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

FORM 10-Q

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

For the quarterly period ended June 30, 2024

or

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

For the transition period from _________ to _________

Commission File Number: 001-39946

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)

(855) 420-0020
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, 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 ☒

As of August 14, 2024, the registrant had 14,230,447 shares of common stock, $0.001 par value per share outstanding.

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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, 2024	December 31, 2023
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 53	$ 430
Marketable securities	4	4
Accounts receivable, net of allowance for credit losses of $2,563 and $1,887 at June 30, 2024 and December 31, 2023, respectively	272	1,149
Inventory, net of reserves of $16,507 and $17,599 at June 30, 2024 and December 31, 2023, respectively	18,427	19,094
Loans receivable, current	1,295	—
Prepaid expenses and other current assets	663	3,332
Total current assets	20,714	24,009
Loans receivable, net of allowance for credit losses of $18,885 and $19,215 at June 30, 2024 and December 31, 2023, respectively, net of current	10,288	11,583
Property and equipment, net	6,954	7,734
Operating lease right-of-use assets	1,333	1,803
Other non-current assets	97	141
Total assets	$ 39,386	$ 45,270
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 12,038	$ 20,766
Accrued expenses and other current liabilities	7,410	10,655
Operating lease liabilities, current	539	599
Long-term debt, current	582	766
Related party debt, current	732	4,444
Contract liabilities	3,847	4,019
Total current liabilities	25,148	41,249
Warrant liabilities	503	1,290
Operating lease liabilities, net of current	960	1,394
Related party debt, net of current	4,278	—
Long-term debt, net of current	3	16,047
Total liabilities	30,892	59,980
Commitments and contingencies (Note 14)		
Stockholders' equity (deficit):		
Common Stock, $0.001 par value per share, 35,000,000 and 10,000,000 shares authorized at June 30, 2024 and December 31, 2023, respectively, 14,230,004 and 1,701,243 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively [(1)]	14	2
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	272,783	250,855
Accumulated deficit	(264,533)	(265,797)
Total stockholders' equity (deficit) attributable to Agrify	8,264	(14,940)
Non-controlling interests	230	230
Total stockholders' equity (deficit)	8,494	(14,710)
Total liabilities and stockholders' equity (deficit)	$ 39,386	$ 45,270

(1) Periods presented have been adjusted to reflect 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 in the notes to the 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,	
	2024	**2023**	**2024**	**2023**
Revenue (including $0, $0, $0, and $46 from related parties, respectively)	$ 2,994	$ 5,066	$ 5,592	$ 10,870
Cost of goods sold	1,867	4,466	4,300	9,282
Gross profit	1,127	600	1,292	1,588
General and administrative	2,268	4,819	6,362	11,745
Selling and marketing	394	1,120	856	2,710
Research and development	185	643	460	1,378
Gain on settlement of contingent liabilities	—	—	(5,935)	—
Gain on early termination of lease	(39)	—	(39)	—
(Gain) loss on disposal of property and equipment	(9)	—	(9)	5
Change in contingent consideration	—	(638)	(2,180)	(1,322)
Total operating expenses	2,799	5,944	(485)	14,516
Operating (loss) income	(1,672)	(5,344)	1,777	(12,928)
Interest income (expense), net	(28)	(400)	(128)	(1,199)
Change in fair value of warrant liabilities	(1,277)	(1,048)	(404)	1,624
Loss on extinguishment of long-term debt, net	—	(11)	—	(4,631)
Other income (expense), net	5	(4)	19	—
Total other expense, net	(1,300)	(1,463)	(513)	(4,206)
Net (loss) income	(2,972)	(6,807)	1,264	(17,134)
Loss attributable to non-controlling interest	—	2	—	2
Net (loss) income attributable to Agrify Corporation	$ (2,972)	$ (6,805)	$ 1,264	$ (17,132)
Net (loss) income per share attributable to Common Stockholders – basic (1)	$ (0.14)	$ (4.39)	$ 0.09	$ (13.05)
Net (loss) income per share attributable to Common Stockholders – diluted (1)	$ (0.14)	$ (4.39)	$ 0.06	$ (13.05)
Weighted average common shares outstanding - basic	20,812,678	1,549,669	14,853,454	1,312,299
Weighted average common shares outstanding - diluted	20,812,678	1,549,669	29,771,039	1,312,299

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

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

AGRIFY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)
(Unaudited)

	Common Stock		Preferred Stock		Preferred A Stock		Additional Paid-In-Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit) attributable to Agrify	Non-Controlling Interests	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at January 1, 2023	1,038,298	$ 1	—	$ —	—	$ —	$ 237,875	$ (247,148)	$ (9,272)	$ 231	$ (9,041)
Stock-based compensation	—	—	—	—	—	—	859	—	859	—	859
Issuance of Common Stock through an at the market offering, net of fees	323,082	—	—	—	—	—	1,545	—	1,545	—	1,545
Issuance of Common Stock to Pure Pressure	366	—	—	—	—	—	—	—	—	—	—
Vesting of restricted stock units	17	—	—	—	—	—	—	—	—	—	—
Proceeds from Employee Stock Purchase Plan Shares	2,500	—	—	—	—	—	25	—	25	—	25
Net loss	—	—	—	—	—	—	—	(10,327)	(10,327)	—	(10,327)
Balance March 31, 2023	**1,364,263**	**1**	—	—	—	—	**240,304**	**(257,475)**	**(17,170)**	**231**	**(16,939)**
Stock-based compensation	—	—	—	—	—	—	752	—	752	—	752
Issuance of held-back shares to Lab Society	499	—	—	—	—	—	—	—	—	—	—
Exercise of prefunded warrants in private placement	35,000	—	—	—	—	—	—	—	—	—	—
Conversion of Exchange Note	69,567	—	—	—	—	—	2,146	—	2,146	—	2,146
Conversion of Convertible Note	153,617	1	—	—	—	—	1,171	—	1,172	—	1,172
Net loss	—	—	—	—	—	—	—	(6,807)	(6,807)	2	(6,805)
Balance June 30, 2023	**1,622,946**	**$ 2**	**—**	**$ —**	**—**	**$ —**	**$ 244,373**	**$ (264,282)**	**$ (19,907)**	**$ 233**	**$ (19,674)**

	Common Stock		Preferred Stock		Preferred A Stock		Additional Paid-in-Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit) attributable to Agrify	Non-Controlling Interests	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at January 1, 2024	1,701,243	$ 2	—	$ —	—	$ —	$ 250,855	$ (265,797)	$ (14,940)	$ 230	$ (14,710)
Stock-based compensation	—	—	—	—	—	—	490	—	490	—	490
Issuance of Common Stock and prefunded warrants through public offering	2,760,000	3	—	—	—	—	2,120	—	2,123	—	2,123
Issuance of held-back shares from Sinclair acquisition	588	—	—	—	—	—	—	—	—	—	—
Cashless exercise of High Trail Warrants	3,132,217	3	—	—	—	—	(3)	—	—	—	—
Exercise of Prefunded Warrants issued through public offering	3,010,000	3	—	—	—	—	—	—	3	—	3
Conversion of Convertible Note	2,671,633	2	—	—	—	—	1,729	—	1,731	—	1,731
Contribution from troubled debt restructuring with related party	—	—	—	—	—	—	676	—	676	—	676
Stock split share adjustment	21	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	4,236	4,236	—	4,236
Balance March 31, 2024	**13,275,702**	**13**	—	—	—	—	**255,867**	**(261,561)**	**(5,681)**	**230**	**(5,451)**
Stock-based compensation	—	—	—	—	—	—	81	—	81	—	81
Exercise of Prefunded Warrants issued through public offering	953,684	1	—	—	—	—	—	—	1	—	1
Conversion of related party debt into prefunded warrants	—	—	—	—	—	—	10,044	—	10,044	—	10,044
Issuance of equity classified prefunded warrants	—	—	—	—	—	—	6,791	—	6,791	—	6,791
Issuance of vested RSUs, net of shares held back to offset tax	618	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(2,972)	(2,972)	—	(2,972)
Balance June 30, 2024	**14,230,004**	**$ 14**	**—**	**$ —**	**—**	**$ —**	**$ 272,783**	**$ (264,533)**	**$ 8,264**	**$ 230**	**$ 8,494**

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

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

	For the six months ended June 30,	
	2024	**2023**
Cash flows from operating activities:		
Net income (loss) attributable to Agrify Corporation	$ 1,264	$ (17,132)
Adjustments to reconcile net income (loss) attributable to Agrify Corporation to net cash used in operating activities:		
Depreciation and amortization	782	938
Amortization of debt discount	—	70
Amortization of issuance costs	—	24
Amortization of right of use assets	290	505
Stock based compensation expense	571	1,611
Change in fair value of warrant liabilities	404	(1,624)
Loss on extinguishment of long-term debt, net	—	4,631
Change in provision for credit losses, net	346	(542)
Change in inventory reserves	(1,092)	(337)
(Gain) loss on disposal of property and equipment	(9)	5
Gain on early termination of lease	(39)	—
Gain on settlement of contingent liabilities	(5,935)	—
Change in accrued acquisition liabilities due to issuance of held-back shares	(2,180)	—
Loss attributable to non-controlling interests	—	(2)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	201	264
Inventory	1,759	3,030
Prepaid expenses and other current assets	2,686	739
Other non-current assets	44	170
Accounts payable	(2,792)	1,237
Accrued expenses and other current liabilities	(669)	(4,261)
Operating lease liabilities	(275)	(441)
Contract liabilities	(172)	(519)
Net cash and cash equivalents used in operating activities	(4,816)	(11,634)
Cash flows from investing activities:		
Purchases of property and equipment	(4)	(60)
Proceeds from disposal of property and equipment	10	5
Proceeds from sale of marketable securities	—	10,456
Issuance of loans receivable	—	(591)
Proceeds from repayment of loans receivable	330	1,548
Net cash and cash equivalents provided by investing activities	336	11,358
Cash flows from financing activities:		
Proceeds from Issuance of Common Stock through an S-1 and Prefunded Warrants offering	2,123	—
Proceeds from issuance of Common Stock through an at the market offering, net of fees	—	1,545
Proceeds from Employee Stock Purchase Plan Shares	—	25
Proceeds from exercise of S-1 Prefunded Warrants	4	—
Proceeds from issuance of related party notes	2,294	—
Repayments of notes payable, other	—	(71)
Repayment of debt in private placement	—	(10,307)
Payments on other financing loans	(1)	(2)
Payments on insurance financing loans	(317)	(999)
Payments of financing leases	—	(64)
Net cash and cash equivalents provided by (used in) financing activities	4,103	(9,873)
Net decrease in cash and cash equivalents	(377)	(10,149)
Cash and cash equivalents at the beginning of period	430	10,457
Cash and cash equivalents at the end of period	$ 53	$ 308
Supplemental disclosures		
Cash paid for interest	$ 95	$ 64
Supplemental disclosures of non-cash flow information		
Cashless exercise of High-Trail warrants	$ 3	$ —
Financing of prepaid insurance	$ 17	$ 1,820
Transfer of loans receivable from noncurrent to current	$ 1,295	$ —
Transfer of property and equipment to inventory	$ —	$ 33
Reclassification of liability classified prefunded warrants to equity	$ 6,791	$ —
Conversion of related party debt into warrants	$ 10,044	$ —
Accrued interest consolidated into related party debt	$ 364	$ —
Contribution from troubled debt restructuring with related party	$ 676	$ —
Consolidation of related party debt principal	$ 3,799	$ —

Conversion of convertible notes into equity	$	1,731	$	3,160
Non-cash amounts of lease liabilities arising from obtaining right-of-use assets	$	—	$	654

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 a provider of innovative 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 we believe to be unmatched consistency, yield, and return investment at scale. The Company's comprehensive extraction product line, which includes hydrocarbon, alcohol, solventless, post-processing, and lab equipment, empowers producers to maximize the quantity and quality of extract required for premium concentrates.

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" and the Company also has ownership interests in certain companies.

Nasdaq Deficiency Notice

The Nasdaq Notice had no immediate effect on the listing of the Company's Common Stock on The Nasdaq Stock Market LLC.

On October 17, 2023, the Company received a Staff Delisting Determination (the "Staff Determination") from the Listing Qualifications Department of Nasdaq notifying the Company that it was not in compliance with Nasdaq's continued listing requirements under the Listing Rule as a result of its failure to file the First Quarter Form 10-Q, the Second Quarter Form 10-Q and the Form 10-K (collectively, the "Delinquent Reports") in a timely manner.

On November 16, 2023, the Company received a notice from Nasdaq that the Company remains noncompliant with the Listing Rule as a result of its failure to file its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2023 with the SEC by the required filing date.

On December 1, 2023, the Company received a notice from The Nasdaq Stock Market LLC ("Nasdaq") stating that because the Company reported stockholders' deficit of $(17.17) million in its Form 10-Q for the quarter ended March 31, 2023, the Company was no longer in compliance with Nasdaq Listing Rule 5550(b)(1) (the "Primary Equity Listing Rule"), which requires that listed companies maintain a minimum of $2.5 million in stockholders' equity. In response, the Company timely requested a hearing before a Nasdaq Hearings Panel (the "Panel"), which stayed any further action by the Listing Qualifications Staff. The hearing was held on January 11, 2024. The Company arrived at the hearing having previously cured any additional grounds for delisting as a result of delinquent periodic filings during 2023 that were filed prior to the hearing.

On January 30, 2024, the Company received formal notice that the Panel had granted the Company's request for an exception through April 15, 2024 to evidence compliance with the Listing Rule, which was subsequently extended to May 15, 2024. Accordingly, there can be no assurance that the Company will be able to regain compliance with the Nasdaq listing rules or maintain its listing on the Nasdaq Capital Market. If the Company's common stock is delisted, it could be more difficult to buy or sell the Company's common stock or to obtain accurate quotations, and the price of the Company's common stock could suffer a material decline. Delisting could also impair the Company's ability to raise capital.

