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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 September 30, 2022

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from__________ to __________

Commission File Number 001-41025

THE REAL GOOD FOOD COMPANY, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**87-1280343** **(I.R.S. Employer Identification Number)**

3 Executive Campus, Suite 155
Cherry Hill, NJ 08002
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (856) 644-5624

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.0001 par value per share	**RGF**	**Nasdaq Global 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 90d 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 November 11, 2022, there were 6,199,885 shares of the registrant's Class A common stock, par value $0.0001 per share, and 19,552,681 shares of the registrant's Class B common stock, par value $0.0001 per share, outstanding.

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THE REAL GOOD FOOD COMPANY, INC.
Unaudited Consolidated Balance Sheets
(In thousands, except share data)

	As of September 30, 2022	As of December 31, 2021
ASSETS		
Current assets:		
Cash	$ 3,040	$ 27,435
Accounts receivable, net	17,510	8,968
Inventories	35,118	16,622
Other current assets	5,307	9,927
Total current assets	60,975	62,952
Property and equipment, net	35,213	10,289
Operating lease right-of-use assets	11,232	12,127
Deferred loan cost	1,053	818
Goodwill	12,486	12,486
Restricted Cash	2,313	2,310
Other noncurrent assets	187	1,162
Total assets	$ 123,459	$ 102,144
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 19,239	$ 15,205
Operating lease liabilities	1,407	1,040
Finance lease liabilities	2,127	198
Business acquisition liabilities, current portion	920	8,111
Accrued and other current liabilities	1,476	6,763
Current portion of long-term debt	359	328
Total current liabilities	25,528	31,645
Revolving line of credit/capex line	47,515	17,501
Lease line of credit	10,213	7,258
Long-term operating lease liabilities	10,408	11,249
Long-term finance lease liabilities	14,598	154
Term Loan	10,000	—
Long-term Business acquisition liabilities	2,654	3,352
Other long term liabilities	138	—
Total Liabilities	121,054	71,159
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Class A common stock, $0.0001 par value—100,000,000 shares authorized; 6,199,885 and 6,169,885 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	1	1
Class B common stock, $0.0001 par value—25,000,000 shares authorized; 19,552,681 and 19,577,681 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	2	2
Additional paid-in capital	54,911	49,693
Accumulated deficit	(18,246)	(10,143)
Total stockholders' equity attributable to The Real Good Food Company, Inc.	36,668	39,553
Non-controlling interest	(34,263)	(8,568)
Total stockholders' equity	2,405	30,985
Total liabilities and stockholders' equity	$ 123,459	$ 102,144

See accompanying notes to the Consolidated Financial Statements

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THE REAL GOOD FOOD COMPANY, INC.
Unaudited Consolidated Statements of Operations
(In thousands, except share/unit and per share/unit data)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2022	2021	2022	2021
Net sales	$ 37,550	$ 23,014	$ 105,935	$ 58,477
Cost of sales	35,782	20,659	97,569	49,447
Gross profit	1,768	2,355	8,366	9,030
Operating expenses:				
Selling and distribution	4,615	4,323	14,851	10,291
Marketing	1,659	1,732	4,617	3,119
Administrative	6,142	1,875	18,009	7,677
Total operating expenses	12,416	7,930	37,477	21,087
Loss from operations	(10,648)	(5,575)	(29,111)	(12,057)
Interest expense	2,469	839	4,650	4,322
Other expense	—	(309)	—	(309)
Change in fair value of convertible debt	—	5,730	—	6,100
Loss before income taxes	(13,117)	(11,835)	(33,761)	(22,170)
Income tax expense	—	—	—	—
Net Loss	$ (13,117)	$ (11,835)	$ (33,761)	$ (22,170)
Less: net loss attributable to non-controlling interest	(9,969)	—	(25,659)	—
Preferred return on Series A preferred units	—	146	—	438
Net loss attributable to The Real Good Food Company, Inc.	$ (3,148)	$ (11,981)	$ (8,102)	$ (22,608)
Net loss per common share/unit (basic and diluted)	($0.51)	($1.36)	($1.31)	($2.57)
Weighted-average common shares units outstanding (basic and diluted)	6,180,592	8,800,132	6,173,454	8,800,132

See accompanying notes to the Consolidated Financial Statements

THE REAL GOOD FOOD COMPANY, INC.
Unaudited Consolidated Statements of Stockholders' Equity/Members' Deficit
(In thousands except for share data)

	Members' Equity	Members' Accumulated Deficit	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interest	Total Equity
			Shares	Amount	Shares	Amount				
Balance, December 31, 2021	**$ —**	**$ —**	**6,169,885**	**$ 1**	**19,577,681**	**$ 2**	**$ 49,693**	**$ (10,143)**	**$ (8,568)**	**$ 30,985**
Net loss	—	—	—	—	—	—	—	(2,294)	(7,240)	**(9,534)**
Equity-based compensation	—	—	—	—	—	—	1,699	—	—	**1,699**
Balance, March 31, 2022	**$ —**	**$ —**	**6,169,885**	**$ 1**	**19,577,681**	**$ 2**	**$ 51,392**	**$ (12,437)**	**$ (15,808)**	**$ 23,150**
Net loss	—	—	—	—	—	—	—	(2,661)	(8,449)	**(11,110)**
Equity-based compensation	—	—	—	—	—	—	1,733	—	—	**1,733**
Balance, June 30, 2022	**$ —**	**$ —**	**6,169,885**	**$ 1**	**19,577,681**	**$ 2**	**$ 53,125**	**$ (15,098)**	**$ (24,257)**	**$ 13,773**
Net loss	—	—	—	—	—	—	—	(3,148)	(10,006)	**(13,154)**
Shares issued	—	—	25,000	—	(25,000)	—	—	—	—	—
Equity-based compensation	—	—	5,000	—	—	—	1,786	—	—	**1,786**
Balance, September 30, 2022	**$ —**	**$ —**	**6,199,885**	**$ 1**	**19,552,681**	**$ 2**	**$ 54,911**	**$ (18,246)**	**$ (34,263)**	**$ 2,405**

	Members' Equity	Members' Accumulated Deficit	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interest	Total Equity
			Shares	Amount	Shares	Amount				
Balance, December 31, 2020	**$ 9,065**	**$ (39,232)**	**—**	**$ —**	**—**	**$ —**	**$ —**	**$ —**	**$ —**	**$(30,167)**
Net loss	—	(4,401)	—	—	—	—	—	—	—	**(4,401)**
Balance, March 31, 2021	**$ 9,065**	**$ (43,633)**	**—**	**$ —**	**—**	**$ —**	**$ —**	**$ —**	**$ —**	**$(34,568)**
Net loss	—	(5,934)	—	—	—	—	—	—	—	**(5,934)**
Balance, June 30, 2021	**$ 9,065**	**$ (49,567)**	**—**	**$ —**	**—**	**$ —**	**$ —**	**$ —**	**$ —**	**$(40,502)**
Net loss	—	(11,835)	—	—	—	—	—	—	—	**(11,835)**
Balance, September 30, 2021	**$ 9,065**	**$ (61,402)**	**—**	**$ —**	**—**	**$ —**	**$ —**	**$ —**	**$ —**	**$(52,337)**

