigned effective February 28, 2023. In connection with Mr. Oakes' resignation, the Company has engaged WilliamsMarston LLC to assist with accounting and internal control matters and is continuing its process to identify a replacement Chief Financial Officer. Further, Raymond Chang, the Company's Chief Executive Officer, will serve as the Company's principal financial and accounting officer.

**Bowdoin Litigation**

On February 22, 2023, Bowdoin Construction Corp. ("Bowdoin") filed a complaint in the Superior Court of Massachusetts in Norfolk County naming the Company, Bud & Mary's and certain related parties as defendants. The Bowdoin Complaint relates to a construction contract between Bowdoin and Agrify relating to the property that is the subject of the Bud & Mary's Complaint and alleges breach of contract by Bud & Mary's and by Agrify due to nonpayment of approximately $7.0 million due under the contract and related indemnification claims and mechanics' liens. While the Company believes the claim is without merit and will continue to vigorously defend itself against Bowdoin's allegations, litigation is inherently unpredictable and there can be no assurance that the Company will prevail in this matter.

**Amendments to Articles of Incorporation**

On March 1, 2023, the Company filed Articles of Amendment (the “Charter Amendment”) to its Articles of Incorporation with the Secretary of State for the State of Nevada. The Charter Amendment increased the number of authorized shares of the Company’s Common Stock from 100,000,000 to 200,000,000, and correspondingly increased the total authorized shares of stock from 103,000,000 to 203,000,000. The Charter Amendment was approved by the Company’s stockholders at the Special Meeting on February 28, 2023 and became effective upon filing.

**Securities Exchange Agreement**

On March 8, 2023, the Company entered into a new Securities Exchange Agreement (the “Exchange Agreement”) with an accredited lender. Pursuant to the Exchange Agreement, at closing the Company will prepay approximately $10.3 million in principal amount under the Exchange Note and exchange $10.0 in principal amount of the remaining balance of the Exchange Note for a new senior secured convertible note (the “Convertible Note”) with an original principal amount of $10.0 million. The Convertible Note will be a senior secured obligation of the Company and will rank senior to all indebtedness of the Company. The Convertible Note will mature on August 19, 2025 and will contain a 9.0% annualized interest rate, with interest to be paid monthly, in cash, beginning April 1, 2023.

Concurrently with the closing under the Exchange Agreement, the Company and the Lender will enter into an Amendment to the Exchange Note (the “Note Amendment”). Pursuant to the Note Amendment, the Exchange Note will be amended to, among other changes, remove covenants that require the Company not to exceed maximum levels of allowable cash spend while the Exchange Note is outstanding and require the Company to maintain minimum amounts of cash on hand.

On April 26, 2023, the Company entered into a letter agreement with the above referenced accredited lender (the “Letter Agreement”), pursuant to which the Company and the lender agreed to exchange $2.0 million of the remaining outstanding principal amount under the Exchange Note for 8,903,927 shares of common stock of the Company, subject to a Beneficial Ownership Limitation of 4.99% of the Company’s Common Stock.

**Issuance of Unsecured Promissory Note**

On July 12, 2023, the Board of Directors of the Company approved the issuance of an unsecured promissory note in favor of GIC Acquisition, LLC (the “Investor”), an entity that is owned and managed by Raymond Chang, the Company’s Chairman and Chief Executive Officer. Pursuant to the Note, the Investor will lend up to $500,000 to the Company. The Note bears interest at a rate of 10% per annum, will mature in full on August 6, 2023, and may be prepaid without any fee or penalty. The Note ranks junior to all existing secured indebtedness of the Company.

**Leases**

As of March 31, 2023, the Company extended its lease by three years until March 31, 2026, for the premises located at 2468 Industrial Row Dr., Troy, Michigan 48084.

As of May 23, 2023, the Company extended its lease by three years until July 31, 2026, for the premises located at 2625 S. Santa Fe Dr., Bldg. 1, Units 1H and 1IJ.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The information contained in this Quarterly Report on Form 10-Q is intended to update the information contained in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission on March 31, 2022 (the "Form 10-K") and presumes that readers have access to, and will have read, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other information contained in such Form 10-K. The following discussion and analysis also should be read together with our financial statements and the notes to the financial statements included elsewhere in this Quarterly Report on Form 10-Q.*

*The following discussion contains certain statements that may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this Report, including, without limitation, "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements are not guarantees of future performance and involve risks, uncertainties and requirements that are difficult to predict or are beyond our control. Forward-looking statements speak only as of the date of this quarterly report. You should not put undue reliance on any forward-looking statements. We strongly encourage investors to carefully read the factors described in our Annual Report on Form 10-K in the section entitled "Risk Factors" in the Annual Report on Form 10-K for a description of certain risks that could, among other things, cause actual results to differ from these forward-looking statements. We assume no responsibility to update the forward-looking statements contained in this Quarterly Report on Form 10-Q. The following should also be read in conjunction with the unaudited financial statements and notes thereto that appear elsewhere in this report.*

*Except as otherwise indicated herein or as the context otherwise requires, references in this quarterly report to "we," "us," "our," "Company," and "Agrify" refer to Agrify Corporation, a Nevada corporation.*

### Overview

We are one of the most innovative providers of advanced cultivation and extraction solutions for the cannabis industry, bringing data, science, and technology to the forefront of the market. Our proprietary micro-environment-controlled Agrify Vertical Farming Units (or "VFUs") enable cultivators to produce the highest quality products with what we believe to be an unmatched consistency, yield, and Return on Investment ("ROI") at scale. Our comprehensive extraction product line, which includes hydrocarbon, ethanol, solventless, post-processing, and lab equipment, empowers producers to maximize the quantity and quality of extract required for premium concentrates.

We believe we are the only company with an automated and fully integrated grow solution in the industry. Our cultivation and extraction solutions seamlessly combines our integrated hardware and software offerings with a broad range of associated services including consulting, engineering, and construction and is designed to deliver the most complete commercial indoor farming solution available from a single provider. The totality of our product offerings and service capabilities forms an unrivaled ecosystem in what has historically been a highly fragmented market. As a result, we believe we are well situated to create a dominant market position in the indoor agriculture sector.

Agrify Corporation was incorporated in the state of Nevada on June 6, 2016, originally incorporated as Agrinamics, Inc. (or "Agrinamics"). On September 16, 2019, Agrinamics amended its articles of incorporation to reflect a name change to Agrify Corporation.

Our corporate headquarters are located in Troy, Michigan. We also lease properties located within various geographic regions in which we conduct business, including Colorado, Georgia, Massachusetts, Michigan, and Oregon.

*Reverse Stock Split*

On January 12, 2021, we effected a 1-for-1.581804 reverse stock split on our Common Stock. All share and per share information has been retroactively adjusted to give effect to the reverse stock split for all periods presented, unless otherwise indicated.

On October 18, 2022, the Company effected a 1-for-10 reverse stock split of its Common Stock. All share and per share information has been retroactively adjusted to give effect to the reverse stock split for all periods presented unless otherwise indicated.

On July 5, 2023, the Company effected a 1-for-20 reverse stock split of its Common Stock. All share and per share information has been retroactively adjusted to give effect to the reverse stock split for all periods presented unless otherwise indicated.

No fractional shares of Common Stock were issued as a result of these reverse stock splits. Any fractional shares in connection with these reverse stock splits were rounded up to the nearest whole share and no stockholders received cash in lieu of fractional shares. The reverse stock splits had no impact on the number of shares of Common Stock that the Company is authorized to issue pursuant to its articles of incorporation or on the par value per share of the Common Stock. Proportional adjustments were made to the number of shares of Common Stock issuable upon exercise or conversion of the Company's outstanding stock options and warrants, the exercise price or conversion price (as applicable) of the Company's outstanding stock options and warrants, and the number of shares reserved for issuance under the Company's equity incentive plan. All share and per share information included in this Quarterly Report on Form 10-Q has been retroactively adjusted to reflect the impact of these reverse stock splits.

**Recent Business Developments**

***Private Placement***

On January 25, 2022, we entered into a Securities Purchase Agreement (the "Securities Agreement") with an institutional investor and other accredited investors for the sale by us of (i) 12,252 shares (the "SA Shares") of the our Common Stock, (ii) pre-funded warrants (the "Pre-Funded Warrants") to purchase up to an aggregate of 7,853 shares of Common Stock and (iii) warrants to purchase up to an aggregate of 15,079 shares of Common Stock (the "Common Warrants" and, collectively with the Pre-Funded Warrants, the "SA Warrants"), in a private placement offering. The combined purchase price for one share of Common Stock (or one Pre-Funded Warrant) and the accompanying fraction of a Common Warrant was $1,360.00.