On March 5, 2024, the Company received a deficiency letter from the Staff of 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 continued listing on the Nasdaq Stock Market under Nasdaq Listing Rule 5550(a)(2) (the "Minimum Bid Requirement"). The Notice has no immediate effect on the listing of the Company's common stock on Nasdaq. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has 180 calendar days to regain compliance with the Minimum Bid Requirement. The compliance period for the Company will expire on September 3, 2024.

As a result of the conversion of the Convertible Note and the Restated Junior Note as set forth below in Note 7, the Company believes it has stockholders’ equity of at least $2.5 million as of the date of this filing, as required by the Listing Rule

On May 28, 2024, the Company had received formal written notice from Nasdaq confirming that the Company has regained compliance with the minimum stockholders’ equity requirement as set forth in Nasdaq Listing Rule 5550(b)(1).

Restatement of Previously Issued Quarterly Condensed Consolidated Financial Statements for the Three Months Ended March 31, 2024

As further described below, our unaudited condensed consolidated financial statements covering the quarterly reporting period ended March 31, 2024 have been revised to reflect the correction of errors.

Restatement Background

The need for the restatement arose out of the results of certain reassessment by the Company of the accounting for the settlement agreement entered into by the Company with Mack Molding Co which became effective in the first quarter of 2024 (See Note 14 - Commitments and Contingencies). Management determined that the gain from the derecognized contingent liability should be recognized fully in Q1, rather than over time as previously reported. Consequently, the Company concluded that the accounting treatment applied in the first quarter of 2024 was not appropriate. Therefore, the Company misstated inventory, accounts payable, notes payable, accumulated deficit and total stockholders' equity (deficit), on the face of the unaudited condensed consolidated balance sheet as of March 31, 2024, and cost of goods sold, general and administrative expenses, gain on settlement of contingent liabilities, and interest income (expense), net, on the unaudited condensed consolidated statement of operations, for the three months ended March 31, 2024. The Company principally attributes the errors to a material weakness in internal controls over financial reporting, as disclosed in Item II, Part 9A of this Annual Report on Form 10-K. The Company has commenced procedures to remediate the material weaknesses. However, these material weaknesses will not be considered remediated until the applicable remedial actions have been fully implemented and the Company has concluded that these controls are operating effectively for a sufficient period of time.

Restatement Adjustments

The following table summarizes the effect of the errors on the Company’s unaudited condensed consolidated balance sheet as of March 31, 2024 and unaudited condensed consolidated statement of operations and consolidated statement of cash flows for the three months ended March 31, 2024:

	March 31, 2024 As Previously Reported	Adjustment	March 31, 2024 As Restated
Inventory	$ 18,862	$ (214)	$ 18,648
Accounts payable	12,428	350	12,778
Notes payable, current	$ 1,374	$ (1,374)	$ —
Notes payable, net of current	3,464	(3,464)	—
Accumulated deficit	(265,835)	4,274	(261,561)
Total stockholders’ equity (deficit)	(9,725)	4,274	(5,451)

	Three Months Ended March 31, 2024 As Previously Reported	Adjustment	Three Months Ended March 31, 2024 As Restated
Cost of goods sold	$ 1,869	$ 564	$ 2,433
Gross profit	729	(564)	165
General and administrative	2,952	1,142	4,094
Gain on settlement of contingent liabilities	—	(5,935)	(5,935)
Operating (loss) income	(780)	4,229	3,449
Interest income (expense), net	(145)	45	(100)
Net (loss) income	(38)	4,274	4,236
Basic	$ 0.00	$ 0.48	$ 0.48
Diluted	$ 0.00	$ 0.23	$ 0.23

While the adjustments changed net loss, gain on supply agreement, gain on revaluation of contingent liability, gain on settlement of contingent liabilities, inventory and accounts payable line items in the unaudited condensed consolidated cash flow statement, they did not have an impact on total net cash used in operating activities, net cash used in investing activities, or net cash provided by financing activities.

	Three Months Ended March 31, 2024 As Previously Reported	Adjustment	Three Months Ended March 31, 2024 As Restated
Cash flows from operating activities			
Net loss	$ (38)	$ 4,274	$ 4,236
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on supply agreement	(1,142)	1,142	—
Gain on revaluation of contingent liability	(564)	564	—
Gain on settlement of contingent liabilities	—	(5,935)	(5,935)
Changes in operating assets and liabilities			
Inventory	1,211	(350)	861
Accounts payable	(2,361)	305	(2,056)
Net cash used in operating activities	**$ (2,987)**	**$ —**	**$ (2,987)**

Basis of Presentation and Principles of Consolidation

These unaudited condensed consolidated financial statements of the Company and its subsidiaries are unaudited. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures necessary for a fair presentation of these unaudited condensed consolidated financial statements have been included. The results reported in the unaudited condensed consolidated financial statements for any interim periods are not necessarily indicative of the results that may be reported for the entire year. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all information and footnotes necessary for a complete presentation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP").

Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 filed with the Securities and Exchange Commission on April 15, 2024.

Accounting for Wholly-Owned Subsidiaries

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its wholly-owned subsidiaries, as described above, in accordance with the provisions required by Accounting Standards Codification ("ASC") Topic 810, *Consolidation* ("ASC 810") of the Financial Accounting Standards Board ("FASB"). 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 Agrify Brands, LLC ("Agrify Brands"), the Company first analyzes whether these entities are a variable interest entity (a "VIE") in accordance with ASC 810, and if so, whether the Company is the primary beneficiary requiring consolidation. 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 Brands is a VIE, and that the Company is the primary beneficiary. While the Company owns 75% of Agrify Brand's equity interests, the remaining equity interests in Agrify Brands 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 Brands under the VIE rules and reflects the third parties' interests in the unaudited 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.

Going Concern

In accordance with the 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 and a working capital deficit of $4.4 million. The Company also has an accumulated deficit of $264.5 million as of June 30, 2024. The Company's primary sources of liquidity are its cash and cash equivalents and marketable securities, with additional liquidity accessible, subject to market conditions and other factors, including limitations that may apply to the Company under applicable SEC regulations, from the capital market. As of June 30, 2024, the Company had $0.1 million of cash, cash equivalents, and marketable securities. The Company had no restricted cash as of June 30, 2024. Current liabilities were $25.1 million as of June 30, 2024.

These unaudited condensed consolidated 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 unaudited condensed consolidated financial statements are available to be issued. The Company's continuation as a going concern is dependent upon its ability to obtain the necessary debt or equity financing to continue operations until the Company begins generating sufficient cash flows from operations to meet its obligations. If the Company is unable raise additional funds, it may be forced to cease operations.

During the six months ended June 30, 2024, the Company raised net proceeds of $2.2 million via the issuance of common stock and prefunded warrants in a public offering through Alexander Capital and is recorded within common stock and additional paid-in capital on the Company's unaudited condensed consolidated balance sheet. During this period, the Company also raised an additional $2.3 million in proceeds through the issuance of notes to related parties. The Company intends to raise additional capital later this year to support its 2024 and 2025 funding needs. The Company also continues to make additional adjustments in headcount, salary, travel, sales and marketing spending, but there is no guarantee that these ongoing cost-cutting efforts or capital raises will be sufficient to maintain operations.

There is no assurance that the Company will ever be profitable or that future capital raising efforts will be successful. One of the Company's primary sources of funding is CP Acquisitions LLC, however, there is no guarantee that CP Acquisitions will continue to fund Agrify operations through additional financing arrangements. The CEO has been supporting the Company's cash flow needs, however, this support alone cannot ensure that all current and future obligations will be met. The unaudited condensed consolidated financial statements do not include any adjustments to reflect the potential 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 U.S. 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 consolidated financial statements, and the reported amounts of expenses during the reporting period. Significant estimates include assumptions about collection of accounts and loans receivable, the valuation and recognition of stock-based compensation expense, valuation allowance for deferred tax assets, the valuation of inventory, and useful life of property and equipment. The Company bases its estimates on historical experience, known trends and other market-specific information, other relevant factors that it believes to be reasonable under the circumstances, and management's judgement. On an ongoing basis, the Company 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.

The Company regularly evaluates its assets, including asset groups or reporting units, for impairment in accordance with U.S. GAAP. The Company is aware of the impact that prolonged net losses can have on the fair value of underlying assets and the overall company. The Company is committed to ensuring that the carrying amounts of its assets are appropriately assessed and adjusted for any impairment, reflecting a true and fair view of its financial position.

Accounts Receivable, Net and Loans Receivable, Net

Accounts receivable, net, primarily consists of amounts for goods and services that are billed and currently due from customers. The composition of loan receivable, net is detailed in Note 5 - Loans Receivable. In accordance with ASC 310-10, accounts receivable and loan receivable balances are presented net of an allowance for credit losses, which are an estimate of billed or borrowed 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 or borrower collection matters, including the aging of unpaid accounts receivable and changes in customer or borrower financial conditions. Accounts and loans 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 unaudited 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, marketable securities, accounts receivable, and loans 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 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:

For the three and six months ended June 30, 2023 and 2022, the Company’s customers that accounted for 10% or more of the total revenue were as follow:

	Three months ended June 30, 2024		Three months ended June 30, 2023		Six months ended June 30, 2024		Six months ended June 30, 2023	
(In thousands)	**Amount**	**% of Total Revenue**	**Amount**	**% of Total Revenue**	**Amount**	**% of Total Revenue**	**Amount**	**% of Total Revenue**
Customer A	*	*	*	*	*	*	$ 627	5.8%
Customer B	$ 430,456	14.4%	*	*	*	*	*	*

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

As of June 30, 2024 and December 31, 2023, the Company’s customers that accounted for 10% or more of the total accounts receivable, net, were as follows:

	As of June 30, 2024		As of December 31, 2023	
(In thousands)	**Amount**	**% of Total Accounts Receivable**	**Amount**	**% of Total Accounts Receivable**
Company Customer Number – 114	$ 35	12.9%	*	*
Company Customer Number – 125	$ 51	18.8%	*	*
Company Customer Number – 9142	$ 28	10.1%	*	*
Company Customer Number – 15095	*	*	$ 712	62.0%
Company Customer Number – 10888	*	*	$ 251	21.8%

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

As of June 30, 2024 and December 31, 2023, the Company's borrowers that accounted for 10% or more of the total loans receivable, net, were as follows:

	As of June 30, 2024		As of December 31, 2023	
(In thousands)	**Amount**	**% of Total Loans Receivable**	**Amount**	**% of Total Loans Receivable**
Borrower - 01	$ 6,809	59%	$ 6,809	59%
Borrower - 02	$ 4,774	41%	$ 4,774	41%

Inventories

The Company values all 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 a physical inventory count 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	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 expense 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 sheets and any resulting gain or loss is included in the condensed consolidated statements 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. During construction, costs are accumulated in a construction-in-progress account, with no depreciation. Upon completion, costs are transferred to the appropriate asset account, and depreciation begins when the asset is placed into service.

Warrant Liabilities

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. The Company evaluates all its financial instruments, including issued private placement stock purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives, pursuant to ASC Topic 480, *Distinguishing Liabilities from Equity* ("ASC 480") and ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in ASC 480 and ASC 815. Management's assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, whether they meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's own Common Stock among other conditions for equity classification.

For issued or modified warrants that meet all of the criteria for equity classification, they are recorded as a component of additional paid-in capital at the time of issuance. For issued or modified warrants that are precluded from equity classification, they are recorded as a liability at their initial fair value on the date of issuance and subject to remeasurement on each balance sheet date with changes in the estimated fair value of the warrants to be recognized as an unrealized gain or loss in the unaudited condensed consolidated statements of operations.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, loans receivable, accounts payable, accrued expenses, contingent consideration, operating lease liabilities, long-term debt, related party debt, and warrant liabilities. Refer to Note 4 - Fair Value Measures, included elsewhere in the notes to the unaudited condensed consolidated financial statements for details of the Company's financial instruments.

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 is probable. Specifically, the Company obtains written/electronic signatures on contracts and purchase orders, 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 service ("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 the 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. As of June 30, 2024 and June 30, 2023, 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 contract liabilities 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 receivable are recorded when the customer has been billed or the right to consideration is unconditional. The Company recognizes a contract liability 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 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 maintained a reserve for warranty returns of $0.3 million and $0.4 million as of June 30, 2024 and December 31, 2023, respectively. The Company’s reserve for warranty returns is included in accrued expenses and other current liabilities in its unaudited condensed consolidated balance sheets. Additional information regarding the Company’s warranty reserve may be found in Note 3 – Supplemental Condensed Consolidated Balance Sheet Information, included elsewhere in the notes to the unaudited condensed consolidated financial statements.

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 ("Agrify Insights™").

Net (Loss) Income Per Share

The Company presents basic and diluted net (loss) income per share attributable to Common Stockholders in conformity with the one-class method. The Company computes basic (loss) income per share by dividing net (loss) income available to Common Stockholders by the weighted-average number of Common Stock outstanding. Diluted (loss) income per share adjusts basic (loss) income per share for the potentially dilutive impact of convertible notes, stock options, restricted stock units and warrants. As the Company has reported losses for the three months ended June 30, 2024 and 2023 and the six months ended June 30, 2023, all potentially dilutive securities including convertible notes, stock options, restricted stock units and warrants, are anti-dilutive, and accordingly, basic net loss per share equals diluted net loss per share for those periods. For the six months ended June 30, 2024, the Company adjusts the net income available to Common Stockholders and the weighted average common stock outstanding for the effect of dilutive securities as presented within Note 13 — Net (Loss) Income Per Share.

Net (loss) income per share calculations for all periods have been adjusted to reflect the reverse stock split effected on July 5, 2023.

Recently Announced Accounting Pronouncements

On December 14, 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, a final standard on improvements to income tax disclosures. The standard requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard applies to all entities subject to income taxes and is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions. For public business entities (PBEs), the new requirements will be effective for annual periods beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. The Company is currently in the process of evaluating the effect of this guidance on its financial statements.