See accompanying notes to the Consolidated Financial Statements

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THE REAL GOOD FOOD COMPANY, INC.
Unaudited Consolidated Statements of Cash Flows
(In thousands)

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash flows from operating activities:		
Net loss	$(33,761)	$(22,170)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,775	791
Amortization of loan costs	165	1,402
Non-Cash interest and debt fees	2,165	2,542
Remeasurement of contingent consideration in business combination	—	130
Change in fair value of convertible debt	—	6,100
Equity Compensation expense	5,217	—
Changes in operating assets and liabilities:		
Accounts receivable	(8,542)	(2,232)
Inventories	(18,496)	(1,022)
Other assets	1,113	(698)
Accounts payable, accrued expenses and lease liabilities	852	7,674
Net cash used in operating activities	(49,512)	(7,483)
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	—	(2,114)
Purchase of property and equipment	(3,737)	(2,515)
Net cash used in investing activities	(3,737)	(4,629)
Cash flows from financing activities:		
Proceeds from convertible notes	—	35,000
Proceeds from line of credit borrowings	42,237	14,534
Payments on line of credit borrowings	(4,768)	(34,945)
Payments on deferred offering costs	—	(761)
Payments on acquisition related Contingent consideration	(7,425)	—
Payments on acquisition related term loan	(616)	—
Payments on finance lease liabilities	(571)	(94)
Net cash provided by financing activities	28,857	13,734
Net (decrease) increase in cash and restricted cash	$(24,392)	$ 1,622
Beginning cash and restricted cash	29,745	28
Ending cash and restricted cash	$ 5,353	$ 1,650
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,200	$ 555
Supplemental disclosures of noncash investing and financing activities:		
Net liabilities assumed from business combination	$ —	$ 14,729
Lease liabilities arising from obtaining right-of-use assets	$ 16,470	$ 4,250
Purchase of property and equipment in lease line of credit	$ 10,213	$ —
Purchase of property and equipment in AP and accrued liabilities	$ 323	$ —
Deferred offering costs in AP and accrued liabilities	$ —	$ 414

See accompanying notes to the Consolidated Financial Statements

THE REAL GOOD FOOD COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Organization

The Real Good Food Company, Inc. was formed as a Delaware corporation on June 2, 2021 under the name "Project Clean, Inc." for the purpose of completing an initial public offering (the "IPO") and related organizational transactions in order to carry on the business of Real Good Foods, LLC ("RGF"), a Delaware limited liability company and the sole subsidiary of The Real Good Food Company, Inc. (RGF, together with The Real Good Food Company, Inc., the "Company").

On November 9, 2021, the Company completed an IPO of 5,333,333 shares of The Real Good Food Company, Inc.'s Class A common stock at an offering price at $12.00 per share. The Company received approximately $59.5 million of proceeds, net of underwriting discounts and commissions and before offering expenses of $3.9 million. In connection with the IPO, the Company completed a reorganization (the Reorganization") among The Real Good Food Company, Inc., RGF, and the members of RGF immediately prior to the IPO (the "Members"). As part of the Reorganization, the Members became holders of Class B units of RGF and were issued shares of Class B common stock of The Real Good Food Company, Inc., which convey voting rights in The Real Good Food Company, Inc. on a one-to-one basis with the number of Class B units they held in RGF. As a result of the Reorganization and IPO, the Members collectively controlled approximately 76% of the direct and indirect voting interest in the Company following the IPO, which remained unchanged as of September 30, 2022.

Prior to the consummation of the IPO and Reorganization, RGF was owned entirely by the Members and operated its business through itself and no other entities. The following transactions occurred in connection with the Reorganization and IPO:

- Project Clean, Inc. changed its name to The Real Good Food Company, Inc. on October 7, 2021;
- The Real Good Food Company, Inc. adopted an amended and restated certificate of incorporation to, among other things, provide for Class A common stock and Class B common stock;
- The Real Good Food Company, Inc. used all of the net proceeds it received from the IPO to acquire Class A units of RGF at a purchase price per Class A unit equal to the IPO price per share of Class A common stock, less underwriting discounts and commissions, collectively representing 24% of the economic interests and all of the voting interests in the Reorganization of RGF's outstanding units, including both Class A units and Class B units, following the IPO. RGF in turn used all of the net proceeds it received from The Real Good Food Company, Inc. for its continuing operations; and
- The Real Good Food Company, Inc. became a holding company and the sole managing member of RGF, which has continued to operate the Company's business.

Description of Business

The Company is a frozen food company that develops, markets, and manufactures foods that are designed to be high in protein, low in sugar, and gluten- and grain-free. The Company, along with its co-manufacturers, produce breakfast sandwiches, entrées, and other products, which are primarily sold in the U.S. frozen food category, excluding frozen and refrigerated meat. The Company's customers include retailers, which primarily sell its products through natural and conventional grocery, drug, club, and mass merchandise stores throughout the United States. The Company also sells its products through its e-commerce channel, which includes direct-to-consumer sales through its website, as well as sales through its retail customers' online platforms.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

Basis of Presentation

The unaudited consolidated financial information for the three and nine months ended September 30, 2022 and 2021, is presented on the same basis as the financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the "Annual Report"), filed with the Securities and Exchange Commission on March 30, 2022. In the opinion of management, these financial statements include all adjustments necessary for a fair statement of the financial position, results of operations and cash flows of the Company for the interim periods, and the adjustments are of a normal and recurring nature. The financial results for any interim period are not necessarily indicative of the results for the full year. The consolidated balance sheet information as of December 31, 2021, was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report.

The consolidated financial statements have been prepared in accordance with GAAP and include the accounts of The Real Good Food Company, Inc. and its wholly owned or controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The Real Good Food Company, Inc. has no operations other than those of RGF. Prior to the IPO, the Company's results were reported under RGF as the predecessor company. Subsequent to the IPO, all results reported upon contain the consolidated financial statements of The Real Good Food Company, Inc. and RGF.

In accordance with the reverse acquisition guidance in as set forth by the Financial Accounting Standards Board ("FASB"), the financial statements of The Real Good Food Company, Inc. (the accounting acquiree) for the three and nine months ended September 30, 2021, are a continuation of the financial statements of RGF (the accounting acquirer), adjusted to retroactively change RGF's legal capital to reflect the legal capital of The Real Good Food Company, Inc. This adjustment was calculated based upon the partnership unit to share exchange ratio of 139.78 new shares of Company common stock for every unit of RGF's previously issued and outstanding equity. Comparative information preserved in these consolidated financial statements is also retroactively adjusted to reflect the legal capital of The Real Good Food Company, Inc. The legal capital as of September 30, 2022 reflects the legal capital of The Real Good Food Company, Inc. after the acquisition date and therefore requires no adjustment.