Subject to certain ownership limitations, the SA Warrants are exercisable six months from issuance. Each Pre-Funded Warrant is exercisable into one share of Common Stock at a price per share of $0.20 (as adjusted from time to time in accordance with the terms thereof). Each Common Warrant is exercisable into one share of Common Stock at a price per share of $1,496.00 (as adjusted from time to time in accordance with the terms thereof) and will expire on the fifth anniversary of the initial exercise date. The institutional investor that received the Pre-Funded Warrants fully exercised such warrants in March 2022.

Raymond Chang, our Chairman and Chief Executive Officer, and Stuart Wilcox, who is currently our Chief Operating Officer, and at the time was a member of our Board of Directors, participated in the private placement on essentially the same terms as other investors, except for having a combined purchase price of $1,380.00 per share.

The gross proceeds to us from the private placement were approximately $27.3 million, before deducting the placement agent's fees and other offering expenses, and excluding the proceeds, if any, from the exercise of the SA Warrants.

***Acquisition of Lab Society***

On February 1, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with LS Holdings Corp. ("Lab Society"), Lab Society NewCo, LLC, a newly-formed wholly-owned subsidiary of the Company ("Merger Sub"), Michael S. Maibach Jr. as the Owner Representative thereunder, and each of the shareholders of Lab Society (collectively, the "Owners"), pursuant to which we agreed to acquire Lab Society. Concurrently with the execution of the Merger Agreement, we consummated the merger of Lab Society with and into Merger Sub, with Merger Sub surviving such merger as a wholly-owned subsidiary of the Company (the "Lab Society Acquisition").

The aggregate consideration for the Lab Society Acquisition consisted of: (a) $4.0 million in cash, subject to certain adjustments for working capital, cash and indebtedness of Lab Society at closing; (b) 2,128 shares of Common Stock (the "Buyer Shares"); and (c) the Earn-out Consideration (as defined below), to the extent earned.

We withheld 638 of the Buyer Shares issuable to the Owners (the "Holdback Lab Buyer Shares") for the purpose of securing any post-closing adjustment owed to us and any claim for indemnification or payment of damages to which we may be entitled under the Merger Agreement. The Holdback Lab Buyer Shares shall be released following the twelve-month anniversary of the Closing Date in accordance with and subject to the conditions of the Merger Agreement. Additional information regarding the Company's contingent consideration arrangements may be found in Note 5 – Fair Value Measures, included elsewhere in the notes to the condensed consolidated financial statements.

The Merger Agreement includes customary post-closing adjustments, representations and warranties and covenants of the parties. The Owners may become entitled to additional consideration with a value of up to $3.5 million based on the eligible net revenues achieved by the Lab Society business during the fiscal years ending December 31, 2022, and December 31, 2023, of which 50% will be payable in cash and the remaining 50% will be payable by issuing shares of Common Stock.

Based upon the combined first and second quarter actual revenue performance, Lab Society's revenue trend is significantly below the originally estimated revenue trends incorporated into our original fair value estimates at the time of the acquisition. We have concluded Lab Society will not achieve any contingent earn-out consideration in connection with its first earn-out period. Accordingly, we reversed the current accrued contingent consideration liability associated with Lab Society's first earn-out period as of June 30, 2022. The reversal of this liability of approximately $1.0 million, as required by ASC 805, was recorded as a reduction in operating expenses during the second quarter of 2022.

The purchase price allocation for the business combination has been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available during the respective measurement period (up to one year from the acquisition date). The estimated fair value at acquisition is $7.9 million and may be adjusted upon further review of the values assigned to identifiable intangible assets and goodwill.

Our initial fair value estimates related to the various identified intangible assets were determined under various valuation approaches including the Income Approach, Relief-from-Royalty Method, and Discounted Cash Flow Method. These valuation methods require management to project revenues, operating expenses, working capital investment, capital spending and cash flows for the reporting unit over a multiyear period, as well as determine the weighted-average cost of capital to be used as a discount rate.

During the three-month period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in the Company's stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, the Company deemed that there may be an impairment to the carrying value of its long-lived assets and accordingly performed interim testing to determine the proper fair value of its long-lived assets as of June 30, 2022. Based on its interim testing, the Company noted that the entire carrying value of its goodwill and intangible assets should be impaired. Additional information regarding the Company's interim testing on goodwill and intangible assets may be found in Note 8– Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

***Securities Purchase Agreement***

On March 14, 2022, we entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with an accredited investor (the "Investor"), pursuant to which, among other things, we agreed to issue and sell to the Investor, in a private placement transaction (the "Private Placement"), in exchange for the payment by the Investor of $65 million, less applicable expenses as set forth in the Securities Purchase Agreement, (i) a senior secured promissory note in an aggregate principal amount of $65 million (the "SPA Note"), and (ii) a warrant (the "SPA Warrant") to purchase up to an aggregate of 34,406 shares of Common Stock.

The SPA Note will be a senior secured obligation of us and ranks senior to all indebtedness of us. We will be required to make amortization payments equal to 4.0% of the original principal amount of the SPA Note on the first day of each calendar month starting on February 1, 2023 and extending through the maturity date of March 1, 2026 (the "Maturity Date"), at which time all remaining outstanding principal and accrued but unpaid interest will be due. The SPA Note has a stated interest rate of 6.75% per year, and we will be required to pay interest on March 1, June 1, September 1, and December 1 of each calendar year through and including the Maturity Date. Following the one-year anniversary of the SPA Note's issuance, we may, in lieu of paying interest in cash, pay such interest in kind, in which case interest on the SPA Note will be calculated at the rate of 8.75% per year and will be added to the principal amount of the SPA Note.

At any time following the one-year anniversary of the SPA Note's issuance, we may prepay all (but not less than all) of the SPA Note by redemption at a price equal to 106.75% of the then-outstanding principal amount under the SPA Note plus accrued but unpaid interest. The Investor will also have the option of requiring us to redeem the SPA Note if we undergo a fundamental change at a price equal to 107% of the then-outstanding principal amount under the SPA Note plus any accrued interest thereon.

The Securities Purchase Agreement provides for up to two additional closings subject to certain conditions set forth in the Securities Purchase Agreement and on substantially the same terms as the initial closing. Each subsequent closing would result in the issuance of a senior secured note with an original principal amount of $35.0 million and warrants to purchase shares of Common Stock equal to 65% of such principal amount divided by the closing price of Common Stock on the trading day immediately prior to such subsequent closing.

The SPA Note will impose certain customary affirmative and negative covenants upon us, as well as covenants that (i) restrict us and its subsidiaries from incurring any additional indebtedness or suffering any liens, subject to specified exceptions, (ii) restrict the ability of us and its subsidiaries from making certain investments, subject to specified exceptions, (iii) restrict the declaration of any dividends or other distributions, subject to specified exceptions, (iv) require us to maintain specified earnings and adjusted EBITDA targets, and (v) require us to maintain minimum amounts of cash on hand. If an event of default under the SPA Note occurs, the Investor can elect to redeem the SPA Note for cash equal to 115% of the then-outstanding principal amount of the SPA Note (or such lesser principal amount accelerated by the Investor), plus accrued and unpaid interest, including default interest, which accrues at a rate per year equal to 15% from the date of a default or event of default.

For the quarter ending June 30, 2022, we defaulted on certain of financial debt covenants associated with our SPA Note. As a result of this default, the lender would have the ability to call the balance of the note, along with a 115% penalty, amounting to a total repayment obligation of approximately $75.0 million ($65.0 million in principal and $9.8 million of default penalty), plus increase the interest due on the outstanding unpaid balance(s) from 6.75% to 15%. All amounts due would immediately become a current liability in the event the lender were to call the note. If the lender were to call the debt instrument due to the default, we would not have sufficient cash on hand as of June 30, 2022 to pay off the existing debt and default penalty amounts. As of June 30, 2022, cash, restricted cash, cash equivalents, and marketable securities totaled approximately $59.9 million, which would be insufficient to cover the combined amount of debt liability, including the default penalty amount.

Subsequent to the end of the second quarter of 2022, we reached an agreement in principle with our institutional lender to amend the existing SPA Note and to modify certain financial covenants which, once complete, should give us additional flexibility to operate and meet our long-term strategic goals while also allowing us to responsibly adjust to the many challenges currently facing the cannabis industry.

Until the date the SPA Note is fully repaid, the Investor will, subject to certain exceptions, have the right to participate for up to 30% of any debt, Preferred Stock or equity-linked financing of us or its subsidiaries.

Each SPA Warrant to be issued in the initial closing will have an exercise price of $1,350.00 per share, subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions, will be immediately exercisable, has a term of five and one-half years from the date of issuance and will be exercisable on a cash basis, unless there is not an effective registration statement covering the resale of the shares issuable upon exercise of the Warrant (the "SPA Warrant Shares"), in which case the SPA Warrant shall also be exercisable on a cashless exercise basis at the Investor's election. The Securities Purchase Agreement requires us to file resale registration statements with respect to the SPA Warrant Shares as soon as practicable and in any event within 45 days following the initial closing and any subsequent closings.