Other recent accounting pronouncements did not or are not believed by management to have a material impact on the Company's present or future condensed consolidated financial statements.

Note 2 — Revenue and Contract Liabilities

Revenue

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 a 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-materials 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:

(In thousands)	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Transferred at a point in time	$ 2,760	$ 4,583	$ 5,225	$ 9,553
Transferred over time	234	483	367	1,317
Total revenue	$ 2,994	$ 5,066	$ 5,592	$ 10,870

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.

Contract Liabilities

Changes in the Company’s current contract liabilities balance for the six months ended June 30, 2024 and for the year ended December 31, 2023 were as follows:

(In thousands)	Six months ended June 30, 2024	Year ended December 31, 2023
Contract liabilities – beginning of period	$ 4,019	$ 4,112
Additions	2,383	4,905
Recognized	(2,555)	(4,998)
Contract liabilities – end of period	$ 3,847	$ 4,019

Contract liabilities balances primarily consist of customer deposits on the Company’s cultivation and extraction solutions equipment. As of June 30, 2024 and December 31, 2023, all of the Company’s contract liabilities balances were reported as current liabilities in the accompanying condensed consolidated balance sheets.

Note 3 — Supplemental Condensed Consolidated Balance Sheet Information

Accounts Receivable, Net

Accounts receivable consisted of the following as of June 30, 2024 and December 31, 2023:

(In thousands)	June 30, 2024	December 31, 2023
Accounts receivable, gross	$ 2,835	$ 3,036
Less allowance for credit losses	(2,563)	(1,887)
Accounts receivable, net	$ 272	$ 1,149

The movements in the Company’s credit losses accounts were as follow:

(In thousands)	Six months ended June 30, 2024	Year ended December 31, 2023
Allowance for credit losses - beginning of period	$ 1,887	$ 4,605
(Recovery of) allowance for credit losses	698	(1,426)
Accounts receivable written-off	(22)	(1,292)
Allowance for credit losses - end of period	$ 2,563	$ 1,887

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of June 30, 2024 and December 31, 2023:

(In thousands)	June 30, 2024	December 31, 2023
Receivable from legal settlement	$ 318	$ 625
Prepaid insurance	173	454
Prepaid expenses, other	77	82
Other receivables	57	34
Prepaid software	24	70
Prepaid materials	14	13
Prepaid settlement asset	—	2,054
Total prepaid expenses and other current assets	$ 663	$ 3,332

The Company recorded in the fourth quarter of the year ended December 31, 2023 a prepaid settlement asset in connection with the Modification and Settlement Agreement entered into with Mack Molding Co. as described in detail within Note 14 — Commitments and Contingencies. This amount represents the value of warrants to be issued to Mack Molding Co. upon satisfaction of the terms of the settlement agreement and one $500 thousand prepayment to Mack Molding Co. During the quarter ended March 31, 2024, the conditions of the agreement were met and the prepaid settlement asset was derecognized and recorded into gain on settlement of contingent liabilities upon the closing of the settlement.

Property and Equipment, Net

Property and equipment, net consisted of the following as of June 30, 2024 and December 31, 2023:

(In thousands)	June 30, 2024	December 31, 2023
Leased equipment	$ 4,465	$ 4,465
Machinery and equipment	905	904
Software	606	606
Computer and office equipment	546	588
Leasehold improvements	200	702
Research and development laboratory equipment	175	183
Furniture and fixtures	116	116
Trade show assets	79	78
Vehicles	43	43
Total property and equipment, gross	7,135	7,685
Accumulated depreciation	(3,124)	(2,894)
Construction in progress	2,943	2,943
Total property and equipment, net	$ 6,954	$ 7,734

Depreciation expense for the three months ended June 30, 2024 and 2023 was $0.4 million and $0.5 million, respectively, and $0.8 and $0.9 million for the six months ended June 30, 2024 and 2023, respectively. Depreciation expense is recorded within general and administrative, selling and marketing, and research and development depending on the nature of the related property and equipment.

Construction in Progress ("CIP") includes all direct and indirect costs related to the construction, development, or acquisition of tangible property and equipment that is not yet ready for use. All costs incurred during the construction phase are accumulated in the CIP account. Costs remain in the CIP account until the asset is substantially complete and ready for its intended use. Once the asset is ready for use, the total accumulated costs are transferred from the CIP account to the appropriate property and equipment account. The asset is then depreciated over its estimated useful life from the date it is placed into service. CIP is reviewed regularly to ensure that all costs are accurate and that the project is progressing as planned. Any indication of impairment is assessed, and if the carrying amount exceeds the recoverable amount, an impairment loss is recognized.

During the six months ended June 30, 2024, the Company sold property and equipment with a cost basis of $2,000 in exchange for proceeds of $11,000, resulting in a gain of $9,000. During the three and six months ended June 30, 2024, the Company retired certain fully depreciated property and equipment which had an original cost of $544,000.

During the year ended December 31, 2023, the Company sold property and equipment in exchange for proceeds of $105,000, resulting in a gain of $144,000. During the year ended December 31, 2023, the Company retired certain fully depreciated property and equipment which had an original cost of $444,000.

Other Non-Current Assets

Other non-current assets consists only of security deposits as of June 30, 2024 and December 31, 2023.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following as of June 30, 2024 and December 31, 2023:

(In thousands)	June 30, 2024	December 31, 2023
Sales tax payable (1)	$ 4,848	$ 5,338
Accrued construction costs	1,312	1,412
Accrued professional fees	402	457
Accrued warranty expenses	316	420
Compensation related fees	304	474
Accrued consulting fees	210	43
Accrued inventory purchases	14	10
Accrued interest expense	4	321
Accrued acquisition liabilities	—	2,180
Total accrued expenses and other current liabilities	$ 7,410	$ 10,655

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

Accrued acquisition liabilities

Resulting from the 2021 acquisitions of Precision Extraction Newco, LLC ("Precision") and Cascade Sciences, LLC ("Cascade") from Sinclair Scientific, LLC ("Sinclair"), the Company withheld from the transaction shares issuable to Precision and Cascade 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 purchase agreement. The accrued acquisition liabilities as of December 31, 2023 represent the value of this held back Common Stock at the price per share at the time of the transaction.

On June 15, 2023, the Company and its wholly-owned subsidiary, Precision, filed an Amended Verified Complaint in the Court of Chancery of the State of Delaware against Sinclair and certain individual defendants (the "Delaware Action"). The claims filed in the Delaware Action concern various breaches of the Plan of Merger and Equity Purchase Agreement dated September 29, 2021, by and between the Company, Sinclair, Mass2Media, LLC, and certain of their members (the "Merger Agreement"). In response to the Delaware Action, certain of the defendants filed counterclaims for breach of contract and declaratory judgment against the Company and Precision alleging breach of the Merger Agreement. Pursuant to a Settlement and Release Agreement, dated December 14, 2023, the Company and Sinclair dismissed all legal claims and entered into a settlement for an undisclosed amount. As a result of this settlement, the Company derecognized the accrued acquisition liability and issued the held back Common Stock in the first quarter of 2024 at Agrify's price per share at the time of issuance. The difference between the value of the shares at issuance and the derecognized liabilities was recorded as a gain within change in contingent consideration within the Company's condensed and consolidated statement of operations for the three months ended March 31, 2024.

Note 4 — 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, 2024 and December 31, 2023, the Company's assets and liabilities measured at fair value on a recurring basis were as follow:

	June 30, 2024				December 31, 2023			
	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:								
Money market funds	$ 4	$ —	$ —	$ 4	$ 4	$ —	$ —	$ 4
Total assets	$ 4	$ —	$ —	$ 4	$ 4	$ —	$ —	$ 4
Liabilities:								
Warrant liabilities - January 2022 warrants	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ 1
Warrant liabilities - March 2022 warrants	—	—	1	1	—	—	7	7
Warrant liabilities - August 2022 warrants	—	—	3	3	—	—	18	18
Warrant liabilities - December 2022 warrants	—	—	499	499	—	—	1,264	1,264
Total liabilities	$ —	$ —	$ 503	$ 503	$ —	$ —	$ 1,290	$ 1,290

Fair Value of Financial Instruments

The Company has certain financial instruments which consist of cash and cash equivalents, marketable securities, accounts receivable, loans receivable, accounts payable, accrued expenses, contingent consideration, operating lease liabilities, long-term debt, related party debt, and warrant liabilities. Fair value information for each of these instruments as well as other balances of the Company are as follows:

- Cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate their fair value based on the short-term nature of these instruments.

- Marketable securities classified as current held-to-maturity securities are recorded at amortized cost, which at June 30, 2024 and December 31, 2023, approximated fair value.

- Loans receivable are presented net of an allowance for estimated credit losses, which approximates fair value.

- The Company's contingent consideration was recorded in connection with acquisitions during the years ended December 31, 2021 and 2022 using an estimated fair value discount at the time of the transactions. As of December 31, 2023, the carrying value of the deferred consideration approximated fair value.

- The carrying value of lease liabilities approximates fair value due to the implicit discount rates used in the determination of the lease liabilities being consistent with the Company's incremental borrowing rates at the time of lease inception and accounting for the duration of the leases.

- Long-term debt and related party debt, including the debt that has undergone troubled debt restructuring, is carried at amortized cost, dictated by the prevailing market interest rates at the time of each transaction in accordance with ASC 470, *Debt*.

- The Company's warrant liabilities are marked-to-market each reporting period with the changes in fair value of warrant liabilities recorded in other income (expense), net in the accompanying unaudited condensed consolidated statements of operations until the warrants are exercised. The fair value of the warrant liabilities are estimated using a Black-Scholes option-pricing model.

- As detailed in Note 9 - Stockholders' Equity (Deficit), during the three months ended June 30, 2024, Company issued prefunded warrants to a related party. These liability classified warrants were recorded at fair value upon issuance. Through an amendment executed as of June 30, 2024, the warrants met the requirements for equity classification and were marked to fair value as of that date. The warrants will not be marked to fair value on a recurring basis.

Marketable Securities

As of June 30, 2024 and December 31, 2023, the Company held investments in money market funds. They are valued using quoted market prices in active markets and are classified under Level 1 within the fair value hierarchy.

The fair value of the Company's money market funds as of June 30, 2024 and December 31, 2023 amounted to $4 thousand for both periods, respectively.

Warrant Liabilities

The estimated fair value of the warrant liabilities on June 30, 2024 and December 31, 2023 is determined using Level 3 inputs. Inherent in a Black-Scholes option-pricing model are assumptions used in calculating the estimated fair values that represent the Company's best estimate. The volatility rate is determined utilizing the Company's own share price and the share price of competitors over time.

However, inherent uncertainties are involved. If factors or assumptions change, the estimated fair values could be materially different.

The following table summarizes the Company's assumptions used in the valuations as of June 30, 2024 and December 31, 2023:

	January 2022 Warrants	March 2022 Warrants	August 2022 Warrants	December 2022 Warrants	January 2022 Warrants	March 2022 Warrants	August 2022 Warrants	December 2022 Warrants
	June 30, 2024				December 31, 2023			
Stock price	$ 0.45	$ 0.45	$ 0.45	$ 0.45	$ 1.26	$ 1.26	$ 1.26	$ 1.26
Exercise price	$ 1,496	$ 430	$ 246	$ 0.38	$ 1,496	$ 430	$ 246	$ 3.45
Expected term (in Years)	3.07	3.63	3.63	3.63	3.57	4.13	4.13	4.13
Volatility	137.00%	137.00%	137.00%	137.00%	138.00%	136.00%	136.00%	136.00%
Discount rate - treasury yield	4.51%	4.46%	4.46%	4.46%	3.96%	3.91%	3.91%	3.91%

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, 2024 and for the year ended December 31, 2023:

(In thousands)	Six months ended June 30, 2024	For the year ended December 31, 2023
Warrant liabilities – beginning of period	$ 1,290	$ 5,985
Initial fair value of issued warrant liabilities	5,599	—
Reclassification of warrant liabilities to equity	(6,791)	—
Change in estimated fair value	404	(4,695)
Warrant liabilities –end of period	$ 503	$ 1,290

Note 5 — Loans Receivable

A portion of the capital raised from the Company's IPO was 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™, process design, training, implementation, proven grow recipes, product formulations, data analytics, and consumer branding.

The breakdown of loans receivable by customer as of June 30, 2024 and December 31, 2023 were as follows:

(In thousands)	June 30, 2024	December 31, 2023
Customer 139	$ 14,361	$ 14,691
Customer 125	9,297	9,297
Customer 24096	6,810	6,810
Allowance for credit losses	(18,885)	(19,215)
Total loan receivable, net of allowance for credit losses	11,583	11,583
Less: current portion	(1,295)	—
Total loan receivable, net of current	$ 10,288	$ 11,583

Bud & Mary's Cultivation, Inc. ("Bud & Mary's") - Customer 139

The initial payment date on the loan receivable from Bud & Mary's is the first business day of the first full month following the commencement of commercial products sales and the maturity date is 24 months from the initial payment date. The interest rate is 16% per annum.

In Q3 2022, the Company became aware that Bud & Mary's was not in compliance with all debt covenants as defined in the loan agreement which resulted in the Company issuing a loan acceleration letter to Bud & Mary's on September 15, 2022, demanding full repayment of the construction loan under the loan agreement dated May 12, 2021. Consequently, the Company established a reserve of $14.7 million specifically related to Bud & Mary's. As of June 30, 2024 the allowance related to Bud & Mary's was reduced to $14.4 million, reflecting a recovery of allowance for credit losses resulting from a loan repayment of $330 thousand that was previously included in the allowance.