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to use its judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of net sales and expenses during the reporting period. Significant estimates and assumptions reflected in the financial statements include, but are not limited to, the allowance for credit losses, the write down of obsolete or excess inventory, and revenue recognition, including variable consideration for estimated reserves for discounts, incentives, and other allowances. Management bases its estimates on historical experience and on assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Due to the inherent uncertainty involved in making assumptions and estimates, changes in circumstances could result in actual results differing from those estimates, and such differences could be material to the Company's balance sheet and statements of operations.

Segment Reporting and Geographical Information

For the three and nine months ended September 30, 2022 and 2021, the Company was managed as a single operating segment. The Chief Executive Officer, who is the Company's Chief Operating Decision Maker, reviews financial information on an aggregate basis for purposes of allocating resources and assessing financial performance, as well as for making strategic operational decisions and managing the organization. As such, the Company does not have reportable segments. Additionally, all of the Company's assets are maintained in the United States.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity period of three months or less, when acquired, to be cash equivalents. Cash and cash equivalents held at financial institutions may at times exceed insured amounts. The Company believes it mitigates such risk by investing in or through, as well as maintaining cash balances, with major financial institutions. There were no cash equivalents as of September 30, 2022, and December 31, 2021.

Restricted Cash

The Company considers cash which is not freely available for immediate use, and that is held for a specific purpose, to be restricted cash. If the terms dictating the restriction require the restricted cash to be considered as such beyond twelve months, the Company classifies that restricted cash as a noncurrent asset due to its inability to provide liquidity within one year. As of September 30, 2022, the Company had approximately $2.3 million of restricted cash, all of which was classified as noncurrent. The entirety of the $2.3 million of restricted cash relates to a letter of credit opened in connection with the Company's new manufacturing facility in Bolingbrook, IL. Amounts will be released for the Company's use proportionately over a three-year period beginning in January 2023.

The below table reconciles cash and restricted cash to amounts shown in the Consolidated Statements of Cash Flows:

(In thousands)	September 30, 2022
Cash	$ 3,040
Restricted cash	2,313
Total cash reported in statements of cash flows	$ 5,353

Accounts Receivable

Accounts receivable are recorded at the invoiced amount, net of allowances for estimated variable consideration and amounts payable to customers for slotting, which are fees assessed by customers for the cost of accepting new products into their store. Estimated product returns are immaterial. Management assesses the collectability of outstanding customer invoices, and if it deems necessary, maintains an allowance for credit losses resulting from the non-collection of customer receivables. In estimating this reserve, management considers factors such as historical collection experience, customer creditworthiness, specific customer risk, trends specific to the customer, and current and expected general economic conditions that may affect a customer's ability to pay. Customer balances are written off after all collection efforts are exhausted. The amounts recorded for reserves for credit losses for the three months ended September 30, 2022 and 2021 were de minimis.

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company records sales and other reductions in inventory through cost of sales using the first-in, first-out method. The cost of finished goods inventories includes ingredients, direct labor, freight-in for ingredients, and indirect production and overhead costs. The Company monitors its inventory to identify excess or obsolete items on hand. The Company writes down its inventories for estimated excess and obsolescence in an amount equal to the difference between the cost of inventories and estimated net realizable value. These estimates are based on management's judgment about future demand and market conditions. Once established, these adjustments are considered permanent and are not revised until the related inventory is sold or disposed of. The Company did not have a write-down of inventory during the three and nine months ended September 30, 2022. Amounts related to the write-down of inventory during the three and nine months ended September 30, 2021 were $0 and $0.9 million, respectively.

Property and Equipment

Property and equipment are stated at acquisition cost, net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method typically over the following range of estimated useful lives of the assets as follows:

	Estimated Useful Lives
Computers	3 years
Office equipment	5 years
Machinery and equipment	5 – 10 years

Leasehold improvements are capitalized and amortized over the shorter of the estimated useful life or the remaining term of the lease.

The Company reviews the recoverability of property and equipment when circumstances indicate that the carrying value of an asset or asset class may not be recoverable. Indicators of impairment could include, among other factors, significant changes in the business environment, the planned closure of a facility, or deteriorations in operating cash flows. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Expenditures for repairs and maintenance which do not substantially improve or extend the useful life of an asset are expensed as incurred.

Leases

The Company's leases consist of corporate office space, warehouse, and equipment. The Company determines whether a contract is or contains a lease at the time of the contract's inception based on the presence of identified assets and the Company's right to obtain substantially all the economic benefit from or to direct the use of such assets. When the Company determines a lease exists, it records a right-of-use ("ROU") asset and corresponding lease liability on its balance sheet. ROU assets represent the Company's right to use an underlying asset for the lease term. Lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are recognized at the lease commencement date at the present value of the remaining future lease payments the Company is obligated for under the terms of the lease. Lease liabilities are recognized concurrent with the recognition of the ROU asset and represent the present value of lease payments to be made under the lease. These ROU assets and liabilities are adjusted for any prepayments, lease incentives received, and initial direct costs incurred. As the discount rate implicit in the lease is not readily determinable in most of the Company's leases, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. Certain of the Company's lease terms include options to extend the lease up to five years. The probability of renewal with regards to these leases was deemed to be remote and as such these renewal options are not reflected in the Company's ROU assets and lease liabilities. The Company will reflect renewal options in its calculation of ROU assets and liabilities, with regards to future lease agreements, when it is reasonably certain that the Company will exercise that option.

The Company does not record lease contracts with a term of 12 months or less on its balance sheet. Payments for these short-term leases are expensed when incurred.

The Company recognizes fixed-lease expense for operating leases on a straight-line basis over the lease term. For finance leases, the Company recognizes amortization expense over the shorter of the estimated useful life of the underlying assets, or the lease term. Interest expense on a finance lease is recognized using the effective interest method over the lease term.

The Company has lease agreements with non-lease components, such as maintenance- and utility-related charges. The Company accounts for each lease and any non-lease components associated with that lease as a single-lease component for all underlying asset classes. Accordingly, all costs associated with a lease contract are accounted for as lease costs.

Certain leasing arrangements require variable payments that are dependent on usage or output or may vary for other reasons, such as insurance and tax payments. Variable lease payments that do not depend on an index or rate are excluded from lease payments in the measurement of the ROU asset and lease liability and are recognized as expense in the period in which the payment occurs. Variable payments are determined based on a percentage allocation determined by the landlord and are immaterial for the three and nine months ended September 30, 2022 and 2021.

The Company's lease agreements do not include significant restrictions or covenants, and residual value guarantees are generally not included within its leases.

Fair Value of Financial Instruments

Fair value is an exit price, representing 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

The carrying value of the Company's short-term financial instruments, such as cash, accounts receivable, notes payable, and accounts payable, approximate fair value due to the immediate or short-term maturity of these instruments. The interest rate on the Company's secured credit facility and certain other debt has a variable component, and which is reflective of the market for such instruments at any given date, and as such the carrying value this debt value approximates its fair value.