The SPA Warrant will provide that In no event will the number of shares of Common Stock issued upon exercise of the SPA Warrant result in the Investor's beneficial ownership exceeding 4.99% of our shares outstanding at the time of exercise (which percentage may be decreased or increased by the Investor, but to no greater than 9.99%, and provided that any increase above 4.99% will not be effective until the sixty-first day after notice of such request by the Investor to increase its beneficial ownership limit has been delivered to us).

The Securities Purchase Agreement also contains customary representations and warranties of us and the Investor. There is no material relationship between us or its affiliates and the Investor other than in respect of the Securities Purchase Agreement, the SPA Note and the SPA Warrant.

***Impact of coronavirus pandemic ("COVID-19")***

The extensive impact of the pandemic caused by COVID-19 has resulted and will likely continue to result in significant disruptions to the global economy, as well as businesses and capital markets around the world. In an effort to halt the outbreak of COVID-19, a number of countries, states, counties, and other jurisdictions have imposed, and may impose in the future, various measures, including but not limited to, voluntary and mandatory quarantines, stay-at-home orders, travel restrictions, limitations on gatherings of people, reduced operations, and extended closures of businesses.

To date, although all of our operations are functioning, COVID-19 has continued to cause some disruptions to our business, such as some temporary delays in the delivery of our inventory. Although the ability of our suppliers to timely ship their goods has affected some of our deliveries, currently the difficulties experienced by our suppliers have not yet materially impacted our ability to deliver products to our customers. However, if this continues, it may negatively affect any inventory we may have and more significantly delay the delivery of merchandise to our customers, which in turn will adversely affect our revenues and results of operations.

The extent to which COVID-19 and the related global economic crisis, affect our business, results of operations and financial condition, will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any recovery period, future actions taken by governmental authorities, central banks and other third parties (including new financial regulation and other regulatory reform) in response to the pandemic, and the effects on our produce, clients, vendors and employees. We continue to service our customers amid uncertainty and disruption linked to COVID-19 and we are actively managing our business to respond to its impact.

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include assumptions about collection of accounts and notes receivable, the valuation and recognition of stock-based compensation expense, valuation allowance for deferred tax assets and useful life of fixed assets and intangible assets.

**Financial Overview**

***Critical Accounting Policies and Significant Judgments and Estimates***

Our management's discussion and analysis of our financial position and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, we evaluate estimate, which include estimates related to accruals, stock-based compensation expense, and reported amounts of revenues and expenses during the reported period. We base our estimates on historical experience and other market-specific or other relevant assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from those estimates or assumptions.

***Revenue Recognition***

***Overview***

We generate revenue from the following sources: (1) equipment sales, (2) providing services and (3) construction contracts.

In accordance with ASC 606 "Revenue Recognition", we recognize revenue from contracts with customers using a five-step model, which is described below:

- identify the customer contract;
- identify performance obligations that are distinct;
- determine the transaction price;
- allocate the transaction price to the distinct performance obligations; and
- recognize revenue as the performance obligations are satisfied.

***Identify the customer contract***

A customer contract is generally identified when there is approval and commitment from both use and its customer, the rights have been identified, payment terms are identified, the contract has commercial substance and collectability, and consideration is probable. Specifically, we obtain written/electronic signatures on contracts and a purchase order, if said purchase orders are issued in the normal course of business by the customer.

***Identify performance obligations that are distinct***

A performance obligation is a promise by us to provide a distinct good or service or a series of distinct goods or services. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and our promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

***Determine the transaction price***

The transaction price is the amount of consideration to which we expect to be entitled in exchange for transferring goods or services to a customer, excluding sales taxes that are collected on behalf of government agencies.

***Allocate the transaction price to distinct performance obligations***

The transaction price is allocated to each performance obligation based on the relative standalone selling prices ("SSP") of the goods or services being provided to the customer. Our contracts typically contain multiple performance obligations, for which we account for individual performance obligations separately, if they are distinct. The standalone selling price reflects the price we would charge for a specific piece of equipment or service if it was sold separately in similar circumstances and to similar customers.

***Recognize revenue as the performance obligations are satisfied***

Revenue is recognized when, or as, performance obligations are satisfied by transferring control of a promised product or service to a customer.

***Significant Judgments***

We enter into contracts that may include various combinations of equipment, services and construction, which are generally capable of being distinct and accounted for as separate performance obligations. Contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once we determine the performance obligations, it determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. We then allocate the transaction price to each performance obligation in the contract based on the SSP. The corresponding revenue is recognized as the related performance obligations are satisfied.

Judgment is required to determine the SSP for each distinct performance obligation. We determine SSP based on the price at which the performance obligation is sold separately and the methods of estimating SSP under the guidance of Accounting Standards Codification ("ASC") 606-10-32-33. If the SSP is not observable through past transactions, we estimate the SSP, considering available information such as market conditions, expected margins, and internally approved pricing guidelines related to the performance obligations. We license our software as a SaaS type subscription license, whereby the customer only has a right to access the software over a specified time period. The full value of the contract is recognized ratably over the contractual term of the SaaS subscription, adjusted monthly if tiered pricing is relevant. We typically satisfy our performance obligations for equipment sales when equipment is made available for shipment to the customer; for services sales as services are rendered to the customer and for construction contracts both as services are rendered and when contract is completed.

We utilize the cost-plus margin method to determine the SSP for equipment and build-out services. This method is based on the cost of the services from third parties, plus a reasonable markup that we believe is reflective of a market-based reseller margin.

We determine the SSP for services in time and materials contracts by observable prices in standalone services arrangements.

We estimate variable consideration in the form of royalties, revenue share, monthly fees, and service credits are estimated at contract inception and updated at the end of each reporting period if additional information becomes available. Variable consideration is typically not subject to constraint. Changes to variable consideration were not material for the periods presented.

If a contract has payment terms that differ from the timing of revenue recognition, we will assess whether the transaction price for those contracts include a significant financing component. We have elected the practical expedient that permits an entity to not adjust for the effects of a significant financing component if we expect that at the contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service, will be one year or less. For those contracts in which the period exceeds the one-year threshold, this assessment, as well as the quantitative estimate of the financing component and its relative significance, requires judgment. Accordingly, we impute interest on such contracts at an agreed-upon interest rate and will present the financing components separately as financial income. For the three and six months ended June 30, 2022 and 2021, we did not have any such financial income.

Payment terms with customers typically require payment 30 days from the invoice date. Our agreements with customers do not provide for any refunds for services or products and therefore no specific reserve for such is maintained. In the infrequent instances where customers raise a concern over delivered products or services, we have endeavored to remedy the concern and all costs related to such matters have been insignificant in all periods presented.

We have elected to treat shipping and handling activities after the customer obtains control of the goods as a fulfillment cost and not as a promised good or service. Accordingly, we will accrue all fulfillment costs related to the shipping and handling of consumer goods at the time of shipment. We have payment terms with its customers of one year or less and has elected the practical expedient applicable to such contracts not to consider the time value of money. Sales, value add, and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

We receive payment from customers based on specified terms that are generally less than 30 days from the satisfaction of performance obligations. There are no contract assets related to performance under the contract. The difference in the opening and closing balances of our deferred revenue primarily results from the timing difference between our performance and the customer's payment. We fulfill obligations under a contract with a customer by transferring products and services in exchange for consideration from the customer. Accounts receivables are recorded when the customer has been billed or the right to consideration is unconditional. We recognize deferred revenue when consideration has been received or an amount of consideration is due from the customer, and we have a future obligation to transfer certain proprietary products.

In accordance with ASC 606-10-50-13, we are required to include disclosure on its remaining performance obligations as of the end of the current reporting period. Due to the nature of our contracts, these reporting requirements are not applicable. The majority of our remaining contracts meet certain exemptions as defined in ASC 606-10-50-14 through 606-10-50-14A, including (i) performance obligation is part of a contract that has an original expected duration of one year or less and (ii) the right to invoice practical expedient.

We generally provide a one-year warranty on our products for materials and workmanship but may provide multiple-year warranties as negotiated, and will pass on the warranties from its vendors, if any, which generally covers this one-year period. In accordance with ASC 450-20-25, we accrue for product warranties when the loss is probable and can be reasonably estimated. The reserve for warranty returns is included in accrued expenses and other current liabilities in our condensed consolidated balance sheets.