Hannah Industries ("Hannah") - Customer 125

As of December 31, 2022, the Company was unable to provide additional financing to Hannah Industries under the TTK Solution program to complete the build out and development of Hannah's cultivation business. As a result, the Company concluded that the existing receivable due from Hannah was impaired as of this date. Given the uncertainty around the customer's ability to repay the outstanding balance of the loan as well as the absence of value attributed to any collateral from Hannah, an allowance for credit losses was recognized for 50% of the total outstanding receivable balance as of December 31, 2022. The Company recognized an allowance for credit losses related to the Hannah loan receivable in the amount of $4.5 million as of December 31, 2022. In October 2023, the Company remitted an additional $250 thousand to Hannah under the TTK Solution program, on which an allowance was not recorded. Therefore the allowance on the Hannah loan remains at $4.5 million as of June 30, 2024.

Once the project is completed, the customer will begin making monthly payments based on the harvest.

Nevada Holistics ("Tree house") - Customer 24096

As of June 2024, Nevada Holistics has a current balance of $1,295 due in relation to the TTK loan. The project went live in Q2 2023. After the 90 day period for the first harvest, the customer was given an additional 6-month grace period which ended in Q1 2024. Upon completion of this grace period, the Company began invoicing the customer each month for a portion of the outstanding loan balance. The borrower began making monthly payments in Q2 2024 based on what is produced through harvests. Monthly payments are calculated based off of the Production Success Fees ('PSF") generated from each harvest. Upon issuance of each invoice, that portion of the loan is reclassified into loan receivable, current on the unaudited condensed consolidated balance sheets.

Note 6 — 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 applied to the purchase of products once they are delivered.

Inventory consisted of the following as of June 30, 2024 and December 31, 2023:

(In thousands)	June 30, 2024	December 31, 2023
Finished goods	$ 8,320	$ 7,438
Inventory for resale	4,567	4,882
Prepaid inventory	855	924
Raw materials	21,192	23,449
Inventory, gross	34,934	36,693
Inventory reserves	(16,507)	(17,599)
Total inventory, net	$ 18,427	$ 19,094

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.

Note 7 – Debt

The Company's debt consisted of:

(In thousands)	June 30, 2024	December 31, 2023
Related party debt:		
Consolidated CP Acquisitions Note	$ 4,360	$ —
2024 CP Acquisitions Notes	650	—
CP Acquisitions Junior Secured Note	—	3,799
GIC Acquisition Note	—	645
Total related party debt	5,010	4,444
Less: current portion	(732)	(4,444)
Related party debt, net of current	$ 4,278	$ —
Long-term debt:		
PPP Loan	$ 518	$ 518
Other notes payable [(1)]	67	367
Exchange Note	—	6,669
Convertible Note	—	7,840
Unamortized debt premium	—	1,419
Total long-term debt	585	16,813
Less: current portion	(582)	(766)
Long-term debt, net of current	$ 3	$ 16,047

(1) Other notes payable includes short term financing on insurance policies with an outstanding balance of $61 thousand as of June 30, 2024 and the Navitas Loan with an outstanding balance of $4 thousand as of June 30, 2024.

Exchange Note

On August 18, 2022, the Company issued a promissory note with an original principal amount of $35.0 million (the "Exchange Note") to High Trail Special Situations LLC (the "Original Lender"). The Exchange Note is a senior secured obligation of the Company and ranks senior to all indebtedness of the Company. The Exchange Note had an original maturity date of August 18, 2025 (the "Original Maturity Date") and contains a 9.0% annualized interest rate, with interest to be paid monthly, in cash, beginning September 1, 2022. The principal amount of the Exchange Note will be payable on the Original Maturity Date, provided that the Original Lender was entitled to a cash sweep of 20% of the proceeds received by the Company in connection with any equity financing, which will reduce the outstanding principal amount under the Exchange Note.

On March 8, 2023, the Company entered into a Securities Exchange Agreement (the “Exchange Agreement”) with the Original Lender. Pursuant to the Exchange Agreement, at closing the Company will prepaid approximately $10.3 million in principal amount under the Exchange Note and exchanged $10.0 million of the remaining principal balance of the Exchange Note for a new senior secured convertible note (the “Convertible Note”) with an original principal amount of $10.0 million. After the closing of the Exchange Agreement, the Exchange Note had a remaining balance of $11.7 million.

Convertible Note

In connection with the Exchange Agreement the Company issued the Convertible Note, which bears a 9.0% annualized interest rate, with interest to be paid monthly, in cash, beginning April 1, 2023. The principal amount of the Convertible Note will be payable on the Original Maturity Date, provided that the Original Lender was entitled to a cash sweep of 30% of the proceeds of any at-the-market equity offering and 20% of the proceeds received by the Company in connection with any other equity financing, which would reduce the outstanding principal amount under the Exchange Note or the Convertible Note.

At any time, the Company may prepay all of the Convertible Note by redemption at a price equal to 102.5% of the then-outstanding principal amount under the Convertible Note plus accrued but unpaid interest. The Original Lender had the option of requiring the Company to redeem the Convertible Note (i) on August 19, 2023 or August 19, 2024 at a price equal to the then-outstanding principal amount under the Convertible Note plus accrued but unpaid interest, provided that the redemption right on August 19, 2023 will not be exercisable if the Company raises at least $8.0 million in gross proceeds from equity offerings prior to such date, or (ii) if the Company undergoes a fundamental change (as defined below) at a price equal to 102.5% of the then-outstanding principal amount under the Convertible Note plus accrued but unpaid interest.

The Convertible Note imposed certain customary affirmative and negative covenants upon the Company, as well as covenants that will (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, and (iii) restrict the declaration of any dividends or other distributions, subject to specified exceptions. If an event of default under the Convertible Note occurs, the Original Lender can elect to redeem the Convertible Note for cash equal to (A) 115% of the then-outstanding principal amount of the Convertible Note (or such lesser principal amount accelerated by the Original Lender), plus accrued and unpaid interest, including default interest, which accrues at a rate per annum equal to 15% from the date of a default or event of default, or, only in connection with certain events of default, (B) the greater of the amount under clause (A) or the sum of (i) 115% of the product of (a) the conversion rate in effect as of the trading day immediately preceding the date that the Original Lender delivers a notice of acceleration; (b) the total then outstanding principal amount under the Convertible Note (in thousands); and (c) the greater of (1) the highest daily volume weighted average price (“VWAP”) per share of Common Stock occurring during the fifteen consecutive trading days ending on, and including, the trading day immediately before the date the Original Lender delivers such notice and (2) the highest daily VWAP per share of Common Stock occurring during the fifteen consecutive trading days ending on, and including, the trading immediately before the date the applicable event of default occurred and (ii) the accrued and unpaid interest on the Convertible Note.

Until the date the Convertible Note is fully repaid, the Original Lender had, subject to certain exceptions, the right to participate for up to 30% of any offering of debt, equity (other than an offering of solely Common Stock), or equity-linked securities, including without limitation any debt, preferred stock or other instrument or security, of the Company or its subsidiaries.

If the Original Lender elected to convert the Convertible Note, the conversion price per share would be $7.64, subject to customary adjustments for certain corporate events. The conversion of the Convertible Note will be subject to certain customary conditions. The Convertible Note may not be converted into shares of Common Stock if such conversion would result in the Original Lender and its affiliates owning an aggregate of in excess of 4.99% of the then-outstanding shares of Common Stock, provided that upon 61 days’ notice, such ownership limitation may be adjusted by the Original Lender, but in any case, to no greater than 9.99%.

The Company evaluated the embedded features in accordance with ASC 815-15-25 and determined that the embedded features are not required to be bifurcated and separately measured at fair value.

On April 26, 2023, the Original Lender elected to convert $1.6 million of the remaining outstanding principal amount on the Convertible Note for 153,617 shares of Common Stock of the Company.

On May 1, 2023, the Company entered into a letter agreement with the Original Lender (the "Letter Agreement"), pursuant to which the Company and the Original Lender agreed to exchange or redeem $2.0 million of the remaining outstanding principal amount under the Exchange Note for a total of 445,196 shares of Common Stock of the Company, subject to a Beneficial Ownership Limitation of 4.99% of the Company's Common Stock. Due to the Beneficial Ownership Limitation of 4.99%, a total of 69,568 shares of Common Stock of the Company were issued to the Original Lender, with the remaining 375,629 shares held in abeyance until the balance (or portion thereof) may be issued in compliance with such limitations. As a result, the Company recognized a loss on the redemption of approximately $12,000.

CP Acquisitions Junior Secured Note

On October 27, 2023, CP Acquisitions LLC (the "New Lender" or "CP"), an entity affiliated with and controlled by the Company's Chief Executive Officer, purchased the Exchange Note and the Convertible Note from the Original Lender (the "Note Purchase"). In connection with the Note Purchase, the New Lender has agreed to waive any events of default under the acquired notes through December 31, 2023. As part of the same transaction, the Company issued a junior secured promissory note (the "Junior Secured Note") to the New Lender. Pursuant to the Junior Secured Note, the New Lender will lend up to $3.0 million to the Company. The Junior Secured Note bears interest at a rate of 10% per annum, will mature in full on December 31, 2023, and may be prepaid without any fee or penalty. On December 4, 2023, the New Lender and the Company amended and restated the Junior Secured Note agreement. Pursuant to the terms of the amendment, the maximum principal amount that may be loaned by CP to the Company was increased to $4.0 million and extended the maturity date thereon to December 31, 2024.

Convertible Note Forgiveness

On November 30, 2023, the New Lender agreed to forgive $1.0 million of the principal amount outstanding on the Convertible Note (the "Principal Forgiveness"). The Principal Forgiveness was accounted for as a troubled debt restructuring under ASC 470, as 1) the Company was determined to be experiencing financial difficulties as defined by the ASC, and 2) the Principal Forgiveness was deemed a concession by the New Lender. Per ASC 470-60-35-5, a debtor in a troubled debt restructuring involving only modification of terms of a payable (i.e., not involving a transfer of assets or grant of an equity interest) shall account for the effects of the restructuring prospectively from the time of restructuring and shall not change the carrying amount of the payable at the time of the restructuring unless the carrying amount exceeds the total future cash payments specified by the new terms. As the future undiscounted cash flows were greater than or equal to the net carrying value of the original debt, the carrying amount of the debt at the time of the restructuring was not changed.

Consolidated CP Acquisitions Note

On January 25, 2024, the Company and the New Lender consolidated the outstanding principal and interest due under the Junior Secured Note and the Exchange Note as well as the interest due under the Convertible Note into the Convertible Note (collectively, with the Junior Secured Note and the Exchange Note, the "Consolidated Notes"), and amended and restated the Convertible Note under a Senior Secured Amended, Restated, and Consolidated Convertible Note agreement (the "Restated Note") having a total outstanding principal of $18,717,973 (the "New Lender Debt Consolidation"). The Restated Note bears interest at a rate of 10% per annum and will mature in full on December 31, 2025. The Company may redeem all or a portion not less than $5.0 million of principal at any time at a price equal to 102.5% of the redeemed principal amount plus accrued but unpaid interest.

The Restated Note imposes certain customary affirmative and negative covenants upon the Company, as well as covenants that will (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, and (iii) restrict the declaration of any dividends or other distributions, subject to specified exceptions. If an event of default under the Restricted Note occurs, then the then outstanding principal and all accrued and unpaid interest on the Restated Note will immediately become due and payable.

If the New Lender elects to convert the Restated Note, the conversion price per share will be $1.46, subject to customary adjustments for certain corporate events. The conversion of the Restated Note will be subject to certain customary conditions. The Restated Note may not be converted into shares of Common Stock if such conversion would result in the New Lender and its affiliates owning an aggregate of in excess of 49.99% of the then-outstanding shares of Common Stock.

Immediately following the execution of the Restated Note, the New Lender elected to convert approximately $3.9 million of outstanding principal into an aggregate of 2,671,633 shares of common stock (the "January Conversion") having a fair value of approximately $1.7 million. As the January Conversion was exercised by the New Lender in conjunction and in connection with the Debt Consolidation, the two transactions combined were considered a modification of the total debt outstanding with the New Lender (the "New Lender Debt Restructuring").

The New Lender Debt Restructuring was accounted for as a troubled debt restructuring under ASC 470, as 1) the Company was determined to be experiencing financial difficulties as defined by the ASC, and 2) the New Lender Debt Restructuring was deemed to result in a concession by the New Lender. The Company performed a comparison of the undiscounted cash flows associated with the Restructured Note subsequent to the New Lender Debt Restructuring to the carrying value of the Consolidated Notes as of the New Lender Debt Restructuring date. The net carrying value of the Consolidated Notes was determined to exceed the undiscounted future cash flows of the Restated Note after consideration of the January Conversion by approximately $675,000 (the "New Lender Debt Restructuring Excess Carrying Value"). The Restated Note was thus written down to the amount of the undiscounted future cash flows on the Restated Note from the New Lender Restructuring date to maturity. Further, as the New Lender is a related party of the Company, the New Lender Debt Restructuring Excess Carrying Value was accounted for as a capital transaction and no gain or loss was recognized related to the restructuring.

Aggregate interest expense related to the CP Acquisitions Note described above was $115,821 for the six months ended June 30, 2024.

GIC Acquisition Note

On July 12, 2023, the Board of Directors of the Company approved the issuance of an unsecured promissory note (the "GIC Note", and, collectively with the Consolidated Note, the "Related Party Notes") in favor of GIC Acquisition, LLC ("GIC"), an entity that is owned and managed by the Company's Chairman and Chief Executive Officer. Pursuant to the GIC Note, GIC is obligated to lend up to $0.5 million to the Company, $0.3 million of which was delivered at issuance and the remaining $0.2 million delivered on July 31, 2023. The GIC 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 GIC Note ranks junior to all existing secured indebtedness of the Company. On October 27, 2023, the maturity date of the GIC Note was subsequently amended to December 31, 2024 at which point principal and accrued interest will be repaid in full. Interest expense incurred on the GIC Note amounted to $47,652 for the six months ended June 30, 2024.