Product Placement Agreement

In February 2018, the Company entered into a product placement agreement ("PPA") with Divario Ventures, LLC ("Divario"), a subsidiary of Albertsons Companies, Inc. ("Albertsons Companies"), pursuant to which the Company agreed to issue Divario common units of RGF (the "Divario Initial Equity") in exchange for achievement and maintenance of specified distribution thresholds in retail locations operated by Albertsons Companies through October 31, 2020. Additionally, Divario was entitled to additional common units (the "Divario Incentive Equity") as incentive awards upon achievement of specified annual sales targets with Albertsons Companies through October 31, 2021. A total of 5,240 common units of RGF were authorized and issued in connection with the Divario PPA. In connection with the Company's IPO all 5,240 units issued to Divario were converted into 999,082 of the Company's Class B common stock.

As the shares/units issued to Divario represented consideration due to a customer under Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"), the grant date fair value of the awards, measured in accordance with ASC Topic 718, Stock Compensation, was recognized in earnings as reduction of net sales over the relevant term and based upon the relative volume of gross sales to Albertsons Companies during that term.

In connection with the PPA, the reduction of net sales the Company recognized during the three and nine months ended September 30, 2021, was de minimus.

Revenue Recognition

The Company's revenue is principally derived from selling goods to retailers. Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied and promised goods have been transferred to the customer. Control transfers to the customer when the product is shipped or delivered to the customer based upon applicable shipping terms. For each contract, the Company considers the transfer of products, each of which is distinct, to be the identified performance obligation. Although some payment terms may be more extended, generally the majority of the Company's payment terms range from payment due immediately upon invoice to up to 90 days. Accordingly, there are no significant financing components to consider when determining the transaction price.

Variable consideration is included in revenue for trade promotions, off-invoice discounts, shrinkages and shortages, and other discounts and sales incentives. The Company uses a reserve to constrain revenue for the expected variable consideration at each period end. See Note 3, Revenue Recognition, for additional information.

Any taxes collected on behalf of government authorities, such as sales tax, are excluded from net sales, and recorded as a liability due to the particular authority.

The Company applies the practical expedient that allows it to exclude disclosure of performance obligations that are part of a contract that has an expected duration of one year or less. The Company's contracts are all short term in nature, therefore there are no unsatisfied performance obligations requiring disclosure as of September 30, 2022.

Contract Assets

The Company has elected the practical expedient which allows costs incurred in connection with obtaining a contract to be expensed as incurred for those contracts with a duration of one year or less. For those contracts which have a duration of greater than one year, the Company capitalizes those costs and amortized them over the duration of the agreement. As of September 30, 2022 and December 31, 2021, there were no contract assets recognized.

Shipping and Handling Costs

The Company's shipping and handling costs are included in both cost of sales and selling and distribution expense, depending on the nature of such costs. Cost of sales reflects cost incurred for inbound freight on ingredients to be used in production. Internal freight costs included in selling and distribution expenses consist primarily of those costs associated with moving products from production facilities through the Company's distribution network. Total internal freight costs recorded within selling and distribution expenses were $1.1 million and $1.2 million during the three months ended September 30, 2022 and 2021, respectively, and $3.2 million and $2.2 million during the nine months ended September 30, 2022 and 2021, respectively.

Shipping and handling costs associated with outbound freight are included within selling and distribution expenses and are accounted for as a fulfillment cost as incurred. Total of these costs recorded within selling and distribution expenses were $2.6 million and $2.2 million during the three months ended September 30, 2022 and 2021, respectively, and $7.9 million and $5.4 million during the nine months ended September 30, 2022 and 2021, respectively.

Marketing Expenses

Marketing costs are expensed as incurred. The Company incurred $1.7 million and $1.7 million during the three months ended September 30, 2022 and 2021, respectively, and $4.6 million and $3.1 million during the nine months ended September 30, 2022 and 2021, respectively. Marketing costs are recorded in Operating expenses in the Company's consolidated statements of operations.

Research and Development Expenses

Research and development expenses are recorded in administrative expense in the statements of operations as incurred. During the three months ended September 30, 2022 and 2021, the Company incurred $1.3 million and $0.1 million of research and development expenses, respectively. During the nine months ended September 30, 2022 and 2021, the Company incurred $3.0 million and $1.6 million of research and development expenses, respectively.

Business Combination

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations, which requires the Company to recognize separately from goodwill the assets acquired, and the liabilities assumed at their acquisition date fair values. The amount by which the fair value of consideration transferred exceeds the fair value of the identifiable net assets acquired is recorded as goodwill. While the Company uses its best estimates and assumptions to accurately value assets acquired, and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the identifiable assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the statements of operations.

Acquisition-Related Contingent Consideration

Contingent consideration in a business combination is included as part of the purchase consideration and is recognized at fair value as of the acquisition date. For contingent consideration, management is responsible for determining the appropriate valuation model and estimated fair value, and in doing so, considers a number of factors, including information provided by valuation advisors. Contingent consideration liabilities are reported at their estimated fair values based on probability-adjusted present values of the consideration expected to be paid, using significant inputs and estimates. Key assumptions used in these estimates include probability assessments with respect to the likelihood of achieving certain milestones and discount rates consistent with the level of risk of achievement. The fair value of these contingent consideration liabilities are remeasured each reporting period, with changes in the fair value included in current operations. The remeasured liability amount could be significantly different from the amount at the acquisition date, resulting in material charges or credits in future reporting periods.

Goodwill

Goodwill represents the excess of the aggregate fair value of the consideration transferred in a business combination over the fair value of the identifiable net assets acquired, net of liabilities assumed. The Company performs its annual goodwill impairment test as of the first day of the fourth quarter or more frequently if events or changes in circumstances indicate that the goodwill may be impaired.

The Company's goodwill is accounted for in a single reporting unit representing the company as a whole. As part of its annual impairment testing of goodwill, the Company may elect to assess qualitative factors as a basis for determining whether it is necessary to perform the traditional quantitative impairment testing. If the Company's assessment of these qualitative factors ("Step zero") indicates that it is more likely than not that the fair value of the reporting unit exceeds its carrying value, then no further testing is required. Otherwise, the goodwill reporting unit, must be quantitatively tested for impairment ("Step one").

The Step one impairment test for goodwill involves a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. The Company determines the fair value of its reporting unit by using a market approach and a discounted cash flow ("DCF") analysis. Determining fair value using a DCF analysis requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. There were no goodwill impairment charges recorded during the periods presented.

Income Taxes

For periods prior to the Company' IPO, the Company was solely a pass-through entity for federal income tax purposes, being a partnership, and as such income taxes related to the Company's operations were the responsibility of those who held partnership interests in the Company. Accordingly, the Company did not have any expense related to federal income taxes during the three and nine months ended September 30, 2021. Additionally, there were no deferred income taxes related to state and local level income taxes for that same period. For periods subsequent to the IPO, as described above in Note 1, Organization and Description of Business, the Company's structure became one commonly referred to as an "Up-C" structure, which is often used by partnerships and limited liability companies when they undertake an initial public offering of their business. The Up-C structure allows the members of the operating company, in this instance the Members of RGF, to continue to realize tax benefits in a similar fashion as was realized prior to the IPO, proportionate to their Membership interest, and the Company will be subject to both Federal and State taxes on the portion of earnings applicable to its controlling interest in RGF of 24%.