**Accounting for Business Combinations**

We allocated the purchase price of acquired companies to the tangible and intangible assets acquired, including in-process research and development assets, and liabilities assumed, based upon their estimated fair values at the acquisition date. These fair values are typically estimated with assistance from independent valuation specialists. The purchase price allocation process requires us to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, contractual support obligations assumed, contingent consideration arrangements, and pre-acquisition contingencies.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies;
- expected costs to develop in-process research and development into commercially viable products and estimated cash flows from the projects when completed;
- the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio;
- cost of capital and discount rates; and
- estimating the useful lives of acquired assets as well as the pattern or manner in which the assets will amortize.

The fair value estimates related to the various identified intangible assets were determined under various valuation approaches including the Income Approach, Relief-from-Royalty Method, and Discounted Cash Flow Method. These valuation methods require management to project revenues, operating expenses, working capital investment, capital spending and cash flows for the reporting unit over a multiyear period, as well as determine the weighted-average cost of capital to be used as a discount rate.

**Goodwill and Intangible Assets**

Amortization of acquired intangible assets is the result of the acquisition of TriGrow, which occurred in 2020, the acquisition of Precision and Cascade which occurred in 2021, the acquisition of PurePressure, which also occurred in 2021, and the acquisition of Lab Society, which occurred in 2022. As a result of these transactions, customer relationships, acquired developed technology, non-compete agreements and trade names were identified as intangible assets, and are amortized over their estimated useful lives.

We recognize the excess of the purchase price over the fair value of identifiable net assets acquired as goodwill. Goodwill is not amortized but is tested for impairment annually on December 2 or more frequently if events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable. We have determined it is a single reporting unit for the purpose of conducting the goodwill impairment assessment. A goodwill impairment charge is recorded if the amount by which our carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Factors that could lead to a future impairment include material uncertainties such as a significant reduction in projected revenues, a deterioration of projected financial performance, future acquisitions and/or mergers, and a decline in our market value as a result of a significant decline in our stock price.

During the three-month period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in the Company's stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, the Company deemed that there may be an impairment to the carrying value of its long-lived assets and accordingly performed interim testing to determine the proper fair value of its long-lived assets as of June 30, 2022. Based on its interim testing, the Company noted that the entire carrying value of its goodwill and intangible assets should be impaired. Additional information regarding the Company's interim testing on goodwill and intangible assets may be found in Note 8 – Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

**Capitalization of Internal Software Development Costs**

We capitalize certain software engineering efforts related to the continued development of Agrify Insights™ cultivation software under ASC 985-20. Costs incurred during the application development phase are only capitalized once technical feasibility has been established and the work performed will result in new or additional functionality. The types of costs capitalized during the application development phase include employee compensation, as well as consulting fees for third-party software developers working on these projects. Costs related to the research and development are expensed as incurred until technical feasibility is established as well as post-implementation activities. Internal-use software is amortized on a straight-line basis over the estimated useful life of the asset, which ranges from two to five years.

**Income Taxes**

We account for income taxes pursuant to the provisions of ASC Topic 740, "Income Taxes," which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

We follow the provisions of ASC 740-10-25-5, "Basic Recognition Threshold." When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10-25-6, the benefit of a tax position is recognized in the condensed consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. We believe our tax positions are all highly certain of being upheld upon examination. As such, we have not recorded a liability for unrecognized tax benefits.

We recognize the benefit of a tax position when it is effectively settled. ASC 740-10-25-10, "Basic Recognition Threshold" provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. ASC 740-10-25-10 clarifies that a tax position can be effectively settled upon the completion of an examination by a taxing authority. For tax positions considered effectively settled, we recognize the full amount of the tax benefit.

**Accounting for Stock-Based Compensation**

We follow the provisions of ASC Topic 718, "Compensation — Stock Compensation." ASC Topic 718 establishes standards surrounding the accounting for transactions in which an entity exchanges its equity instruments for goods or services. ASC Topic 718 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions, such as options issued under our Stock Option Plans.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model. This model incorporates certain assumptions for inputs including a risk-free market interest rate, expected dividend yield of the underlying Common Stock, expected option life, and expected volatility in the market value of the underlying Common Stock.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our stock options and warrants have characteristics different from those of our traded stock, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of such stock options. The risk-free interest rate is based upon quoted market yields for United States Treasury debt securities with a term similar to the expected term. The expected dividend yield is based upon our history of having never issued a dividend and management's current expectation of future action surrounding dividends. We calculate the expected volatility of the stock price based on the corresponding volatility of our peer group stock price for a period consistent with the underlying instrument's expected term. The expected lives for such grants were based on the simplified method for employees and directors.

In arriving at stock-based compensation expense, we estimate the number of stock-based awards that will be forfeited due to employee turnover. Our forfeiture assumption is based primarily on its turn-over historical experience. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in our financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to expense recognized in our financial statements. The expense we recognize in future periods will be affected by changes in the estimated forfeiture rate and may differ significantly from amounts recognized in the current period.

It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed above.

**Results of Operations**

We have incurred recurring losses to date. Our financial statements have been prepared assuming that we will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

We expect we will require additional capital to meet our long-term operating requirements. We expect to raise additional capital through, among other things, the sale of equity or debt securities.

***Comparison of the Three and Six Months Ended June 30, 2022 and 2021***

The following table summarizes our results of operations for the three and six months ended June 30, 2022 and June 30, 2021:

| | Three Months ended June 30, | | Six Months ended June 30, | |
|---|---|---|---|---|
| | 2022 (As Restated) | 2021 | 2022 (As Restated) | 2021 |
| Revenue | $ 19,329 | $ 11,825 | $ 45,350 | $ 18,833 |
| Cost of goods sold | 17,717 | 11,298 | 39,568 | 18,846 |
| Gross profit (loss) | 1,612 | 527 | 5,782 | (13) |
| | | | | |
| General and administrative | 19,378 | 4,399 | 29,137 | 8,857 |
| Selling and marketing | 2,332 | 782 | 4,422 | 1,398 |
| Research and development | 2,438 | 774 | 4,522 | 1,656 |
| Change in contingent consideration | (907) | — | (907) | — |
| Impairment of goodwill and intangible assets | 69,904 | — | 69,904 | — |
| Total operating expenses | 93,145 | 5,955 | 107,078 | 11,911 |
| Loss from operations | (91,533) | (5,428) | (101,296) | (11,924) |
| Interest income (expense), net | (3,311) | 55 | (2,752) | 23 |
| Other expenses | - | (63) | - | (63) |
| Change in fair value of warrant liabilities | 20,181 | - | 30,966 | - |
| Gain on extinguishment of notes payable | — | — | — | 2,685 |
| Other income, net | 16,870 | (8) | 28,214 | 2,645 |
| Net income (loss) before income taxes | (74,663) | (5,436) | (73,082) | (9,279) |
| Income tax benefit | (62) | — | (262) | — |
| Net income (loss) | (74,601) | (5,436) | (72,820) | (9,279) |
| Income (loss) attributable to non-controlling interest | 3 | 200 | 4 | 167 |
| Net income (loss) attributable to Agrify Corporation | $ (74,604) | $ (5,636) | $ (72,824) | $ (9,446) |
| Net income (loss) per share attributable to Common Stockholders – basic and diluted | $ (561.31) | $ (55.41) | $ (569.13) | $ (114.12) |
| Weighted-average common shares outstanding – basic and diluted | 132,911 | 101,721 | 127,956 | 83,310 |

***Revenue***

Our goal is to provide our customers with a variety of products to address their entire indoor agriculture needs. Our core product offering includes our VFUs and Agrify Integrated Grow Racks with our Agrify Insights™ cultivation software, which are supplemented with environmental control products, grow lights, facility build-out services and extraction equipment.

We continue to monitor and address COVID-19 pandemic impacts on our supply chain. Although the availability of various products is dependent on our suppliers, their locations, and the extent to which they are impacted by the COVID-19 pandemic, we are proactively working with manufacturers to meet the needs of our customers during the pandemic. Product shortages have generally led to increases in prices globally, with significant impacts to sales and interim profits.

We generate revenue from sales of cultivation solutions, including ancillary products and services, Agrify Insights™ cultivation software, facility build-outs and extraction equipment and solutions. We believe that our product mix forms an integrated ecosystem which allows us to be engaged with our potential customers from the early stages of the grow cycle — first during the facility build-out, to the choice of cultivation solutions, running the grow business with our Agrify Insights™ cultivation software and finally, our extraction, post-processing and testing services to transform harvest into a sellable product. We believe that the delivery of each solution in the various stages in the process will generate sales of additional solutions and services.