Amendment of Related Party Notes

On May 21, 2024, the Company and CP entered into an amendment to the Convertible Note (the "Consolidated Note Amendment"), pursuant to which CP may elect, in lieu of shares of common stock issuable upon conversion of the Convertible Note, to instead receive pre-funded warrants ("Pre-Funded Warrants"). The conversion price applicable to the Pre-Funded Warrants will remain unchanged at $1.46.

Immediately following the execution of the Consolidated Note Amendment, CP elected to convert $11.5 million of outstanding principal into a Pre-Funded Warrant exercisable at issuance for up to 7,876,712 shares of common stock having a fair value of approximately $2.9 million (the "CP Warrant Conversion").

On May 21, 2024, GIC and the Company amended and restated the GIC Note (the "Restated GIC Note", and, collectively with the Consolidated Note Amendment, the "Related Party Debt Amendments") to increase the aggregate principal amount to approximately $2.29 million, extend the maturity date to December 31, 2025, and provide that the Junior Note may be converted into common stock of the Company or, at GIC's election, Pre-Funded Warrants, in each case at a conversion price of $0.31.

Immediately following the execution of the Restated GIC Note, GIC elected to convert all of the outstanding principal under the Restated Junior Note into a Pre-Funded Warrant exercisable at issuance for up to 7,383,053 shares of common stock having a fair value of approximately $2.7 million (the "GIC Warrant Conversion", and, collectively with the CP Warrant Conversion, the "Related Party Warrant Conversions").

As the Related Party Warrant Conversions were exercised in connection with the Related Party Debt Amendments by CP and GIC, related party lenders under common control (the "Related Party Lenders"), the transactions combined were considered a modification of the total debt outstanding with the related parties (the "Related Party Debt Restructuring").

The Related Party Debt Restructuring was accounted for as a troubled debt restructuring under ASC 470, as 1) the Company was determined to be experiencing financial difficulties as defined by the ASC, and 2) the Related Party Debt Restructuring was deemed to result in a concession by the Related Party Lenders. The Company performed a comparison of the aggregated undiscounted cash flows associated with the Related Party Notes subsequent to the Related Party Debt Restructuring to the aggregate carrying value of the Related Party Notes as of the Related Party Debt Restructuring date. The net carrying value of the Related Party Notes was determined to exceed the undiscounted future cash flows of the Related Party Notes as modified by the Related Party Debt Restructuring by approximately $10,000,000 (the "Related Party Debt Restructuring Excess Carrying Value"). The aggregate carrying value of the Related Party Notes was thus written down to the amount of the undiscounted future cash flows on the Related Party Notes from the Related Party Debt Restructuring date to maturity (the "Restructured Related Party Debt"). Further, as the Related Party Lenders are related parties of the Company, the Related Party Debt Restructuring Excess Carrying Value was accounted for as a capital transaction and no gain or loss was recognized related to the restructuring.

The carrying value of the Restructured Related Party Debt was approximately $4.4 million at June 30, 2024.

CP Acquisition Promissory Notes

On May 31, 2024 and June 12, 2024 the Company issued promissory notes in favor of CP in the principal amount of $250,000 and $400,000, respectively (the "2024 CP Notes"). The notes bear interest at 10% per annum, and will mature on December 31, 2024. Interest expense incurred on the 2024 CP Notes amounted to approximately $4,000 for the six months ended June 30, 2024.

As of June 30, 2024, future minimum principal payments on all debt positions, excluding accrued interest amounts, were as follows:

Years ending December 31 (In thousands),		
Remaining 2024	$	462
2025		4,090
2026		1
Total future payments	$	4,553

Note 8 — 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 an original lease term of 12 months or less at inception were not reflected in the Company's condensed consolidated 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. The Company's incremental borrowing rate was determined using the interest rate on a long term debt position entered into at approximately the same time and for the same duration as the lease. At June 30, 2024 and December 31, 2023 the Company's weighted-average discount rate utilized for its leases was 7.41% and 7.51%, respectively.

The Company had several non-cancelable finance leases for machinery and equipment. As of June 30, 2024 the Company had no active finance leases.

The Company had several non-cancellable 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 four years, some of which include options to extend. Some leases include payment for communal area maintenance associated with the property.

During the six months ended June 30, 2024, one of the Company's leased assets was sold by the lessor to another counterparty, effectively cancelling the remainder of the lease with the Company. There were no penalties arising from the cancellation. The Company recognized a gain on early termination in the amount of $39 thousand, calculated as the difference between the remaining right-of-use asset and lease liability at the time of termination.

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

	Three months ended June 30,		Six months ended June 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Operating lease cost	$ 116	$ 248	$ 246	$ 504
Finance lease cost:				
Amortization of right-of-use assets	—	46	—	91
Interest on lease liabilities	—	5	—	11
Total lease cost	$ 116	$ 299	$ 246	$ 606

	June 30, 2024	December 31, 2023
Weighted-average remaining lease term – operating leases	2.68 years	3.09 years
Weighted-average remaining lease term – finance leases	—	—
Weighted-average discount rate – operating leases	7.41%	7.51%
Weighted-average discount rate – finance leases	—%	—%

(In thousands)	**Balance Sheet Location**	**June 30, 2024**	**December 31, 2023**
Assets			
Right-of-use assets, net	Right-of-use, net	$ 1,333	$ 1,803
Total lease assets		$ 1,333	$ 1,803
Liabilities			
Operating lease liabilities, current	Operating lease liabilities, current	$ 539	$ 599
Operating lease liabilities, non-current	Operating lease liabilities, non-current	960	1,394
Total operating lease liabilities		$ 1,499	$ 1,993

Maturities of operating lease liabilities as of June 30, 2024 are as follows:

Years ending December 31 (In thousands),	**Operating lease**
Remaining 2024	$ 315
2025	641
2026	497
2027	202
Total minimum lease payments	1,655
Less discount	(156)
Total lease liabilities	$ 1,499

Note 9 — Stockholders' Equity (Deficit)

Public Offerings

On February 27, 2024, the Company entered into a placement agency agreement (the "Agency Agreement") with Alexander Capital, LP as placement agent (the "Placement Agent"), pursuant to which the Company agreed to issue and sell an aggregate of 2,760,000 shares of its common stock, and, in lieu of common stock to certain investors that so chose, pre-funded warrants to purchase 3,963,684 shares of its common stock (the "S-1 Offering"). The public offering price for each share of common stock is $0.38, and the offering price for each Pre-Funded Warrant is $0.379, which equals the public offering price per share of the common stock, less the $0.001 per share exercise price of each Pre-Funded Warrant.

The Company issued 67,237 warrants to purchase common stock to Alexander Capital, L.P., referred to as the Placement Agents Warrants above. The warrants were classified as equity warrants and recorded under additional paid-in capital in the condensed consolidated balance sheets. The warrants have a five-year term and exercise price of 100% of the offering price, and are subject to adjustment for stock splits, reverse stock splits, stock dividends, and similar transactions. The warrants will be exercisable on a cash basis, unless there is not an effective registration statement covering the issuance of the shares issuable upon exercise of the warrants or if shareholder approval for the full exercise of the warrants are not received, in which case the Modified Warrant will also be exercisable on a cashless exercise basis at Alexander Capital election.

The measurement of fair value of the Alexander Capital Warrants were determined utilizing a Black-Scholes model considering all relevant assumptions current at the date of issuance (i.e., share price of $0.52, exercise price of $0.38, term of five years, volatility of 128%, risk-free rate of 4.32%, and expected dividend rate of 0%). The grant date fair value of these Alexander Capital Warrants was estimated to be $31,000 on February 27, 2024 and is reflected within additional paid-in capital as of June 30, 2024.

Related Party Warrant Issuance

On May 21, 2024, in connection with the Consolidated Note Amendment, the Company issued 7,383,053 and 7,876,712 prefunded warrants to GIC Acquisitions and CP Acquisition (the "Pre-Funded Warrants"), respectively, in exchange of notes payable amounting approximately to $2.29 million and $11.5 million, respectively. The Pre-Funded Warrants can be used to purchase Company's common stocks with par value of $0.001 at an exercise price of $0.001. The Pre-Funded Warrants have been identified as freestanding financial instruments and were determined not to be indexed to the Company's own stock. Accordingly, the Warrants are precluded from being classified within equity and classified as a liability with subsequent changes in fair value recognized each reporting period in earnings. The fair value of the Pre-Funded Warrants on the issuance date was $5,600,334 determined as the intrinsic value.

On June 30, 2024, the Company executed an amendment to the Pre-funded Warrants, pursuant to which the Company revised certain provisions of the Pre-funded Warrants to (i) remove the adjustment to the exercise price of the Pre-funded Warrants when there is a bona fide equity financing with the primary purpose of raising capital and (ii) increase the threshold for a change of control from 50% to greater than 50%. The classification of the Pre-funded Warrants was reassessed upon the modification and the Pre-funded Warrants were determined to meet all of the additional requirements for equity classification. Accordingly, as of June 30, 2024, the Company remeasured the Pre-funded Warrants to its fair value immediately prior to the modification and recognized the change in fair value of approximately $1.2 million in earnings. The Company then reclassified the Pre-funded Warrant liability to stockholders' equity at its post-modification fair value of $6.8 million.

Note 10 — 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 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 and 250,000 additional shares issued upon approval by the Board of Directors on January 8, 2024. Shares will be deemed to have been issued under the 2022 Plan solely to the extent actually issued and delivered pursuant to an award. 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. As of June 30, 2024, there were 58,158 shares of Common Stock available to be granted under the Company's 2022 Plan.

The Company's stock compensation expense was $0.1 million and $0.8 million for the three months ended June 30, 2024 and 2023, respectively. The Company's stock compensation expense was 0.6 million and $1.6 million for the six months ended June 30, 2024 and 2023, respectively.

Stock Options

For the six months ended June 30, 2024, there were no options granted or exercised under the Company's stock option plans. For the same period, there were 284 options expired with a weighted average exercise price of $818.75. There were 10,026 and 10,310 options outstanding with a weighted average exercise price of $1,616.74 and $1,595.92 as of June 30, 2024 and December 31, 2023, respectively. There were 9,950 options vested and exercisable with a weighted average exercise price of $1,618.01 as of June 30, 2024. There were 10,026 options vested and expected to vest with a weighted average exercise price of $1,616.74 as of June 30, 2024

As of June 30, 2024, total unrecognized compensation expense related to unvested options was $53,000, which is expected to be recognized over a weighted average period of 0.52 years.

The following table summarizes information about options vested and exercisable at June 30, 2024:

	Options Vested and Exercisable		
Price ($)	**Number of Options**	**Weighted-Average Remaining Contractual Life (Years)**	**Weighted-Average Exercise Price**
$ 456.00	2,756	5.96	$ 456.00
$ 972.00	2,723	6.40	$ 972.00
$ 1,840.00	201	7.61	$ 1,840.00
$ 2,768.00	4,220	6.73	$ 2,768.00
$ 2,898.00	50	6.73	$ 2,898.00

The following table summarizes information about options vested and expected to vest after June 30, 2024:

	Options Vested and Expected to Vest		
Price ($)	**Number of Options**	**Weighted-Average Remaining Contractual Life (Years)**	**Weighted-Average Exercise Price**
$ 456.00	2,769	5.94	$ 456.00
$ 972.00	2,736	6.40	$ 972.00
$ 1,536.00	1	0.00	$ 1,536.00
$ 1,840.00	250	7.61	$ 1,840.00
$ 2,768.00	4,220	6.73	$ 2,768.00
$ 2,898.00	50	6.73	$ 2,898.00

Restricted Stock Units

The following table presents restricted stock unit activity for the six months ended June 30, 2024:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2023	2,136	$ 230.80
Granted	201,938	$ 0.76
Vested	(201,955)	$ 0.79
Forfeited	(292)	$ 82.20
Unvested at June 30, 2024	1,827	$ 251.89

As of June 30, 2024, total unrecognized compensation expense related to unvested restricted stock units was $254,000, which is expected to be recognized over a weighted average period of 1.16 years.

Note 11 — Stock Warrants

The following tables present all warrant activity of the Company for the three months ended June 30, 2024:

	Number of Warrants	Weighted-Average Exercise Price
Warrants outstanding at December 31, 2023	5,380,299	$ 10.83
Granted	19,290,686	$ 0.01
Exercised	(7,095,901)	$ —
Forfeited	(3,081)	$ —
Warrants outstanding at June 30, 2024	17,572,003	$ 3.25

The Company received proceeds from the exercise of prefunded warrants of $4,000 for the six months ended June 30, 2024.

Note 12 — Income Taxes

The Company’s effective income tax rates were both 0% for the three and six months ended June 30, 2024 and 2023, respectively. There were no provision for (benefit from) income taxes for the three and six months ended June 30, 2024 and 2023, respectively. There is no difference between the Company’s effective tax rates for the 2024 and 2023 periods. There was no change in the provision for (benefit from) income taxes for the three and six months ended June 30, 2024 compared to the three and six months ended June 30, 2023.

Note 13 — Net (Loss) Income Per Share

Net (loss) income per share calculations for all periods have been adjusted to reflect the Company’s reverse stock splits. Net (loss) income per share was calculated based on the weighted-average number of the Company’s Common Stock outstanding.

Basic net (loss) income per share is calculated using the weighted-average number of Common Stock outstanding during the periods. Diluted net loss per share is computed by giving effect to all potential shares of Common Stock, including convertible notes, outstanding stock options, stock related to unvested restricted stock units, and outstanding warrants to the extent dilutive. Net loss per share, assuming dilution, is equal to basic net loss per share for the three months ended June 30, 2024 and 2023 and six months ended June 30, 2023 because the effect of dilutive securities outstanding during the periods, including convertible notes, options, restricted stock units and warrants computed using the treasury stock method, is anti-dilutive.