Given the foregoing, the Company is subject to income tax on operating results related to the period November 4, 2021, through September 30, 2022, limited to its controlling interest in RGF of 24%. During this time the Company accounted for income taxes pursuant to the asset and liability method which requires the recognition of deferred income tax assets and liabilities related to the expected future tax consequences arising from temporary differences between the carrying amounts and tax bases of assets and liabilities based on enacted statutory tax rates applicable to the periods in which the temporary differences are expected to reverse. Any effects of changes in income tax rates or laws are included in income tax expense in the period of enactment.

The Company records valuation allowances against deferred tax assets when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company routinely evaluates the realizability of deferred tax assets by assessing the likelihood that deferred tax assets will be recovered based on all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, estimates of future taxable income, tax planning strategies and results of operations. Estimating future taxable income is inherently uncertain and requires judgment. In projecting future taxable income, historical results are considered along with certain assumptions related to future earnings. As of September 30, 2022, the Company applied a full valuation allowance against all recognized deferred tax assets, resulting in a zero balance on the Consolidated Balance Sheets. If it is later determined that in the future that it is more likely than not that certain deferred tax assets may be fully utilized, the valuation allowance applicable to that particular deferred tax asset would be reversed and recognized through earnings in the period the determination was made. Any reversal of a valuation allowance would result in the reduction of the Company’s provision for income taxes in the period of reversal.

During the three and nine months ended September 30, 2022 and 2021, amounts provided for state income taxes were de minimis.

Loss per Share/Unit

Loss per share/unit is computed by dividing the Company’s net loss, after deducting any dividends on preferred units or accumulated returns on cumulative preferred units, by the weighted-average number of common shares or units outstanding during the period, adjusted for the dilutive effect of any outstanding dilutive securities. For periods prior to the Company’s IPO on November 9, 2021, the Company utilized the two-class method in computing loss per unit as Series Seed preferred units were participating. Preferred unit holders participated in income but were not obligated to participate in losses, thus the two-class method did not impact the loss per unit calculation for the period ended September 30, 2021, due to the net losses incurred in the period. Subsequent to the IPO, equity interests in the Company consisted of Class A common stock and Class B common stock. As shares of Class B common stock do not share in the earnings or losses of the Company they are not considered participating securities. As such, a separate presentation of basic and diluted net loss per share for each of Class B common stock under the two-class method has not been presented. See Note 10, Loss Per Share/Unit.

NEW ACCOUNTING STANDARDS

During September 2022 the FASB issued ASU No. 2022-04, Liabilities—Supplier Financed Programs (Subtopic 405-50). The amendments in this Update require entities which are party to supplier finance programs to disclose qualitative and quantitative information about its programs, that delineate the key terms and obligations under of the programs. The amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the provisions that address rollforward information, which are effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The amendments in ASU are to be applied retrospectively to each period in which a balance sheet is presented, except for rollforward information, which should be applied prospectively. The Company does not expect to early adopt the provisions of this new ASU, nor does it expect the adoption of this guidance to have a significant impact to its financial statement disclosures.

During March 2022 the FASB issued ASU No. 2022-02, Financial Instruments—Credit Losses (Topic 326). This ASU is updates certain guidance as set forth is ASU No. 2016-03, to provide additional guidance on the treatment of credit losses, with regards to troubled debt restructuring and gross write-offs related to financing receivables and net investments in leases. The amendments in this update eliminate the previous troubled debt restructuring guidance and instead, require that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan, with the intent to enhance existing disclosure requirements as well as introduce new requirements related to certain modifications for borrowers experiencing financial difficulty. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The provisions of this ASU and must be applied prospectively, and early adoption is permitted. The Company does not expect the adoption of this guidance to have an impact on its financial statements.

During October 2021 the FASB issued ASU No. 2021-08, Business Combinations (Topic 805), which provides guidance for the accounting of revenue contracts acquired in a business combination. The provisions of this ASU are intended to improve comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. Further, the provisions provide additional recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The amendments in this Update should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements, nor does it intend to early adopt the provisions of this guidance.

NOTE 3. REVENUE RECOGNITION

Disaggregation of Net Sales

The following table presents a disaggregation of the Company's net sales by revenue source. The Company believes that these revenue streams most appropriately depict the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with its customers.

	Three Months Ended September 30		Nine months ended September 30	
(in 000s)	2022	2021	2022	2021
Entrees	$ 33,967	$ 19,703	$ 93,937	$ 47,113
Breakfast	2,565	2,089	8,412	5,290
Pizza and snacks	1,018	1,222	3,586	6,074
Total net sales	$ 37,550	$ 23,014	$ 105,935	$ 58,477

Revenue Recognition, Sales Incentives, and Accounts Receivable

Revenue is recognized when the performance obligation is satisfied, as evidenced by the transfer of control of the promised good to the customer. This transfer occurs upon shipment of goods, as the customer can direct the use and obtain substantially all of the remaining benefits from the asset at that point in time. Revenue is recognized in an amount that reflects the consideration that the Company expects to ultimately receive in exchange for those promised goods, net of expected discounts for sales promotions and customary allowances. The Company offers sales promotions through various regional and national programs to its customers. These programs include in-store discounts as well as product coupons offered direct to consumers which may be redeemed at the point of sale. Customary allowances for early invoice payment and shrinkage are also applied by customers. The costs associated with these programs are accounted for as variable consideration as defined under ASC 606 and are reductions to the transaction price. Depending on the specific type of sales incentive and other promotional program, the expected value method is used to determine the variable consideration. The Company reviews and updates its estimates and related accruals of variable consideration each period based on the terms of the agreements, historical experience, and expected levels of performance of the trade promotion or other programs. Any uncertainties in the ultimate resolution of variable consideration due to factors outside the Company's influence are typically resolved within a short timeframe therefore not requiring any additional constraint on the variable consideration. Additionally, the Company also offers compensation to customers for access to shelf space in stores; associated payments are recognized as reductions to the transaction price received from the customer on sale of associated products.

Payment terms and conditions are generally consistent amongst customers, including credit terms to customers ranging from seven days to 90 days, and as such the Company's contracts do not include significant financing components. The Company performs credit evaluations of customers and evaluates the need for allowances for potential credit losses based on historical experience, as well as current and expected general economic conditions. These allowances reduce the accounts receivable balance and are charged to operating expense. For the periods presented, amounts recorded in connection with credit losses were de minimis.

The Company applies the practical expedient that allows for companies to exclude disclosing performance obligations that are unsatisfied as of the period end, that are expected to be satisfied in a duration of one year or less of that date. Given that the Company's contracts are generally short term in nature, there are no unsatisfied performance obligations requiring disclosure at September 30, 2022.

Contract Assets and Liabilities

Contract assets are rights to consideration in exchange for goods or services that the Company has transferred to a customer when that right is conditional on something other than the passage of time. Contract liabilities are obligations to transfer goods or services to a customer for which the Company has received consideration, or for which an amount of consideration is due from the customer. The Company continually evaluates whether its contractual arrangements with customers result in the recognition of contract assets or liabilities. For the periods ending September 30, 2022 and December 31, 2021, there were no contract assets or liabilities recognized.