The following table provides a breakdown of our revenue for the three and six months ended June 30, 2022 and 2021:

| (In thousands) | Three Months ended June 30, 2022 | Three Months ended June 30, 2021 | Change | % Change | Six Months ended June 30, 2022 | Six Months ended June 30, 2021 | Change | % Change |
|---|---|---|---|---|---|---|---|---|
| Cultivation solutions, including ancillary products and services | $ 321 | $ 1,124 | $ (803) | (71)% | $ 703 | $ 1,353 | $ (650) | (48)% |
| Agrify Insights™ cultivation software | 44 | — | 44 | 100% | 45 | 8 | 37 | 463% |
| Facility build-outs | 9,006 | 10,701 | (1,695) | (16)% | 22,217 | 17,472 | 4,745 | 27% |
| Extraction solutions | 9,958 | — | 9,958 | 100% | 22,385 | — | 22,385 | 100% |
| Total revenue | $ 19,329 | $ 11,825 | $ 7,504 | 64% | $ 45,350 | $ 18,833 | $ 26,517 | 141% |

Revenues increased by $7.5 million, or 64% for the three months ended June 30, 2022, compared to the same period in 2021. The comparative increase in revenue was generated primarily from extraction solutions sales of equipment and services from our acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021, which contributed $10.0 million in revenue for the three months ended June 30 2022. Sales related to cultivation products decreased by $759 thousand during the three months ended June 30, 2022 primarily due to the variability in the sales cycle associated with our VFU equipment. In addition, comparative quarterly facility build-out revenue decreased by $1.7 million as a result of our legacy facility build-out projects nearing completion.

Revenues increased by $26.5 million, or 141% for the six months ended June 30, 2022, as compared to the same period in 2021. The comparative increase in revenue was generated primarily from extraction solutions sales of equipment and services from our acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021 which contributed $22.4 million in revenue for the six months ended June 30, 2022. Additionally, facility build-out revenues increased by $4.7 million due to the continued build-out of facilities under our TTK Solutions. This was partially offset by a decrease in cultivation product and service sales of $613 thousand.

***Cost of Goods Sold***

Cost of goods sold represents a combination of the following: construction-related costs associated with our facility build-outs, internal and outsourced labor and material costs associated with the assembly of both cultivation equipment (primarily VFUs) and extraction equipment, as well as labor and parts costs associated with the sale or provision of other products and services.

The following table provides a breakdown of our cost of goods sold for the three and six months ended June 30, 2022 and 2021:

| | Three Months ended June 30, | | | | Six Months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | 2022 | 2021 | Change | % Change | 2022 | 2021 | Change | % Change |
| Cultivation solutions, including ancillary products and services | $ 1,335 | $ 1,117 | $ 218 | 20% | $ 1,740 | $ 1,886 | $ (146) | (8)% |
| Agrify Insights™ cultivation software | — | — | — | —% | — | — | — | —% |
| Facility build-outs | 8,712 | 10,181 | (1,469) | (14)% | 21,788 | 16,960 | 4,828 | 28% |
| Extraction solutions | 7,670 | — | 7,670 | 100% | 16,040 | — | 16,040 | 100% |
| Total cost of goods sold | $ 17,717 | $ 11,298 | $ 6,419 | 57% | $ 39,568 | $ 18,846 | $ 20,722 | 110% |

Cost of goods sold increased by $6.4 million, or 57%, for the three months ended June 30, 2022 compared to the same period in 2021. The comparative quarterly increase in the cost of goods sold is largely associated with the incremental expense associated with the sales of our extraction-related equipment, for which there was no associated revenue or expense in the prior year quarterly period. Costs associated with our extraction-related equipment sales totaled $7.7 million in the three months ended June 30, 2022. Additionally, our second quarter cost of goods sold amount for the second quarter of 2022 includes $929 thousand of incremental expense associated with increases to our inventory reserves related to slow-moving inventory, as well as $181 thousand of the incremental cost associated with increases to our warranty reserves.

Cost of goods sold increased by $20.7 million, or 110%, for the six months ended June 30, 2022 compared to the same period in 2021. The comparative quarterly increase in the cost of goods sold is similarly associated with the introduction of our extraction-related equipment sales in the year-to-date 2022 fiscal period. Costs associated with extraction equipment-related equipment sales accounted for $16.0 million of the comparative year-to-date fiscal 2022 increase in cost of goods sold. Additionally, cost of goods sold related to facility build-outs increased by $4.8 million for the six months ended June 30 2022, directly related to the comparative increase in subcontractor construction costs associated with active design and build projects during the first half of the 2022 fiscal year.

***Gross Profit (Loss)***

| | Three Months ended June 30, | | | | Six Months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | 2022 | 2021 | Change | % Change | 2022 | 2021 | Change | % Change |
| Gross profit (loss) | $ 1,612 | $ 527 | $ 1,085 | 206% | $ 5,782 | $ (13) | $ 5,795 | 44,577% |

Gross profit totaled $1.6 million, or 8.3% of total revenue during the three months ended June 30, 2022 compared to a gross profit of $527 thousand, or 4.5% of total revenue during the three months ended June 30, 2021. The comparative $1.1 million second-quarter year-over-year improvement in gross profit, as well as the comparative improvement in gross profit margin, is primarily attributable to the introduction of our extraction solutions revenue in 2022, which contributes to higher gross profit and gross profit margins than those realized on our cultivation-related revenue, which includes our TTK Solutions build-out revenue. During the second quarter of 2022, we realized a gross profit margin of 23% associated with our extraction solutions revenue, while we realized a gross loss of approximately (7)% on our facility build-outs and cultivation-related revenues. Our gross profit and gross profit margins for the three-month period ended June 30, 2022, were negatively impacted as a result of increases in inventory reserves and warranty reserves, which totaled $929 thousand and $181 thousand, respectively. Absent these periodic charges, reported gross profit margins would have been approximately 14.1% during the second quarter of 2022.

Gross profit totaled $5.8 million, or 12.7% of total revenue during the six months ended June 30, 2022 compared to a gross loss of ($13) thousand, or (0.1)% of total revenue during the six months ended June 30, 2021. The comparative $5.8 million year-over-year improvement in gross profit, as well as the comparative improvement in gross profit margin, is similarly attributable to the introduction of our extraction solutions revenue during the first six months of 2022. No extraction solutions-related revenues were recognized during the first six months of 2021. Extraction solutions revenue contributes a higher gross profit and gross profit margins than those realized on our cultivation-related revenue, which includes our TTK Solutions build-out revenue. During the first six months of 2022, we realized a gross profit margin of 28% associated with our extraction solutions revenue, while we realized a gross loss of approximately (2)% on our cultivation-related revenues. As with our second quarter of 2022, our gross profit and gross profit margin for the six months ended June 30, 2022 is also adversely impacted by the inventory and warranty reserves described above.

***General and Administrative***

| | Three Months ended June 30, | | | | Six Months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| **(In thousands)** | **2022** | **2021** | **Change** | **% Change** | **2022** | **2021** | **Change** | **% Change** |
| General and administrative | $ 19,378 | $ 4,399 | $ 14,979 | 341% | $ 29,137 | $ 8,857 | $ 20,280 | 229% |

General and administrative ("G&A") expenses consist principally of salaries and related costs for personnel, including stock-based compensation and travel expenses, associated with executive and other administrative functions. Other G&A expenses include, but are not limited to, professional fees for legal, consulting, depreciation and amortization and accounting services, as well as facility-related costs.

G&A expense increased by $15.0 million, or 341%, for the three months ended June 30, 2022, compared to the same period in 2021. The primary driver of the increase in comparative general and administrative expense in the second quarter of 2022 is largely the result of an $8.6 million increase in trade and loan receivable allowances recorded during the quarter. During the second quarter of 2022, the Company increased its trade receivables reserve by approximately $1.5 million and its loans receivable reserve by approximately $7.1 million, specifically related to Greenstone Holdings ("Greenstone"). Both reserves were deemed necessary due to the current financial instability within the cannabis industry. The Company specifically established the loan reserve related to Greenstone based upon its review of Greenstone's financial stability, which would impact collectability and is primarily the result of unfavorable market conditions within the Colorado market. The Company will continue to monitor the operations of Greenstone in an effort to collect all outstanding receivables but due to the uncertain nature of Greenstone's business at this time the Company has made the decision to place a reserve against the loan receivable amounts. Additional information regarding recent developments with Greenstone may be found in Note 6 – Loan Receivable, included elsewhere in the notes to the condensed consolidated financial statements

Other year-over-year increases in the second quarter of 2022 general and administrative expenses included $3.9 million of incremental G&A expenses related to our acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021, an increase in wage and benefits-related expenses of $1.1 million, an increase in facility and other related expenses of $936 thousand, an $800 thousand legal settlement accrual, an increase in directors' and officers' insurance of $182 thousand, an increase in investor relations of $133 thousand and an increase in depreciation and amortization of $34 thousand.