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

(In thousands, except share and per share data)	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
Numerator:				
Numerator for basic EPS - net (loss) income available for common stockholders	$ (2,972)	$ (6,805)	$ 1,264	$ (17,132)
Effect of dilutive securities:				
Interest expense on convertible notes	—	—	520	—
Numerator for diluted EPS - net (loss) income available to common stockholders after assumed conversions	$ (2,972)	$ (6,805)	$ 1,784	$ (17,132)
Denominator:				
Denominator for basic EPS - weighted-average common stock outstanding	20,812,678	1,549,669	14,853,454	1,312,299
Effect of dilutive securities:				
Conversion of convertible notes	—	—	14,917,585	—
Denominator for diluted EPS - adjusted weighted-average common stock outstanding and assumed conversions	20,812,678	1,549,669	29,771,039	1,312,299
Basic net loss (income) per share attributable to common stockholders	$ (0.14)	$ (4.39)	$ 0.09	$ (13.05)
Diluted net loss (income) per share attributable to common stockholders	$ (0.14)	$ (4.39)	$ 0.06	$ (13.05)

As of June 30, 2024, the Company had convertible notes outstanding with a principal balance of approximately $3.3 million convertible into 2,644,632 shares of Common Stock. During the six months ended June 30, 2024, the Company also converted a portion of the convertible notes into 2,671,633 shares of Common Stock and 15,259,765 Pre-funded Warrants to purchase shares of Common Stock. Given the nominal exercise price of the Company's issuance of Pre-funded Warrants, such Pre-funded Warrants are included in in the calculation of basic net (loss) income per share and weighted for the period outstanding from issuance to June 30, 2024. The exercise price per warrant is deemed non-substantive when compared to the fair value of the underlying common shares. In determination of the denominator for diluted EPS for the six months ended June 30, 2024, the Company assumed conversion of the 2,671,633 shares of Common Stock and the 15,259,765 Pre-funded Warrants as of the beginning of the period, January 1, 2024, eliminating the weighting of the shares and warrants from issuance to June 30, 2024. The Company also included in the denominator for diluted EPS for the six months ended June 30, 2024, the assumed conversion of 2,644,632 shares of Common Stock related to the convertible notes.

For each of the periods presented, the Company's potential dilutive securities, which include stock options, restricted stock units, and warrants, have been excluded from the computation of basic and diluted net (loss) income per share with the exception of the Pre-funded Warrants, or penny warrants, which are included in the computation, as detailed above. 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 for the three months ended June 30, 2024 and 2023 and the six months ended June 30, 2023. The Company excluded the following potential Common Stock 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:

	Six months ended June 30, 2024	Six months ended June 30, 2023
Shares subject to outstanding stock options	9,950	10,969
Shares subject to unvested restricted stock units	1,827	4,574
Shares subject to outstanding warrants	2,312,238	1,495,001
	2,324,015	1,510,544

Note 14 — Commitments and Contingencies

Legal Matters

From time to time, the Company may become involved in material legal proceedings or be subject to claims arising in the ordinary course of our business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

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 the defendant (the "Bud & Mary Complaint"). 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 due to the current litigation and the uncertainty of the customer's ability to repay the 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. If the Company is unable to realize revenue from its TTK Solution offerings on a timely basis or at all, or if it incurs an additional loss as a result of the Bud & Mary's claim, the Company's business and financial performance will be adversely affected. On November 14, 2022, the Company filed its answers and affirmative defenses to the Bud & Mary's complaint and counterclaims. The Company is seeking, among other relief, monetary damages in connection with the breach of contract, breach of the implied covenant of good faith and fair dealing, unjust enrichment, and enforcement of the guarantees. Bud & Mary's is permitted to file an amended complaint, and Agrify will be permitted to make responsive filings, which may include an answer and counterclaim.

Bowdoin Construction Corp. Litigation

On February 22, 2023, Bowdoin Construction Corp. ("Bowdoin") filed a complaint in the Superior Court of Massachusetts in Norfolk County naming the Company (the "Bowdoin Complaint"), Bud & Mary's and certain related parties as defendants, captioned Bowdoin Construction Corp. v. Agrify Corporation, Bud & Mary's Cultivation, Inc. and BMLC2, LLC, case no. 2382CV00173. The Bowdoin Complaint relates to a construction contract between Bowdoin and the Company 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 the Company due to nonpayment of approximately $6.3 million due under the contract and related indemnification claims and mechanics' liens. The $6.3 million is included in accounts payable in the condensed consolidated balance sheet. One of Bowdoin's subs, Hannon Electric, Inc. has filed a separate suit against Agrify in the amount of $1.498 million. The amount is part of the $6.3 million claimed in Bowdoin's Complaint. The Company is entitled to indemnification by Bud & Mary's and intends to vigorously defend this claim.

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. Since February 2021, the Company increased the purchase order with Mack to approximately $26.5 million towards production of VFUs during 2021 and 2022. The Company believed the supply agreement with Mack would 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 believed this approach would result in both parties making a more informed decision with respect to the pricing and other terms of the supply agreement with Mack. On October 11, 2022, the Company received a $9.4 million invoice from Mack for inventory purchased on the Company's behalf to build VFUs. As part of the terms of the contract manufacturing agreement, Mack had the contractual right to bill the Company for any inventory that had aged greater than nine months. Due to the slowdown in the demand for the VFUs and the lack of a demand forecast that the Company could provide to the vendor, Mack exercised the right to invoice the Company for the slow-moving inventory. As of December 31, 2022, the Company recognized a contingent liability in the amount of $8.4 million, representing an estimate of the amount payable to Mack with respect to the original Mack purchase agreement, and which was included in accounts payable in the condensed consolidated balance sheet. On March 2, 2023, Mack filed an arbitration action seeking the amounts owed to Mack for purchased inventory. On October 27, 2023, and effective as of October 18, 2023, Mack and the Company entered into a Modification and Settlement Agreement (the "Modification Agreement") with respect to the dispute rather than engaging in litigation through the courts.

On February 29, 2024, the Company met its contractual obligations under the terms of the Modification Agreement. In settlement of the dispute, the Company made cash payments of $500,000 and $250,000 to Mack and issued to Mack a warrant to purchase 750,000 shares of the Company's Common Stock. In the first quarter of 2024, management derecognized the previously recognized contingent liability, resulting in a credit of approximately $5.9 million, recorded within gain on settlement of contingent liabilities, on the unaudited condensed consolidated statement of operations during the three months ended March 31, 2024.

TRC Electronics Litigation

The Company was named as a defendant in a complaint filed by TRC Electronics, Inc. ("TRC") on April 13, 2023 in the United States District Court for the Eastern District of Pennsylvania. In the complaint, TRC asserts two causes of action against the Company: (1) breach of contract, and (2) promissory estoppel. TRC's claims are based on allegations that the Company failed to make payments due under three purchase orders for commercial electronics parts. TRC seeks damages in the amount of $565,210, plus attorneys' fees, costs, and post-judgment interest. The Company has filed an answer denying liability on TRC's claims and is proceeding with discovery.

McCutchan, Inc.

In December 2021, the Company entered into a Standard Form of Agreement ("Agreement") between Owner and Contractor whereby Valiant Group LLC ("Valiant") is the general contractor for tenant improvements on certain real property located in Bellevue, Washington (the "Project"). McCutchan, Inc. ("McCutchan") agreed to be a subcontractor on the Project and engaged various other subcontractors. The Company terminated Valiant as the general contractor for, among other allegations, breach of contract and unjust enrichment. Following the termination of Valiant, in October 2022, the Agreement was assigned and accepted (the "Assignment") to Agxion, LLC, a wholly owned subsidiary of the Company. The Assignment contemplates that, as a subcontractor to the Agreement, McCutchan is still bound to the subcontract agreement and will continue construction operations on the Project. The Company is pursuing Valiant in a separate litigation (the "Valiant Litigation") to collect no less than approximately $1.4 million alleging overbilling, breach of the Agreement, and violation of Chapter 18.27 and 19.86 RCW in Washington. On March 5, 2024, McCutchan, Inc. ("McCutchan") filed a complaint in the Superior Court of Washington for King County naming the Company, Valiant, and certain related parties as defendants. In the complaint, McCutchan asserts two causes of action against the Company: (1) breach of contract, (2) voidable contract, (3) interference with business or economic expectancy, (4) unjust enrichment, and (5) defamation. McCutchan's claims are based on allegations of misrepresentations made by the Company to pay McCutchan for work completed on the Project as well as a failure to pay under the Agreement. In the alternative, McCutchan is alleging the Assignment is void and not a valid contract. McCutchan is seeking to collect no less than $3 million against the Company and all other named defendants. The Company has accepted services and is preparing a response to the complaint. The Company intends to vigorously defend McCutchan's claims.

Valiant Group LLC

The Company filed a separate complaint against Valiant for overbilling, misrepresentation, and breach for the Treehouse project in Nevada. Valiant has failed to respond and Agrify has since submitted an entry of default to the court and is currently seeking for award in the amount of $1.5 million. However, there is no guarantee that the Court would award the full amount and no guarantee that Agrify would be able to successfully collect the full amount from Valiant.

Other Litigation

In September 2023, the Company settled a legal dispute with a specific customer which resulted in the recognition of a gain of approximately $0.9 million, of which $0.3 million was paid in October 2023, with the remaining approximate $0.6 million to be paid in equal monthly installments, beginning in January, 2024. This gain was recognized as part of other income, net per the unaudited condensed consolidated statement of operations for the six months ended June 30, 2024, with the approximate $0.9 million receivable balance recognized as part of prepaid expenses and other current assets, per the unaudited condensed consolidated balance sheet, as of June 30, 2024. The settlement also resulted in the return of equipment to the Company in October 2023.

The Company is currently pursuing 10 separate legal proceedings in attempting to collect approximately $2.5 million outstanding receivables. The Company is not confident that all legal proceedings and collection efforts will yield in positive results or return of equipment.

On April 25, 2024, Medical Investor Holdings, LLC dba Vertical Companies ("MIH") filed a complaint against Agrify demanding $288,000. MIH purchased an XMU hydrocarbon extraction system from Precision in October 2021. MIH chose to not include installation and training in the original purchase but is now having problems with this equipment. The Company this is a meritless case.

The Company is also a defendant or plaintiff in a variety of other litigation matters that are individually insignificant. The timing and amount of any settlements, including potential payments made or received, is uncertain. Nonetheless, management currently estimates that the Company's aggregate net loss exposure with respect to these cases is within the range of approximately $150,000 to $300,000. Given the Company has determined these losses are probable of occurring and reasonably estimable, an accrual was recorded in the amount of $150 thousand within general and administrative expenses within the condensed consolidated statement of operations for the six months ended June 30, 2024.

On July 2022, claimant, an ex-sales VP is claiming he is owed back wages, commission and is entitled to equity in the company, under theories of liability under Massachusetts labor laws including retaliation, breach of contract, breach of covenant of good faith and fair dealing, fraudulent inducement, tortious interference & unjust enrichment. Company has filed its answer to the initial complaint in January 2023. The Company believes this is a meritless case and has responded to various discovery requests.

Commitments

Mack Molding Co.

The Modification Agreement with Mack referenced above resulted in the Company entering a purchase commitment with Mack where it is contractually obligated to purchase a minimum of 25 VFUs per quarter for each quarter during 2024 and a minimum of 50 VFUs per quarter for the six quarters beginning with the first quarter of 2025, at a per VFU price of $14,000. The Company made payment and took collection of 25 VFUs in the second quarter of 2024. The Company has also granted Mack a second lien position on all Agrify assets.

The Company is also required to pay a storage fee of $25,000 to Mack, per month, for VFU parts subject to the Modification Agreement.

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 7 – Debt, included elsewhere in the notes to the unaudited condensed consolidated financial statements for details of the Company's future minimum debt payments. Refer to Note 8 – Leases, included elsewhere in the notes to the unaudited condensed consolidated financial statements for details of the Company's future minimum lease payments under operating and financing lease liabilities. Refer to Note 12 – Income Taxes, included elsewhere in the notes to the unaudited condensed consolidated financial statements for information regarding income tax contingencies.

Note 15 — 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)	**2024**	**2023**	**2024**	**2023**
Bluezone	$ —	$ —	$ —	$ 4
Topline Performance Group	—	—	—	(1)
NEIA	—	—	—	(43)
Greenstone Holdings	—	—	—	(2)

The following table summarizes net related party (payable) receivable as of June 30, 2024 and December 31, 2023:

(In thousands)	**June 30, 2024**	**December 31, 2023**
Bluezone	$ —	$ (4)
Valiant Americas, LLC	—	1

On July 12, 2023, the Company issued an unsecured promissory note in favor of GIC Acquisition, LLC, an entity that is owned and managed by the Company's Chairman and Chief Executive Officer. Refer to Note 7 - Debt for further disclosure related to this Related Party Note including related transactions occurring during the three and six months ended June 30, 2024.

On October 27, 2023, CP Acquisitions LLC, an entity affiliated with and controlled by Company's Chairman and Chief Executive Officer, purchased the Exchange Note and the Convertible Note. In addition, the Company issued to CP a Junior Secured Note. Refer to Note 7 - Debt for further disclosure related to this Related Party Note including related transactions occurring during the three and six months ended June 30, 2024.

Note 16 — Subsequent Events

The Company evaluated subsequent events and transactions that occurred after the balance sheet date up to the date that the unaudited condensed consolidated financial statements were issued.

Cash Contributions

CP Acquisitions LLC made cash contributions to the Company from the ongoing CP note payable, in the amounts of $350 thousand and $175 thousand on July 24, 2024 and August 7, 2024, respectively.

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, 2023 filed with the Securities and Exchange Commission on April 15, 2024, as amended on April 29, 2024 (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 risk factors described in our Annual Report on Form 10-K in the section entitled "Risk Factors" 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 a developer of proprietary precision hardware and software grow solutions for the indoor commercial agriculture industry and provides equipment and solutions for cultivation, extraction, post-processing, and testing for the cannabis and hemp industries. We believe we are the only company with an automated and fully integrated grow solution in the industry. Our Agrify "Precision Elevated™" cultivation solution 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 Billerica, Massachusetts. 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 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.