NOTE 4. BUSINESS COMBINATIONS

During the year ended December 31, 2020, SSRE Holdings, LLC ("SSRE"), the previous lessee of the City of Industry Facility, and one of the Company's largest co-manufacturers, experienced financial hardship as a result of the impacts of the COVID-19 pandemic, which resulted in SSRE defaulting on their facility lease, as well as a defaulting on their credit agreement with PMC Financial Services, LLC ("PMC"), under which SSRE had secured its borrowings with certain assets, including food manufacturing equipment, raw materials, and finished goods inventory. The lease was subsequently reassigned by the landlord to LO Entertainment, LLC ("LO Entertainment"), and on January 4, 2021, the Company entered into a transfer agreement with LO Entertainment to sublease the premises and take possession of equipment and inventory on the premises in exchange for deferred payments totaling $12.5 million.

Of this amount, $10.0 million was considered contingent consideration, and the remaining $2.5 million being deferred payments to be paid in instalments through June 2022. At December 31, 2021, the balance of this contingent consideration was $7.0 million, of which the entire balance was paid by June 30, 2022. At September 30, 2022, no deferred payments were remaining.

These agreements (collectively the “Transaction”) represent the acquisition of the co-manufacturing business belonging to SSRE. The Transaction closed on March 10, 2021. To fund a portion of the Transaction, the Company entered into an agreement with PMC in February 2021 to obtain a term loan of $4.5 million with payments due over 54 months commencing on September 30, 2021, and interest-only payments commencing at the close of the Transaction. The term loan shall bear interest at an annual rate equal to the greater of the prime rate announced by Wells Fargo Bank, N.A., or 3.3%, plus 8.6% per annum. Related interest expense was $0.1 million and $0.1 million for the three months ended September 30, 2022 and 2021, respectively, and $0.4 million and $0.3 million for the nine months ended September 30, 2022 and 2021 and is included as a component of total interest expense.

The balance of this term loan at September 30, 2022 was $3.6 million, and is included as a component of short term business acquisition liabilities.

The Transaction was accounted for under the acquisition method of accounting. Accordingly, the fair value of the purchase consideration was measured and subsequently allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition. The excess of the purchase price over the estimated fair value of the net assets acquired was recorded as goodwill.

In determining the fair value of the purchase consideration as of March 10, 2021, the Company determined the term loan from PMC to be at market terms, and therefore the fair value to be equal to the stated contractual value of $4.5 million. With respect to the agreement with LO Entertainment, the $2.5 million in deferred payments and $10.0 million in contingent consideration was estimated to have a total fair value of $12.3 million, comprising $9.8 million of contingent consideration and $2.5 million of deferred payments to LO Entertainment as of the transaction date.

The following table details the purchase price allocation of the total consideration of $16.8 million:

(In thousands)	AS OF MARCH 10, 2021
Inventories	$ 500
Property and equipment	3,577
Operating leases right-of-use assets	3,157
Total identifiable assets	$ 7,234
Operating lease labilities – current	$ 174

(In thousands)	AS OF MARCH 10, 2021
Operating lease labilities – non-current	2,777
Total liabilities assumed	$ 2,951
Net identifiable assets acquired	$ 4,283
Goodwill	12,486
Total purchase price allocation	**$ 16,769**

The goodwill recorded in this transaction is deductible for income tax purposes. The results of operations of the acquired co-manufacturing business from March 11, 2021 through September 30, 2022 have been reflected within the Company’s consolidated financial statements. As of September 30, 2022 there has been no change to the $12.5 million balance of goodwill.

For the nine months ended September 30, 2021, the Company recorded acquisition-related expenses associated with the Transaction of $34 thousand, as a component of administrative expense in the consolidated statements of operations.

Disclosure of supplemental pro forma information for revenue and earnings related to the acquisition, assuming the acquisition was made at the beginning of the earliest period presented, has not been disclosed as the effects of the acquisition would not have been material to the results of operation for the periods presented given the intercompany nature of a substantial portion of the acquired business.

NOTE 5. INVENTORIES

Inventories as of September 30, 2022 and December 31, 2021, consisted of the following:

	As of	
(in thousands)	September 30, 2022	December 31, 2021
Ingredients and supplies	$ 14,767	$ 6,646
Finished goods	20,351	9,976
Total inventories	$ 35,118	$ 16,622

NOTE 6. PROPERTY AND EQUIPMENT

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

	As of	
(In thousands)	**September 30, 2022**	**December 31, 2021**
Computer equipment	$ 122	$ 106
Vehicles	164	69
Machinery and equipment	26,315	8,826
Leasehold improvements and office equipment	748	519
Total property and equipment	$ 27,349	$ 9,520
Less: accumulated depreciation	(4,365)	(2,571)
Subtotal	22,984	6,949
Construction in progress	12,229	3,340
Property and equipment, net	**$ 35,213**	**$ 10,289**

Depreciation and amortization expense was $1.0 million and $0.3 million for the three months ended September 30, 2022 and 2021, respectively. Depreciation and amortization expense was $1.8 million and $0.8 million for the nine months ended September 30, 2022 and 2021, respectively.

NOTE 7. LEASES

The Company has various finance leases for equipment and operating leases for office and warehouse space, as well as equipment. The Company’s lease agreements do not contain any material residual value guarantees, bargain purchase options, or restrictive covenants. Variable lease costs were not significant for the periods presented.

Operating lease liabilities and their corresponding ROU assets are recorded at the present value of fixed lease payments over the expected lease term. The interest rate implicit in lease contracts was not readily determinable. As such, the Company used an incremental borrowing rate based on the information available at inception date. In the development of the discount rate, the Company considered its internal borrowing rate, treasury security rates, collateral, and credit risk specific to it, and its lease portfolio characteristics. As of September 30, 2022 and 2021, the weighted-average discount rate of the Company's operating and finance leases was 7% and 12%, respectively. The components of lease expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in '000s)		(in '000s)	
Operating lease costs	$ 603	$ 244	$ 1,627	$ 543
Finance lease costs:				
Amortization of ROU assets	647	47	780	141
Interest on lease liabilities	303	3	321	11
Short-term lease costs	—	105	146	319
Total lease costs	$ 1,553	$ 399	$ 2,874	$ 1,014

Supplemental balance sheet information related to leases is as follows:

(in thousands)		As of September 30, 2022	As of December 31, 2021
Assets	**Balance Sheet Location**		
Operating lease right-of-use assets	Operating lease right-of-use assets	$ 11,232	$ 12,127
Finance lease right-of-use assets	Property and equipment, net	16,779	822
Total lease assets		**$ 28,011**	**$ 12,949**
Liabilities			
Current:			
Operating lease liabilities	Operating lease liabilities	$ 1,407	$ 1,040
Finance lease liabilities	Financing lease liabilities	2,127	198
Noncurrent:			
Operating lease liabilities	Long term operating lease liabilities	10,408	11,249
Finance lease liabilities	Long term finance lease liabilities	14,598	154
Total lease liabilities		**$ 28,540**	**$ 12,641**

	Nine months ended September 30,	
(in thousands)	2022	2021
Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,162	$ 417
Operating cash flows from finance leases	$ 321	$ 11
Financing cash flows from finance lease	$ 571	$ 94
Supplemental noncash information on lease liabilities arising from obtaining right-of-use assets	$ 16,470	$ 4,250

The maturities of the Company's operating and finance lease liabilities as of September 30, 2022 were as follows:

(in Thousands)	Operating Leases	Finance Leases
Remainder of 2022	$ 581	$ 814
2023	2,382	3,221
2024	2,443	3,058
2025	2,470	3,058
2026	2,291	3,058
Thereafter	5,242	7,862
Total future lease payments	15,409	21,071
Less: Interest	(3,594)	(4,346)
Present value of lease obligations	**$ 11,815**	**$ 16,725**

As of September 30, 2022, the weighted-average remaining term of our operating and finance leases were approximately 6.25 years and 6.50 years, respectively.