G&A expense increased by $20.3 million, or 229%, for the six months ended June 30, 2022, compared to the same period in 2021. As described above, the primary drivers of the year-over-year increase in the comparative six-month period G&A expenses are largely attributable to an increase in trade and loan receivable allowances of $7.8 million and $6.9 million of incremental G&A expenses related to our acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021. Other drivers of the comparative year-over-year increase in G&A expense include an increase in payroll and related expenses increase of $2.4 million, an increase in acquisition-related expenses of $2.1 million, an increase in facility and other related expenses of $1.2 million, an increase in investor relations of $339 thousand, an increase in directors' and officers' insurance of $310 thousand, and an increase in depreciation and amortization of $152 thousand. These increases were partially offset by a reduction in stock compensation expense of $892 thousand.

*Selling and Marketing*

| (In thousands) | Three Months ended June 30, 2022 | | Three Months ended June 30, 2021 | | Change | | % Change | Six Months ended June 30, 2022 | | Six Months ended June 30, 2021 | | Change | | % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Selling and marketing | $ | 2,332 | $ | 782 | $ | 1,550 | 198% | $ | 4,422 | $ | 1,398 | $ | 3,024 | 216% |

Selling and marketing expenses consist primarily of salaries and related costs of personnel, travel expenses, trade shows and advertising expenses.

Selling and marketing expenses increased by $1.6 million, or 198%, for the three months ended June 30, 2022, compared to the same period in 2021. The increase is attributable to our acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021 of $802 thousand, an increase in travel and other expenses of $321 thousand, an increase in payroll and related expenses of $278 thousand and an increase in advertising and trade show expenses of $149 thousand.

Selling and marketing expenses increased by $3.0 million, or 216%, for the six months ended June 30, 2022, compared to the same period in 2021. The increase is attributable to our acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021 of $2.2 million, an increase in payroll and related expenses of $513 thousand, an increase in advertising and trade show expenses of $172 thousand and an increase in travel and other expenses of $97 thousand.

*Research and Development*

| (In thousands) | Three Months ended June 30, 2022 | | Three Months ended June 30, 2021 | | Change | | % Change | Six Months ended June 30, 2022 | | Six Months ended June 30, 2021 | | Change | | % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Research and development | $ | 2,438 | $ | 774 | $ | 1,664 | 215% | $ | 4,522 | $ | 1,656 | $ | 2,866 | 173% |

Research and development (“R&D”) expenses consisted primarily of costs incurred for the development of our Agrify Insights™ cultivation software and next-generation generation VFUs, which includes:

- employee-related expenses, including salaries, benefits, and travel;
- expenses incurred by the subcontractor under agreements to provide engineering work related to the development of our next generation VFUs;
- expenses related to our facilities, depreciation, and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies.

R&D expense increased by $1.7 million, or 215%, for the three months ended June 30, 2022, compared to the same period in 2021. The increase in comparative period R&D expenses is attributable to increases in wage and benefits-related expenses of $574 thousand, third-party consulting services of $529 thousand, $467 thousand of incremental R&D expense related to the acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021, and material and other costs of $94 thousand. As a percentage of net revenue, R&D expenses were 12.6% of total revenue for the three months ended June 30, 2022, compared to 6.6% for the three months ended June 30, 2021.

R&D expense increased by $2.9 million, or 173%, for the six months ended June 30, 2022, compared to the same period in 2021. The comparative periodic increase in R&D expense is attributable to third-party consulting services of $988 thousand, increases in wage and benefits-related expenses of $801 thousand, $777 thousand of incremental R&D expense related to the acquisition of Lab Society in 2022 and acquisitions of Precision, Cascade and PurePressure in 2021 and material and other costs of $302. As a percentage of net revenue, R&D expenses were 10% of total revenue for the six months ended June 30, 2022, compared to 8.8% for the six months ended June 30, 2021.

We expect to continue to invest in future developments of our VFUs, Agrify Insights™ cultivation software and our extraction products. Although we continue to increase our investment in R&D activities, we expect R&D expenses to decrease as a percentage of revenue due to our revenue growth.

***Change in contingent consideration***

| | Three Months ended June 30, | | | % | Six Months ended June 30, | | | % |
|---|---|---|---|---|---|---|---|---|
| **(In thousands)** | **2022** | **2021** | **Change** | **Change** | **2022** | **2021** | **Change** | **Change** |
| Change in contingent consideration | $ (907) | $ — | $ (907) | (100)% | $ (907) | $ — | $ (907) | (100)% |

Change in contingent consideration decreased by $(907) thousand, or 100%, for the three months and six months ended June 30, 2022, compared to the same periods in 2021. The change in contingent consideration expense, which was recognized by us during the second quarter of 2022, primarily relates to the reduction in the projected earn-out achievement associated with Lab Society's first twelve-month earn-out period, for which current revenue projections are trending below our original earn-out achievement fair value estimates. During the second quarter of 2022, the Company reduced the current fair value estimate of contingent consideration to be earned by the former members of Lab Society by approximately $(1.0) million. This was partially offset by an increase of $121 thousand to the final contingent consideration amount earned by the former members of Precision and Cascade. As per the guidelines of ASC 805, we are required to record subsequent changes to our original fair value estimates related to contingent consideration as an operating expense in the period of change and not as an increase to goodwill.

***Impairment of Goodwill and intangible assets***

| | Three Months ended June 30, | | | % | Six Months ended June 30, | | | % |
|---|---|---|---|---|---|---|---|---|
| **(In thousands)** | **2022** | **2021** | **Change** | **Change** | **2022** | **2021** | **Change** | **Change** |
| Impairment of Goodwill and intangible assets | $ 69,904 | $ — | $ 69,904 | 100% | $ 69,904 | $ — | $ 69,904 | 100% |

During the three months period ended June 30, 2022, the Company identified a potential impairment triggering event associated with both a sustained decline in our stock price and associated market capitalization, as well as a second-quarter slowdown in the cannabis industry as a whole. Due to these factors, we deemed that there was a need to perform a detailed analysis necessary to support the current carrying value of our long-lived assets, including our goodwill and intangible assets, as of June 30, 2022.

Based on its interim testing, the Company noted that the current carrying value of equity significantly exceeded the calculated fair value of equity, by an amount greater than the aggregate value of our goodwill and intangible assets. Accordingly, the Company concluded that the entire carrying value of its goodwill and intangible assets should be impaired, resulting in a second-quarter impairment charge of $69.9 million. Additional information regarding the Company's interim testing on goodwill may be found in Note 8 – Intangible Assets, Net and Goodwill, included elsewhere in the notes to the condensed consolidated financial statements.

*Other Income (Expense), Net*

| (In thousands) | Three Months ended June 30, 2022 | Three Months ended June 30, 2021 | Change | % Change | Six Months ended June 30, 2022 | Six Months ended June 30, 2021 | Change | % Change |
|---|---|---|---|---|---|---|---|---|
| Interest (expense) income, net | $ (3,311) | $ 55 | $ (3,366) | (6,120)% | $ (2,752) | $ 23 | $ (2,775) | (12,065)% |
| Other expenses | — | (63) | 63 | 100% | — | (63) | 63 | (100)% |
| Change in fair value of warrant liabilities | 20,181 | — | 20,181 | 100% | 30,966 | — | 30,966 | 100% |
| Gain on extinguishment of notes payable | — | — | — | —% | — | 2,685 | (2,685) | (100)% |
| Total other (expense) income, net | $ 16,870 | $ (8) | $ 16,878 | (210,975)% | $ 28,214 | $ 2,645 | $ 25,569 | 967% |

Interest (expense) income, net decreased by $(3.4) million, or 6,120%, for the three months ended June 30, 2022 compared to the same period in 2021. The decrease in interest (expense) income, net primarily is attributable to an increase in interest expense, including the amortization of debt discount costs of $(2.7) million related to our SPA Note. This partially was offset by interest income of $654 thousand from our TTK Solutions.

Interest (expense) income, net decreased by $(2.8) million, or 12,065%, for the six months ended June 30, 2022 compared to the same period in 2021. The decrease in interest (expense) income, net primarily is attributable to an increase in interest expense, including the amortization of debt discount costs, of $(2.9) million related to our SPA Note. This partially was offset by interest income of $1.1 million from our TTK Solutions.

Other expenses of $0 for the three and six months ended June 30, 2022, compared to $(63) thousand for the three and six months ended June 30, 2021 are attributable to the amortization of premiums related to the held to maturity securities.

The change in fair value of warrant liabilities during the three and six months ended June 30, 2022 is related to the fair value remeasurement of warrants issued during the six months ended 2022.