Recent Business Developments

At the beginning of 2023, we announced a strategic plan to foster sustainable long-term growth through cost efficiencies and enhanced sales and growth initiatives. We have been focused on growing our cultivation business by helping our existing Agrify Total Turn-Key customers to bring their facilities online and driving additional sales through our RDP. As a result, we have successfully installed and commenced our Las Vegas customer, Nevada Holistic Medicine, our Denver Colorado customer, Denver Greens, and signed several new customers such as Golden Lake Business Park in California, and Harvest Works in New Jersey. As a testimony to the Vertical Farming Unit's ("VFU") ability to produce high quality flower, Nevada Holistic Medicine is already consistently harvesting 9 pounds of A-grade flower per VFU, or roughly 64 grams per canopy square foot, and seeing 90%+ A-grade flower produced with exceptional color, trichome, and terpene levels.

Similarly, since we have streamlined our expansive extraction portfolio of technologies, we have successfully supported the deployment of several turnkey solvent-based and solventless extraction packages to customers in California, Michigan, and the East Coast. In addition, we have released several new technologies and products into the market based on customer feedback, including our first peer-reviewed Cannabeast 13 Distillation Unit, a Diamond Miner, Stitch-less Double Filtration Rosin Bags, and the revamped PX30 Hydrocarbon Extractor. We have also made significant strides to receive UL Compliance for Precision Extractions' EXP Explosion Proof Rooms in an effort to continue our commitment to safety and quality within cannabis extraction facilities.

These industry developments illustrate the continuous innovation, and commitment to safety within the cannabis sector as our company adapts to evolving market demands. More importantly, our growing partnership across the Country is a strong testimony to operators' continued trust in Agrify's team and technologies in the most competitive markets.

Recent Developments

Note Amendment, Consolidation and Conversion

On January 25, 2024, following stockholder approval at an annual meeting of stockholders on January 8, 2024, we and the New Lender consolidated the outstanding principal and interest due under the Junior Secured Note and the Exchange Note into the Convertible Note and amended and restated the Convertible Note (as amended and restated, the "Restated Note"), with an outstanding principal amount of approximately $18.9 million at the time of issuance of the Restated Note. The Restated Note amended the terms of the Convertible Note by, among other things, (i) reducing the conversion price to $1.46 per share of common stock, (ii) increasing the beneficial ownership limitation to 49.99% with respect to any individual or group, provided that the New Lender may assign its right to receive shares upon conversion to Mr. Chang and/or Ms. Chan or their affiliates, in which case the 49.99% beneficial ownership limitation will apply to each of them individually, (iii) extending the maturity date to December 31, 2025, (iv) increasing the interest rate from 9% to 10% per annum, (v) increasing the default interest from 15% to 18% per annum, and (vi) providing for the payment of interest every six months, or in lieu of cash interest payments, we may issue shares as payments-in-kind at a conversion price equal to the higher of (i) $1.46 or (ii) a 20% discount to our trailing seven-day volume weighted average price as of the date of interest payment. Immediately following the execution of the Restated Note, the New Lender immediately elected to convert approximately $3.9 million of outstanding principal into an aggregate of 2,671,633 shares of common stock, and assigned its rights to receive such shares to entities affiliated with Mr. Chang and Ms. Chan. Following the conversion, there was $15.0 million in principal amount outstanding under the Restated Note.

Nasdaq Notices and Hearing

On October 17, 2023, we received a Staff Delisting Determination (the "Staff Determination") from the Listing Qualifications Department of Nasdaq notifying us that we were not in compliance with Nasdaq's continued listing requirements under the Listing Rule as a result of our failure to file the First Quarter Form 10-Q, the Second Quarter Form 10-Q and the Form 10-K (collectively, the "Delinquent Reports") in a timely manner. We filed each of the Delinquent Reports between November 28, 2023 and January 3, 2024.

On December 1, 2023, we received a notice Nasdaq stating that because we reported stockholders' equity of $(17.17) million in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, we were no longer in compliance with Nasdaq Listing Rule 5550(b)(1), which requires that listed companies maintain a minimum of $2.5 million in stockholders' equity.

We timely requested a hearing before the Nasdaq Hearings Panel (the "Panel"), which hearing was held on January 11, 2024. At the hearing, we presented a plan to regain compliance with Nasdaq Listing Rule 5550(b)(1). On January 30, 2024, we received formal notice that the Panel had granted our request for an exception through April 15, 2024 to evidence compliance with Rule 5550(b)(1), which was subsequently extended to May 15, 2024. As a result, there can be no assurance that we can regain compliance by the end of the extension period.

Additionally, on March 5, 2024, we received a deficiency letter from the Listing Qualifications Department of Nasdaq notifying us that, for the last 30 consecutive business days, the bid price for our common stock had closed below $1.00 per share, which is the minimum closing price required to maintain continued listing on the Nasdaq Stock Market under Nasdaq Listing Rule 5550(a)(2) (the "Minimum Bid Requirement"). The Notice had no immediate effect on the listing of our common stock on Nasdaq. In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have 180 calendar days to regain compliance with the Minimum Bid Requirement. To regain compliance with the Minimum Bid Requirement, the closing bid price of our 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 this period pursuant to Nasdaq Listing Rule 5810(c)(3)(H). The compliance period for us will expire on September 3, 2024.

We can provide no assurances that the listing of our common stock will be restored or that we otherwise will remain listed on Nasdaq. If we fail to continue to satisfy the continued listing requirements of Nasdaq, such as the corporate governance requirements or the minimum closing bid price requirement, Nasdaq will take steps to delist our common stock. Such a de-listing would likely have a negative effect on the price of our common stock and would impair stockholders' ability to sell or purchase our common stock when they wish to do so, as well as adversely affect our ability to issue additional securities and obtain additional financing in the future.

Public Offering

On February 27, 2024, we entered into a placement agency agreement with Alexander Capital, LP as placement agent, pursuant to which we agreed to issue and sell an aggregate of 2,760,000 shares of common stock, and, in lieu of common stock to certain investors that so chose, pre-funded warrants to purchase 3,963,684 shares of common stock. The public offering price for each share of common stock was $0.38, and the offering price for each pre-funded warrant was $0.379, which equals the public offering price per share of the common stock, less the $0.001 per share exercise price of each pre-funded warrant. The Offering was made pursuant to a registration statement on Form S-1 that we filed with the Securities and Exchange Commission on January 26, 2024 and was declared effective on February 14, 2024. Raymond Chang, our Chairman and Chief Executive Officer, participated in the offering on the same terms as other investors. The net proceeds from the public offering were approximately $2.2 million, after deducting placement agent fees and commissions and expenses. The public offering closed on February 28, 2024.

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 U.S. GAAP. The preparation of financial statements in conformity with U.S. 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 estimates, 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.

The Company accounts for warrants as either equity-classified or liability-classified instruments based on an assessment of the warrant's specific terms and applicable authoritative guidance in ASC 480 and ASC 815. Management's assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480, whether they meet the definition of a liability pursuant to ASC 480, and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed to the Company's own Common Stock among other conditions for equity classification.

For issued or modified warrants that meet all of the criteria for equity classification, they are recorded as a component of additional paid-in capital at the time of issuance. For issued or modified warrants that are precluded from equity classification, they are recorded as a liability at their initial fair value on the date of issuance and marked-to-market each reporting period with the changes in fair value of warrant liabilities recorded in other income (expense), net in the accompanying unaudited condensed consolidated statements of operations until the warrants are exercised. The fair value of the warrant liabilities are estimated using a Black-Scholes option-pricing model.

The estimated fair value of the warrant liabilities is determined using Level 3 inputs. Inherent in a Black-Scholes option-pricing model are assumptions used in calculating the estimated fair values that represent the Company's best estimate. The volatility rate is determined utilizing the Company's own share price and the share price of competitors over time.

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, taking into account 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 six months ended June 30, 2024 and 2023, we did not have any such financial income.

Payment terms with customers typically require payment 30 days from 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 contract liabilities 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 contract liabilities 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 unaudited condensed consolidated balance sheets.

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 unaudited 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

Comparison of the Three and Six Months Ended June 30, 2024 and 2023

The following table summarizes our results of operations for the three and six months ended June 30, 2024 and 2023:

	Three months ended June 30,		Six months ended June 30,	
	2024	**2023**	**2024**	**2023**
Revenue (including $0, $0, $0, and $46 from related parties, respectively)	$ 2,994	$ 5,066	$ 5,592	$ 10,870
Cost of goods sold	1,867	4,466	4,300	9,282
Gross profit	1,127	600	1,292	1,588
General and administrative	2,268	4,819	6,362	11,745
Selling and marketing	394	1,120	856	2,710
Research and development	185	643	460	1,378
Gain on settlement of contingent liabilities	—	—	(5,935)	—
Gain on early termination of lease	(39)	—	(39)	—
(Gain) loss on disposal of property and equipment	(9)	—	(9)	5
Change in contingent consideration	—	(638)	(2,180)	(1,322)
Total operating expenses	2,799	5,944	(485)	14,516
Operating (loss) income	(1,672)	(5,344)	1,777	(12,928)
Interest income (expense), net	(28)	(400)	(128)	(1,199)
Change in fair value of warrant liabilities	(1,277)	(1,048)	(404)	1,624
Loss on extinguishment of long-term debt, net	—	(11)	—	(4,631)
Other income (expense), net	5	(4)	19	—
Total other expense, net	(1,300)	(1,463)	(513)	(4,206)
Net (loss) income	(2,972)	(6,807)	1,264	(17,134)
Loss attributable to non-controlling interest	—	2	—	2
Net (loss) income attributable to Agrify Corporation	$ (2,972)	$ (6,805)	$ 1,264	$ (17,132)
Net (loss) income per share attributable to Common Stockholders – basic (1)	$ (0.14)	$ (4.39)	$ 0.09	$ (13.05)
Weighted average common shares outstanding - basic	20,812,678	1,549,669	14,853,454	1,312,299

Revenues

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 Agrify Vertical Farming Units (or "VFUs") and Agrify Integrated Grow Racks with our Agrify Insights software, which are supplemented with environmental control products, grow lights, facility build-out services and extraction equipment.

We generate revenue from sales of cultivation solutions, including ancillary products and services, Agrify Insights software, facility build-outs and extraction equipment and solutions. We believe that our product mix form an integrated ecosystem which allows us to be engaged with our potential customers from 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 software and finally, our extraction, post-processing and testing services to transform harvest into a sellable product. We believe that 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, 2024 and 2023:

	Three months ended June 30,				Six months ended June 30,			
(In thousands)	**2024**	**2023**	**Change**	**% Change**	**2024**	**2023**	**Change**	**% Change**
Cultivation solutions, including ancillary products and services	$ 526	$ 1,298	$ (771)	(59)%	$ 1,438	$ 1,230	$ 208	17%
Agrify Insights software	68	35	33	94%	130	65	65	100%
Facility build-outs	—	255	(255)	(100)%	—	882	(882)	(100)%
Extraction solutions	3,116	4,450	(1,334)	(30)%	5,566	9,428	(3,862)	(41)%
Sales discounts on cultivation and extraction solutions	(716)	(972)	256	(26)%	(1,542)	(735)	(807)	110%
Total revenue	$ 2,994	$ 5,066	$ (2,072)	(41)%	$ 5,592	$ 10,870	$ (5,278)	(49)%

Revenues decreased by $2.1 million, or 41%, for the three months ended June 30, 2024 compared to the same period in 2023. Revenues decreased by $5.3 million, or 49%, for the six months ended June 30, 2024 compared to the same period in 2023. The comparative decrease in revenue was generated primarily from decreases in revenue from facility build-outs and extraction solutions. Extraction division revenues decreased by $1.3 million and $3.9 million for the three and six months ended June 30, 2024, respectively, primarily due to changes in contract terms with customers which expedited cash flows but reduced overall demand. Additionally, design and build revenues decreased by $0.3 million and $0.9 million for the three and six months ended June 30, 2024, respectively due to the discontinued build-out of facilities under our TTK Solutions.

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, 2024 and 2023:

	Three months ended June 30,				Six months ended June 30,			
(In thousands)	**2024**	**2023**	**Change**	**% Change**	**2024**	**2023**	**Change**	**% Change**
Cultivation solutions, including ancillary products and services	$ 758	$ 490	$ 268	55%	$ 989	$ 1,023	$ (34)	(3)%
Facility build-outs	12	248	(236)	(95)%	12	968	(956)	(99)%
Extraction solutions	1,097	3,728	(2,631)	(71)%	3,299	7,291	(3,992)	(55)%
Total cost of goods sold	$ 1,867	$ 4,466	$ (2,599)	(58)%	$ 4,300	$ 9,282	$ (4,982)	(54)%

Cost of goods sold decreased by $2.6 million, or 58%, for the three months ended June 30, 2024 compared to the same period in 2023. Cost of goods sold decreased by $5.0 million, or 54%, for the six months ended June 30, 2024 compared to the same period in 2023. The comparative quarterly decrease in cost of goods sold is associated with decreases in cost of goods sold related to facility build-outs and extraction solutions which aligns with the reduction in revenue over the same period for each of these revenue streams.

Gross Profit

	Three months ended June 30,				Six months ended June 30,			
(In thousands)	**2024**	**2023**	**Change**	**% Change**	**2024**	**2023**	**Change**	**% Change**
Gross profit	$ 1,127	$ 600	$ 527	88%	$ 1,292	$ 1,588	$ (296)	(19)%

Gross profit totaled $1.1 million, or 37.6%, of total revenue during the three months ended June 30, 2024 compared to $0.6 million, or 11.8%, of total revenue during the three months ended June 30, 2023. Gross profit totaled $1.3 million, or 23.1% of total revenue during the six months ended June 30, 2024 compared to a gross profit of $1.6 million, or 14.6% of total revenue during the six months ended June 30, 2023. The comparative $0.3 million second-quarter year over year increase in gross profit, as well as the comparative increase in gross profit margin, is primarily attributable to a bigger decrease in costs of goods sold relative to the decrease in revenue for the period. During the second quarter of 2024, we realized a gross profit margin of 65% associated with our extraction solutions revenue, while we realized a gross profit margin of approximately (44)% on our cultivation-related revenues.