NOTE 8. DEBT

Long-term debt consisted of the following as of September 30, 2022 and December 31, 2021:

(in thousands)	Maturity Date	Interest Rate	As of September 30, 2022	As of December 31, 2021
PMC Revolver	November 2025	Prime rate plus 4.25%	$ 43,276	$ 14,227
PMC CapEx Line	November 2025	Prime rate plus 8.5%	4,598	3,602
PMC Term Loan	August 2028	Prime rate plus 7.85%	10,000	—
PMC Lease Line of Credit	November 2025	Prime rate plus 8.5%	10,213	7,258
			68,087	25,087
		Less: current maturities of long-term debt	359	328
Long-term debt			$ 67,728	$ 24,759

PMC Credit Facility

On June 30, 2016, the Company entered into a loan and security agreement (the "Credit Facility") with PMC Financial Services Group, LLC ("PMC"). As of August 14, 2022, the Credit Facility, as amended, provided the Company with a $75.0 million line of credit repayable on November 30, 2025 (the "Revolver"), and permits the Company to make repayments without penalty. As amended, the Credit Facility also provides for a $4.0 million capital expenditure line of credit, which matures on November 30, 2025 (the "CapEx Line"). The Credit Facility was further amended to allow for additional borrowings related to equipment to be covered under certain lease agreements (the "Lease Line of Credit"). Additionally, as of August 2022, the agreement as amended provided for a term loan of $10.0 million, which bears interest at an annual rate equal to the prime rate (as announced by Wells Fargo Bank, N.A.) plus 7.85%, with a floor of 13.35% (should the prime rate decrease to a specified level), per annum. Per the agreement, interest payments are to be made monthly beginning on September 30, 2022, and interest and principal shall be repaid monthly in 60 equal installments beginning on September 30, 2023.

The Credit Facility contains no financial covenants and is collateralized by the Company's accounts receivable, inventory, equipment, deposit accounts, and general intangibles. The intent of the lease line of credit is to provide funds necessary to begin production on equipment, a portion of which has been aggregated and converted into a lease liability during June 2022, as it was placed in service at that time, and the remainder of the balance of the lease line of credit will be aggregated and converted into a lease liability upon the equipment being fully assembled and operational. That portion already converted as of September 30, 2022 was converted to a finance lease and is included in property, plant and equipment as a right of use asset-finance lease (see Note 7).

The Company incurred an aggregate of $2.4 million in "success fees" in connection with the Credit Facility, $2.0 million of which it paid to PMC during 2021, and $0.4 million of which during August 2022. These success fees were recorded as deferred loan costs, a component of non-current assets, on the Company's balance sheet. The unamortized balance of these fees as of September 30, 2022 was $1.1 million, which will be charged to interest expense ratably over the remainder of the borrowing term.

The amortization expense related to these deferred loan costs was $0.1 million and $0.1 million for the three months ended September 30, 2022 and 2021, respectively. The amortization expense related to these deferred loan costs was $0.2 million and $1.4 million for the nine months ended September 30, 2022 and 2021, respectively.

The Credit Facility, as amended, also provides for $4.0 million in borrowing capacity under the CapEx Line, which borrowing capacity is supplemented by the Lease Line of Credit. The Company is required to make monthly payments of $38,300, which include both principal and interest, on the PMC CapEx Line through its maturity date.

The weighted average interest rates for the Company's debt, by loan type, applicable for the nine months ended September 30, 2022, is as follows:

PMC Revolver	8.2%
PMC CapEx Line	12.4%
PMC Term Loan	13.35%
PMC Lease Line of Credit	12.0%

Contractual future payments for all borrowings as of September 30, 2022 are as follows (in thousands):

Remainder of 2022	$ 85
2023	866
2024	2,039
2025	59,036
2026	2,054
Thereafter	4,007
Total payments outstanding	$68,087

NOTE 9. EQUITY

Subsequent to the Company's IPO on November 9, 2021, equity interests in the Company consist of Class A common stock and Class B common stock. Shares of Class A and B common stock have equal voting rights, however, shares of Class B common stock do not share in the earnings or losses of the Company and are therefore not participating securities. As such, a separate presentation of basic and diluted net income (loss) per share for each of Class B common stock under the two-class method has not been presented.

For purposes of calculating earnings per share, the prior period unit amounts have been retroactively adjusted to give effect to the aforementioned Reorganization in Note 1, Organization and Description of Business. The computations of earnings per share for the three and nine months ended September 30, 2021 reflect a 139.78-for-one exchange ratio which when applied to the Common Units used in the prior year earnings per share calculation resulted in 8,800,132 Common Units used in the earnings per share calculation for the prior year. The entirety of outstanding units prior to the Reorganization, including Series A preferred units and Series Seed preferred units, were converted to Class B units which aggregated.

Prior to the Company's IPO, equity interests in the Company consisted of common units of, Series A preferred units, and Series Seed preferred units. All units had equal voting rights. Upon consummation of the Company's IPO all units were converted into 14,422,924 Class B common stock. Class B commons shares convey no economic interest in the Company; however, they represent 76% of the voting rights of the Company.

The following table details the components of member equity as of September 30, 2021, and the impact of the reorganization at the time of the IPO:

(in thousands)	Dollar Value	Effect of Reorganization	Post Reorganization
Common units	$ 1,013	$ (1,013)	$ —
Series A preferred units	7,337	(7,337)	—
Series Seed preferred units	715	(715)	—
Members' equity November 9, 2021	—	—	9,065
Total	$ 9,065	$ (9,065)	$ 9,065

NOTE 10. LOSS PER SHARE/UNIT

The following table sets forth the computation of loss per share/unit:

	FOR THE THREE MONTHS ENDED SEPTMEBER 30, 2022		FOR THE NINE MONTHS ENDED SEPTMEBER 30, 2022	
(in thousands)	2022	2021	2022	2021
Numerator:				
Net Loss (1)	$ (3,148)	$ (11,835)	$ (8,102)	$ (22,170)
Less: Series A preferred dividends	—	146	—	438
Net loss attributable to common share/unitholders	$ (3,148)	$ (11,981)	$ (8,102)	$ (22,608)
Denominator:				
Weighted-average shares/units outstanding (2)	6,180,592	8,800,132	6,173,454	8,800,132
Loss per common share/unit	$ (0.51)	$ (1.36)	$ (1.31)	$ (2.57)

(1) Net loss per this table represents net loss attributable to the Real Good Food Company, Inc., for the three and nine months ended September 30, 2022, and net loss attributable to RGF, the predecessor company, for the three and nine months ended September 30, 2021.
(2) Amounts for 2022 represent shares of Class A common stock outstanding. Amounts for 2021 represent Common Units outstanding.