Gain on extinguishment of notes payable decreased by $(2.7) million, or 100%, for the six months ended June 30, 2022 compared to the same period in 2021. We recognized a gain on extinguishment of $2.7 million in connection with the derecognition of the net carrying amount of the extinguished debt of $19.6 million (inclusive of $13.1 million of principal, $7.1 million of derivative liabilities, less $587 thousand of debt discount) and the recognition of the $16.9 million fair value of the new convertible notes (including the same principal amount of $13.1 million plus the $3.8 million fair value of the beneficial conversion feature). Additional information relating to the Company's Gain on extinguishment of notes payable may be found in Note 12 – Convertible Promissory Notes, included elsewhere in the notes to the condensed consolidated financial statements.

*Income Tax Benefit*

| (In thousands) | Three Months ended June 30, 2022 | 2021 | Change | % Change | Six Months ended June 30, 2022 | 2021 | Change | % Change |
|---|---|---|---|---|---|---|---|---|
| Income tax benefit | $ (62) | $ — | $ (62) | 100% | $ (262) | $ — | $ (262) | 100% |
| Effective tax rate | 0.1% | 0.0% | | | 0.3% | 0.0% | | |

The change in the income tax benefit for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 was primarily due to a goodwill impairment charge recorded during the second quarter of 2022 which resulted in a $(62) thousand benefit related to the reversal of our deferred tax liability on indefinite-lived assets.

The change in the income tax benefit for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 was primarily due to a discrete income tax benefit of $(200) thousand recorded during the first quarter of 2022, which is attributable to a non-recurring partial release of our U.S. valuation allowance as a result of the Lab Society acquisition.

***Income (Loss) Attributable to Non-Controlling Interest***

We consolidate the results of operations of two less than wholly-owned entities into our consolidated results of operations. On December 8, 2019, we formed Agrify Valiant LLC, a joint-venture limited liability company in which we are 60% majority owner and Valiant-America, LLC owns 40%. Agrify Valiant LLC started its operations during the second quarter of 2020. On January 22, 2020, as part of the acquisition of TriGrow, we received TriGrow's 75% interest in Agrify Brands, LLC (formerly TriGrow Brands, LLC), a licensor of an established portfolio of consumer brands that utilize our grow technology. The license of these brands is ancillary to the sale of our VFUs and provides a means to differentiate customers' products in the marketplace. It is not a material aspect of our business and we have not realized any royalty income. Accordingly, we are currently evaluating whether to continue this legacy business from an operational standpoint, as well as from a legal and regulatory perspective.

Income (loss) attributable to non-controlling interest represents the portion of profit (or loss) that are attributable to non-controlling interest calculated as a product of the net income of the entity multiplied by the percentage of ownership held by the non-controlling interest.

**Going Concern**

We have incurred operating losses since our inception and have negative cash flows from operations. We also have an accumulated deficit of $131.8 million as of June 30, 2022. In addition, for the quarter ending June 30, 2022, we will recognize significant impairment charges to the carrying value of its goodwill and intangible assets and will be in default of certain financial debt covenants associated with its $65 million senior secured promissory note ("the SPA Note). As a result of its default, we are actively working to restructure our existing SPA Note in order to avoid having the note called by the lender. If the lender were to call the debt instrument due to the default, we would not have sufficient cash on hand as of June 30, 2022 to pay off the existing debt and default penalty amounts. Cash on hand is approximately $59.9 million, while the debt liability, including the potential default penalty, would be approximately $75.0 million as of June 30, 2022.

Subsequent to the end of the second quarter of 2022, we reached an agreement in principle with our institutional lender to amend our existing SPA Note and to modify certain financial covenants which, once complete, should give us additional flexibility to operate and meet our long-term strategic goals while also allowing us to responsibly adjust to the many challenges currently facing the cannabis industry.

These financial statements have been prepared on a going concern basis, which implies we believe these conditions raise substantial doubt about our ability to continue as a going concern within the next twelve-months from the date these financial statements are available to be issued. The Company's continuation as a going concern is dependent upon its ability to obtain necessary debt or equity financing to continue operations until the Company begins generating sufficient cash flows from operations to meet its obligations.

There is no assurance that we will ever be profitable. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should we be unable to continue as a going concern.

**Liquidity and Capital Resources**

As of June 30, 2022, our principal sources of liquidity were cash and cash equivalents and marketable securities totaling $29.9 million and $30 million in restricted cash and restricted marketable securities. Prior to consideration of any debt restructuring, we believe we have sufficient cash on hand to continue operations for the next six to nine months. We have, in each of the past two quarters, used a total of approximately $30.0 million to support our activities in each quarter. Our current working capital needs are to support revenue growth, fund construction and equipment financing commitments associated with our TTK Solutions, manage inventory to meet demand forecasts and support operational growth. Our long-term financial needs primarily include working capital requirements and capital expenditures. We anticipate that we will allocate a significant portion of our current balance of working capital to satisfy the financing requirements of our current and future TTK arrangements. These arrangements require a significant amount of upfront capital necessary to fund construction, associated with facility build-outs, and equipment. There are many factors that may negatively impact our available sources of funds in the future, including the ability to generate cash from operations, raise debt capital and raise cash from the issuance of our securities. The amount of cash generated from operations is dependent upon factors such as the successful execution of our business strategy and general economic conditions.

We may opportunistically raise debt capital, subject to market and other conditions. Additionally, as part of our growth strategies, we may also raise debt capital for strategic alternatives and general corporate purposes. If additional financing is required from outside sources, we may not be able to raise such capital on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition may be adversely affected.

**Indebtedness**

We entered into one Loan Agreement and Promissory Note with Bank of America pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") administered by the U.S. Small Business Administration. We received total proceeds of approximately $779 thousand from the unsecured PPP Loan which was originally scheduled to mature in May 2022. We applied for forgiveness on the $779 thousand of our PPP Loan however was denied by the SBA. On June 23, 2022, we received a letter from Bank of America agreeing to extend the maturity date to May 7, 2025 and bears interest at a rate of 1.00% per year. The PPP loan is payable in 34 equal combined monthly principal and interest payments of approximately $24.0 thousand commencing August 7, 2022.

On March 14, 2022, we entered into a Securities Purchase Agreement with an institutional investor. The Purchase Agreement provides for the issuance of a senior secured note (the "SPA Note") in the aggregate amount of $65 million and a warrant exercisable 34,406 shares of Common Stock, with the potential for two potential subsequent closings for notes with an original principal amount of $35 million each. The initial closing pursuant to this debt facility occurred on March 24, 2022. The SPA Note is a senior secured obligation and ranks senior to all other indebtedness. We will be required to make amortization payments equal to 4.0% of the original principal amount of the SPA Note on the first day of each calendar month starting on February 1, 2023 and extending through the maturity date of March 1, 2026 (the "Maturity Date"), at which time all remaining outstanding principal and accrued but unpaid interest will be due. The SPA Note has an interest rate of 6.75% per year, and we will be required to pay interest on March 1, June 1, September 1, and December 1 of each calendar year through the Maturity Date. Following the one-year anniversary of the SPA Note's issuance, we may, in lieu of paying interest in cash, pay such interest in kind, in which case interest on the SPA Note will be calculated at the rate of 8.75% per year and will be added to the principal amount of the SPA Note.

At any time following the one-year anniversary of the SPA Note's issuance, we may prepay all (but not less than all) of the SPA Note by redemption at a price equal to 106.75% of the then-outstanding principal amount under the SPA Note plus any accrued but unpaid interest. The noteholder also has the option of requiring us to redeem the SPA Note if we undergo a fundamental change at a price equal to 107% of the then-outstanding principal amount under the SPA Note plus any accrued interest.

For the quarter ending June 30, 2022, we will be in default of certain of financial debt covenants associated with its SPA Note. As a result of this default, the lender would have the ability to call the balance of the note, along with a 115% penalty, amounting to a total repayment obligation of approximately $75.0 million ($65.0 million in principal and $9.8 million of default penalty), plus increase the interest due on the outstanding unpaid balance(s) from 6.75% to 15%. All amounts due would immediately become a current liability in the event the lender were to call the note. If the lender were to call the debt instrument due to the default, we would not have sufficient cash on hand as of June 30, 2022 to pay off the existing debt and default penalty amounts. As of June 30, 2022, cash, restricted cash, cash equivalents, and marketable securities totaled approximately $59.9 million, which would be insufficient to cover the combined amount of debt liability, including the default penalty amount.

Subsequent to the end of the second quarter of 2022, we reached an agreement in principle with its institutional lender to amend its existing SPA Note and to modify certain financial covenants which, once complete, should give us additional flexibility to operate and meet its long-term strategic goals while also allowing it to responsibly adjust to the many challenges currently facing the cannabis industry.