On a forward-looking basis, with the full year benefit of anticipated margin contribution associated with the extraction-related revenue contributions, the Company anticipates that gross margin performance, aided by our extraction-related equipment sales, will be in a mid-teens range. We anticipate that we will be able to improve upon that expected gross profit margin performance once we are able to generate meaningful software and production fee revenues from our TTK Solutions, which we currently expect to begin in the late third or early fourth quarter of 2024.

General and Administrative

	Three months ended June 30,				Six months ended June 30,			
(In thousands)	**2024**	**2023**	**Change**	**% Change**	**2024**	**2023**	**Change**	**% Change**
General and administrative	$ 2,268	$ 4,819	$ (2,551)	(53)%	$ 6,362	$ 11,745	$ (5,383)	(46)%

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 decreased by $2.6 million, or 53%, for the three months ended June 30, 2024, compared to the same period in 2023. G&A expense decreased by $5.4 million, or 46%, for the six months ended June 30, 2024, compared to the same period in 2023. The decrease for the six months ended is primarily attributable to a decrease in stock based compensation of 1.0 million, a decrease in payroll expense of 1.8 million, a decrease in insurance and other employee benefits of 1.3 million, and a decrease in sales tax expense of 0.5 million.

Research and Development

	Three months ended June 30,				Six months ended June 30,			
(In thousands)	**2024**	**2023**	**Change**	**% Change**	**2024**	**2023**	**Change**	**% Change**
Research and development	$ 185	$ 643	$ (458)	(71)%	$ 460	$ 1,378	$ (918)	(67)%

Research and development ("R&D") expenses consisted primarily of costs incurred for the development of our Agrify Insights software, next generation VFUs, and new extraction technology and methodology, 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 Agrify Insights software and 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 decreased by $0.5 million, or 71% for the three months ended June 30, 2024, compared to the same period in 2023. R&D expense decreased by $0.9 million, or 67%, for the six months ended June 30, 2024, compared to the same period in 2023. The decrease is attributable to the reduction in personnel, outsourced consulting and materials purchased.

We expect to continue to invest in future developments of our VFUs, Agrify Insights software and our extraction products. As a percentage of net revenue, R&D expenses were 15% of total revenue for the six months ended June 30, 2024, compared to 27% for the six months ended June 30, 2023.

Selling and Marketing

(In thousands)	Three months ended June 30, 2024	Three months ended June 30, 2023	Change	% Change	Six months ended June 30, 2024	Six months ended June 30, 2023	Change	% Change
Selling and marketing	$ 394	$ 1,120	$ (726)	(65)%	$ 856	$ 2,710	$ (1,854)	(68)%

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

Selling and marketing expenses decreased by $0.7 million, or 65%, for the three months ended June 30, 2024, compared to the same period in 2023. Selling and marketing expenses decreased by $1.9 million, or 68%, for the six months ended June 30, 2024, compared to the same period in 2023. The decrease is attributable to a decrease in payroll, advertising, and trade show expenses.

Gain on settlement of contingent liabilities

(In thousands)	Three months ended June 30, 2024	Three months ended June 30, 2023	Change	% Change	Six months ended June 30, 2024	Six months ended June 30, 2023	Change	% Change
Gain on settlement of contingent liabilities	$ —	$ —	$ —	—%	$ (5,935)	$ —	$ (5,935)	—%

Gain on settlement of contingent liabilities relates to the legal settlement effected with Mack Molding Co. as described in Note 14 - Commitments and Contingencies within the unaudited condensed consolidated financial statements for the period ended June 30, 2024. On February 29, 2024, the Company met its performance obligations in terms of the Modification Agreement with Mack Molding Co. In the second quarter of 2024, management derecognized the previously recognized contingent liability, resulting in a credit of approximately $5.9 million, increasing the total gain for the six months ended June 30, 2024 to approximately $5.9 million. The gain was recorded within gain on settlement of contingent liabilities, on the unaudited condensed consolidated statement of operations.

Other Income, Net

(In thousands)	Three months ended June 30, 2024	Three months ended June 30, 2023	Change	% Change	Six months ended June 30, 2024	Six months ended June 30, 2023	Change	% Change
Interest income (expense), net	$ (28)	$ (400)	$ 372	(93)%	$ (128)	$ (1,199)	$ 1,071	(89)%
Other income (expense), net	5	(4)	9	(225)%	19	—	19	—%
Change in fair value of warrant liabilities	(1,277)	(1,048)	(229)	22%	(404)	1,624	(2,028)	(125)%
Loss on extinguishment of long-term debt, net	—	(11)	11	(100)%	—	(4,631)	4,631	(100)%
Total other expense, net	$ (1,300)	$ (1,463)	$ 163	(11)%	$ (513)	$ (4,206)	$ 3,693	(88)%

Interest expense decreased by $0.4 million, or 93%, for the three months ended June 30, 2024, compared to the same period in 2023. Interest expense decreased by $1.1 million, or 89%, for the six months ended June 30, 2024, compared to the same period in 2023. The decrease in interest expense is attributable mainly to the decrease in principal balance on outstanding loans.

The change in fair value of warrant liabilities decreased by $0.2 million, or 22% during the three months ended June 30, 2024, compared to the same period in 2023. The change in fair value of warrant liabilities decreased by $2.0 million, or 125%, during the six months ended June 30, 2024, compared to the same period in 2023. The decrease is related to the fair value remeasurement of warrants issued during March, August, and December, 2022.

Income (Loss) Attributable to Non-Controlling Interest

We consolidate the results of operations of two less than wholly-owned entities into our unaudited condensed 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.

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.

Liquidity and Capital Resources

As of June 30, 2024, our principal sources of liquidity were cash and cash equivalents and marketable securities totaling $57 thousand. Our current working capital needs are to support revenue growth, to 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 $779,000 from the unsecured PPP Loan which was originally scheduled to mature in May 2022. We applied for forgiveness on the $779,000 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 $24,000 that commenced on August 7, 2022.

On March 14, 2022, we entered into a Securities Purchase Agreement with the Former Lender. The Purchase Agreement provides for the issuance of the SPA Note in the aggregate amount of $65.0 million and a SPA Warrant to purchase up to an aggregate of 34,406 shares of Common Stock, with the potential for two potential subsequent closings for notes with an original principal amount of $35.0 million each.

On August 18, 2022, we entered into a Securities Exchange Agreement. Pursuant to the August 2022 Exchange Agreement, we partially paid $35.2 million along with approximately $300,000 in repayments for other fees under the SPA Note and exchanged the remaining balance of the SPA Note for an Exchange Note with an aggregate original principal amount of $35.0 million and a Note Exchange Warrant to purchase 71,139 shares of Common Stock. Additionally, we exchanged the SPA Warrant for a Modified Warrant for the same number of underlying shares but with a reduced exercise price.

On March 8, 2023, we entered into a new Securities Exchange Agreement. Pursuant to the March 2023 Exchange Agreement, we prepaid approximately $10.3 million in principal amount under the Exchange Note and exchanged $10.0 million in principal amount of the remaining balance of the Exchange Note for a new senior secured convertible note (the "Convertible Note").

The Convertible Note is a senior secured obligation and will rank senior to all of our indebtedness. The Convertible Note will mature on August 19, 2025 (the "Maturity Date") and has a 9.0% annualized interest rate, with interest to be paid monthly, in cash. The principal amount of the Convertible Note will be payable on the maturity date, provided that the lender will be entitled to a cash sweep of 30% of the proceeds of any at-the-market equity offering and 20% of the proceeds received by us in connection with any other equity financing, which will reduce the outstanding principal amount under the Exchange Note. On October 27, 2023, CP Acquisitions LLC, and entity affiliated with and controlled by Raymond Chang, acquired the Exchange Note and the Convertible Note. As of October 30, 2023, there was approximately $6.7 million outstanding under the Exchange Note and $8.8 million outstanding under the Convertible Note.

At any time, we may prepay all of the Exchange Note by redemption at a price equal to 102.5% of the then-outstanding principal amount under the Note plus accrued but unpaid interest. The holder will also have the option of requiring us to redeem the Exchange Note on the one-year or two-year anniversaries of issuance at a price equal to the then-outstanding principal amount under the Exchange Note plus accrued but unpaid interest, or if we undergo a fundamental change at a price equal to 102.5% of the then-outstanding principal amount under the Exchange Note plus accrued but unpaid interest.

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, 2024, and 2023:

(In thousands)	June 30, 2024	June 30, 2023
Net cash (used in) provided by:		
Operating activities	$ (4,816)	$ (11,634)
Investing activities	336	11,358
Financing activities	4,103	(9,873)
Net decrease in cash and cash equivalents	$ (377)	$ (10,149)

Cash Flow from Operating Activities

For the six months ended June 30, 2024, we incurred a net loss of $1.3 million, which included a 2.8 million decrease related to accounts payable, 2.2 million decrease related to accrued acquisition liabilities due to issuance of held-back-shares, $1.1 million decrease related to recovery of provision for slow-moving inventory, 5.9 gain on a supply agreement $0.8 million related to depreciation and amortization, $0.6 million of stock based compensation expense, and $0.4 million increase related to the change in fair value of warrant liabilities. Net cash was reduced by changes in operating assets and liabilities of $0.8 million.

For the six months ended June 30, 2023, we incurred a net loss of $17.1 million, which included $12.9 million loss from operations, a $4.6 million loss on extinguishment of notes payable, and $1.2 million of interest expense, partially offset by a $1.6 million credit related to the change in fair value of warrant liabilities. Net cash used in operating activities for six months ended June 30, 2023 was 11.6 million.

Cash Flow from Investing Activities

For the six months ended June 30, 2024, net cash provided in investing activities was $0.3 million, which resulted from cash inflows of $0.3 million in proceeds from the repayment of a loan receivable, partially offset by cash outflows of $4,000 for purchases of property and equipment.

For the six months ended June 30, 2023, net cash provided by investing activities was $11.4 million, which included cash inflows of $10.5 million in proceeds from the sale of securities and $1.5 million in proceeds from the repayment of a loan receivable, partially offset by cash outflows of $0.6 million in costs related to the issuance of loans.

Cash Flow from Financing Activities

For the six months ended June 30, 2024, net cash provided by financing activities was $4.1 million. Net cash provided by financing activities was primarily driven by proceeds from issuance of related party notes of $2.3 million and proceeds from an issuance of common stock through an S-1 and Prefunded Warrants offering of $2.1 million, offset by $0.3 million in payments on insurance financing loans.

For the six months ended June 30, 2023, net cash used in financing activities was $9.9 million, which was primarily driven by repayment of debt in a private placement of $10.3 million and payments on insurance financing loans of $1.0 million, partially offset by proceeds from the ATM Program of $1.5 million.

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 unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these unaudited 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 unaudited 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 1 - Overview, Basis of Presentation and Significant Accounting Policies included in our 2023 Annual Report and Note 1 - Overview, Basis of Presentation and Significant Accounting Policies to our unaudited 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 1 - Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to unaudited 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 1 - Overview, Basis of Presentation and Significant Accounting Policies, included elsewhere in the notes to unaudited condensed consolidated financial statements covered under Part I, Item 1 in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a "smaller reporting company" as defined by 17 C.F.R. § 229.10, 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 and Principal Financial Officer, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

As required by paragraph (b) of 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 as of June 30, 2024. Based on this evaluation, our Chief Executive Officer and Principal Financial Officer concluded that, due to the material weaknesses in our internal control over financial reporting previously identified in Item 9A, "Controls and Procedures" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and filed with the SEC on April 15, 2024, as amended on April 29, 2024 our disclosure controls and procedures were not effective at the reasonable assurance level as of June 30, 2024.

Changes in Internal Control Over Financial Reporting

We are implementing certain measures to remediate the material weaknesses identified in the design and operation of our internal control over financial reporting, including hiring additional qualified personnel, further documentation and implementation of control procedures and the implementation of control monitoring. Other than those measures, there have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 Proceedings in Note 14 - Commitments and Contingencies to our unaudited 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, 2023.

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
4.1	Amendment No. 1 to Senior Secured Amended, Restated and Consolidated Convertible between Agrify Corporation and CP Acquisitions, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2024).
4.2	Form of Pre-Funded Warrant (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2024).
4.3	Third Amended and Restated Junior Secured Convertible Promissory Note dated as of May 21, 2024 (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2024)
4.4	Amendment to Pre-Funded Comon Stock Purchase Warrant between Agrify Corporation and CP Acquisitions, LLC dated as of June 30, 2024 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 3, 2024)
4.5	Amendment to Pre-Funded Comon Stock Purchase Warrant between Agrify Corporation and GIC Acquisitions, LLC dated as of June 30, 2024 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 3, 2024)
10.1	Term Sheet between Nature's Miracle Holding Inc. and Agrify Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 22, 2024).
10.2	Term Sheet between Nature's Miracle Holding Inc., CP Acquisitions LLC and GIC Acquisition, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 22, 2024).
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.

† Certain confidential portions of this exhibit were omitted pursuant to Item 601(b)(2)(ii) of Regulation S-K because the identified confidential portions (i) are not material and (ii) are customarily and actually treated as private or confidential by the Company.

†† Schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant hereby undertakes to furnish copies of any of the omitted schedules and exhibits upon request by the U.S. Securities and Exchange Commission.

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: August 14, 2024

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 Quarterly Report on Form 10-Q of Agrify Corporation (the "Company") for the quarterly period ended June 30, 2024;

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. I am 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. I have disclosed, based on my 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: August 14, 2024

By: /s/ Raymond Chang
Name: Raymond Chang
Title: Chief Executive Officer
(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 the Quarterly Report on Form 10-Q of Agrify Corporation (the "Company") for the quarterly period ended June 30, 2024 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: August 14, 2024

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