**Summary Statement of Cash Flows**

The following table presents the major components of net cash flows from and used in operating, investing, and financing activities for the six months ended June 30, 2022, and 2021:

| **(In thousands)** | **June 30, 2022** | **June 30, 2021** |
|---|---|---|
| **Net cash (used in) provided by:** | | |
| Operating activities | $ (50,491) | $ (13,837) |
| Investing activities | (29,637) | (51,865) |
| Financing activities | 86,722 | 137,432 |
| Net increase in cash and cash equivalents | $ 6,594 | $ 71,730 |

***Cash Flow from Operating Activities***

For the six months ended June 30, 2022, we incurred a net loss of $(72.8) million, which included a non-cash gain related to the remeasurement of warrant liabilities of $31.0 million, non-cash expenses of impairment of goodwill and intangible assets of $69.9 million, a provision of $8.6 million to accounts receivable allowance for doubtful accounts ($7.1 million for doubtful accounts related to Greenstone TTK Solution), amortization of issuance costs and amortization of debt discount related to the SPA Note of $3.1 million, $2.2 million related to depreciation and amortization, $1.9 million in connection with the issuance and acceleration of stock options, non-cash interest income of $1.0 million related to TTK Solutions, a provision of slow-moving inventory of $929 thousand, a $(907) thousand change in fair value of contingent consideration associated with the acquisition of Precision, Cascade and Lab Society and a gain attributed to non-controlling interest in the amount of $4 thousand. Net cash was reduced by a $20.2 million increase in inventory due to demand forecast, a $2.3 million decrease in accounts payable, a $4.3 million increase in accounts receivable, a $4.0 million decrease in accrued expenses and other current liabilities, a $0.8 million decrease in prepaid expenses and other current assets, and a $1.0 million decrease in deferred revenue.

For the six months ended June 30, 2021, we incurred a net loss of $(9.4) million, which included non-cash expenses of $313 thousand related to depreciation and amortization, $3.1 million in connection with the issuance and acceleration of stock options, non-cash interest expenses of $46 thousand related to leases, and gain attributed to non-controlling interest in the amount of $167 thousand. Net cash was reduced by an $11.1 million increase in accounts receivable, a $4.5 million increase in prepaid inventory due to demand forecast and a $2.7 million increase in prepaid expenses, partially offset by a $12.8 million increase in accrued expenses ($11.1 million related to construction costs).

*Cash Flow from Investing Activities*

Net cash used in investing activities primarily relates to net purchases of marketable securities, cash paid associated with our 2022 acquisition of Lab Society, the issuance of loans receivable in connection with our financing of construction and equipment under its TTK Solutions offering, and purchases of property and equipment, expenditures, and purchase of marketable securities. The capital expenditures support growth and investment in property and equipment, to expand research, development, and testing capabilities and, to a lesser extent, the replacement of existing equipment.

For the six months ended June 30, 2022, net cash used in investing activities was $(29.6) million, which included cash outflows of $20.4 million related to the issuance of TTK-related loans receivable, $9.1 million of expenditures for property and equipment, $3.5 million paid in connection with our 2022 acquisitions of Lab Society and $3.4 million in net purchases of marketable securities.

For the six months ended June 30, 2021, net cash used in investing activities was $(51.9) million, which included cash outflows of $1.1 million of leasehold improvements, purchasing computer equipment and small machinery, a $483 thousand issuance of loan receivable and $50.3 million purchases of held to maturity securities.

*Cash Flow from Financing Activities*

For the six months ended June 30, 2022, net cash provided by financing activities was $86.7million. Net cash provided by financing activities was primarily driven by our two private placements during 2022. We received $25.8 million in net proceeds from our issuance of Common Stock and warrants in a private placement, and $62.4 million in net proceeds from our issuance of debt and warrants in a private placement. Additionally, we received $21 thousand in proceeds from the exercise of stock options and warrants. Each of the above inflows of cash was offset by $1.5 million in payments relating to financing loans and financing leases.

For the six months ended June 30, 2021, net cash provided by financing activities was $137.4 million. Net cash provided by financing activities was attributable to $57.0 million proceeds from our initial IPO, $80.0 million from our secondary public offering, both net of fees, and proceeds from the exercise of options and warrants of $726 thousand, offset by $94 thousand payments of financing leases.

**Off-Balance Sheet Arrangements**

During the periods presented, we did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are therefore not exposed to the financing, liquidity, market, or credit risk that could arise if we had engaged in those types of relationships.

**Critical Accounting Policies and Estimates**

Part I, Item, 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions.

These estimates are based on our knowledge and understanding of current conditions and actions that we may take in the future. Changes in these estimates will occur as a result of the passage of time and the occurrence of future events. Subsequent changes in these estimates may have a significant impact on our financial condition and results of operations and are recorded in the period in which they become known. We have identified the following estimates that, in our opinion, are subjective in nature, require the exercise of judgment and involve complex analysis: the fair value of derivative assets and liabilities, goodwill impairment assessment, revenue recognition and cost of goods sold.

The significant accounting policies and estimates that have been adopted and followed in the preparation of our condensed consolidated financial statements are detailed in Note 2 - Summary of Significant Accounting Policies included in our 2021 Annual Report and Note 1 - Overview, Basis of Presentation and Significant Accounting Policies to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q. There have been no changes in these policies and estimates that had a significant impact on the financial condition and results of operations for the periods covered in this Quarterly Report.

**Recently Issued Accounting Pronouncements Adopted**

For more information on recently issued accounting pronouncements are included within Note 2 - Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to condensed consolidated financial statements covered under Part I, Item 1 of this Quarterly Report on Form 10-Q.

**New Accounting Pronouncements Not Yet Adopted**

For more information on new accounting pronouncements not yet adopted are included within Note 2 - Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to condensed consolidated financial statements covered under Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

**Item 4. Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure.

*Evaluation of Disclosure Controls and Procedures*

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures.

The Company identified errors in the accounting for previously issued warrants, debt issuance costs and the classification of debt. Therefore, the Company restated it’s unaudited condensed financial statements as of and for the periods ended March 31, 2022, June 30, 2022 and September 30, 2022. In connection with the restatements, the Company identified a material weakness in its internal controls related to accounting for complex financial instruments. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.

*Changes in Internal Control Over Financial Reporting*

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In light of the restatement of our financial statements as described above, we plan to enhance our processes to identify and appropriately apply applicable accounting requirements to better evaluate and understand the nuances of the complex accounting standards that apply to our condensed consolidated financial statements. Our plans at this time include providing enhanced access to accounting literature, research materials and documents and increased communication among our personnel and third-party professionals with whom we consult regarding complex accounting applications. The elements of our remediation plan can only be accomplished over time, and we can offer no assurance that these initiatives will ultimately have the intended effects.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we are a party to various legal proceedings or claims arising in the ordinary course of business. For information related to legal proceedings, see the discussion under the caption Legal Matters in Note 18 - Commitments and Contingencies to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report, which information is incorporated by reference into this Part II, Item 1.

### Item 1A. Risk Factors

As of the date of this report, there are no material changes to our risk factors as previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 10.1† | Separation Agreement of Thomas Massie, dated as of July 8, 2022 on Form 8-K filed with the Securities and Exchange Commission on July 14, 2022. |
| 10.2† | Employment Agreement, dated as of July 14, 2022, between the Registrant and Stuart Wilcox (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14,2022). |
| 31.1* | Rule 13(a)-14(a)/15(d)-14(a) Certification of principal executive officer and principal financial and accounting officer |
| 32.1** | Section 1350 Certification of principal executive officer and principal financial and accounting officer |
| 101.INS | Inline XBRL Instance Document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* Filed herewith.

** Furnished herewith in accordance with Item 601 (b)(32) of Regulation S-K.

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

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**AGRIFY CORPORATION**

By: /s/ Raymond Chang
Raymond Chang
Chief Executive Officer
(Principal Executive Officer and
Principal Financial and Accounting Officer)

Date: October 2, 2023

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Raymond Chang, certify that:

1. I have reviewed this Amendment No. 1 to the Quarterly Report on Form 10-Q of Agrify Corporation (the "Company") for the quarterly period ended June 30, 2022;

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;

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 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;

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: October 2, 2023

| | |
|---|---|
| By: | /s/ Raymond Chang |
| Name: | Raymond Chang |
| Title: | Chief Executive Officer<br>(Principal Executive Officer and Principal Financial and Accounting Officer) |

**Exhibit 32.1**

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

In connection with Amendment No. 1 to the Quarterly Report on Form 10-Q of Agrify Corporation (the “Company”) for the quarterly period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, in the capacity and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(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 result of operations of the Company.

Date: October 2, 2023

| | |
|---|---|
| By: | /s/ Raymond Chang |
| Name: | Raymond Chang |
| Title: | Chief Executive Officer<br>(Principal Executive Officer and Principal Financial and Accounting Officer) |