As of September 30, 2022, the Company's issued and outstanding RSUs, which were the Company's only potentially dilutive securities, have been excluded from the computation of diluted net loss per unit as they would have been anti-dilutive. Therefore, for all periods presented, there is no difference in the number of units used to compute basic and diluted units outstanding due to the Company's net loss position.

NOTE 11. RELATED-PARTY TRANSACTIONS

The Company entered into multiple related-party loan arrangements prior to 2020 with a member of the Company who holds shares of Class B common stock and is a holder of more than 20% of the Company's equity interests. The outstanding balance of the debt from this related party of $1.2 million was paid in full during 2021. Interest expense related to this debt was $27 thousand and $81 thousand for the three and nine months ending September 30, 2021, respectively.

Additionally, the Company's Executive Chairman of its board of directors holds more than 20% beneficial ownership interest in the Company's common stock.

In connection with the completion of the IPO, the Company entered into a tax receivable agreement ("TRA") with the continuing Members of RGF. This agreement grants the Members the right to receive 85% of the net cash savings, if any, in U.S. federal, state and local income tax that the Company actually realizes or is deemed to realize as a result of an increase in the tax basis of the net assets of the Company resulting from any redemptions or exchanges of interests in RGF, and certain other tax benefits related to payments made under the TRA. As a result of the Company's net loss position, there were no amounts due under the TRA as of September 30, 2022.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into various contracts, in the normal course of business, obligating it to purchase minimum quantities of ingredients used in its production and distribution processes, including cheese, chicken, and other ingredients that are inputs into its finished products. The Company entered into these contracts from time to time to ensure a sufficient supply of raw ingredients. None of these commitments are for durations greater than a year. Accordingly, as of September 30, 2022, the Company had no outstanding long-term commitments.

Legal Matters

The Company is party to certain claims, litigation, audits, and investigations in the ordinary course of business. Although the results of these ordinary course matters cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not, individually or in the aggregate, have a material adverse effect on our business, results of operations, financial condition, or cash flows. However, regardless of the outcome, these ordinary course matters can have an adverse impact on us because of legal costs, diversion of management's time and resources, and other factors. The Company records an accrual for a loss contingency when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. As of September 30, 2022 and December 31, 2021, the Company's management has concluded that it was not necessary to accrue amounts related to any pending litigation.

NOTE 13. RISKS OF UNCERTAINTIES AND CONCENTRATION OF CREDIT RISK

Significant Risks and Uncertainties

The Company is subject to those risks common to brands within the frozen food category within the health and wellness industry. Various factors could negatively impact its business, including the Company's need to increase its net sales from existing customers and acquire new customers in order to execute its growth strategy; ability to introduce or market new or successfully improve existing products; ability to compete successfully within its highly competitive market; dependence on key personnel, suppliers, and co-manufacturers; customer concentration risk, or the loss of a single significant customer; compliance with government regulations; and indebtedness, including the financial restrictions and operating covenants included in the agreements governing such indebtedness, as well as a possibility of being unable to obtain additional financing at terms satisfactory to the Company when needed.

Further, changes in any of the following areas could have a significant negative effect on the Company's financial position, results of operations, and cash flows: rates of revenue growth; its ability to manage inventory or pricing; engagement and usage of its products; effectiveness of its investment of resources to pursue strategies; competition in its market; the stability of food prices; impact of interest rate changes on demand and its costs; and addition or loss of significant customers.

During the three and nine months ended September 30, 2022, the Company had two customers which each individually comprised greater than 10% of net sales. These customers represented 56% and 15% of net sales, respectively, and for the three months ended September 30, 2022, and 53% and 20%, for the nine months ended September 30, 2022. During the three and nine months ended September 30, 2021, the Company had two customers which each individually comprised greater than 10% of net sales. These customers represented 66% and 16% of net sales, respectively, during the three months ended September 30, 2021, and 61% and 18% of net sales during the nine months ended September 30, 2021. No other customer accounted for more than 10% of net sales during the periods presented.

Concentration of Credit Risk

Accounts receivable potentially subject the Company to concentrations of credit risk. As of September 30, 2022, two customers accounted for a total of 63% of the Company's accounts receivable balance, or 36%, 26%, respectively. As of December 31, 2021, three customers accounted for a total of 50% of the Company's accounts receivable balance, or 25%, 13%, and 13%, respectively. No other customers accounted for more than 10% of total accounts receivable. The Company's customers are predominantly retailers who sell the Company's products to end consumers. Given that, along with the Company's customers being major U.S. retailers, the Company does not consider the concentration of its trade account receivables to be a significant risk.

NOTE 14. EQUITY-BASED COMPENSATION

On October 11, 2021, the Company's board of directors approved the Company's 2021 Stock Incentive Plan (the "Plan"). The Plan provides for the issuance of equity compensation grants to employees, as well as members of its board of directors, in the form of stock options, restricted stock, restricted stock units ("RSUs"), and stock appreciation rights ("SARS"), for up to 3,700,000 shares of the Company's Class A common stock. In addition, the Plan provides for an employee stock purchase program ("ESPP"), which is included as part of the 3,700,000 shares authorized under the Plan. During the nine months ended September 30, 2022, 123,397 additional shares were authorized to be granted under the Plan pursuant to an evergreen provision.

Subsequent to the IPO the Company issued RSUs to certain directors, officers and employees. Each RSU granted constitutes a right to receive one share of the Company's Class A common stock, subject to the vesting terms specific to each agreement. The shares of the Company's common stock underlying the number of vested RSUs are intended to be delivered as soon as practicable after vesting occurs. During the period between the grant date and vesting, the RSUs may not be transferred, and the grantee has no rights as a stockholder until vesting has occurred. If the grantee's employment is terminated for any reason (other than following a change in control of the Company or a termination of an officer other than for cause), then any unvested RSUs under the award will automatically terminate and be forfeited. If a grantee's employment is terminated by the Company without cause or by the grantee for good reason, then, provided that the RSUs have not been previously forfeited, the remaining unvested portion of the RSUs will immediately vest as of the grantee's termination date. In the event of a change in control, the Company's obligations regarding outstanding RSUs shall, on such terms as may be approved by the Company's Compensation Committee prior to such event, immediately vest, be assumed by the surviving or continuing company or cancelled in exchange for property (including cash). As of September 30, 2022, there were 1,321,592 shares available under the Plan for future equity grants.

Restricted Stock Units Issued to Officers and Employees

The following table details the activity related to equity grants during the nine months ended September 30, 2022:

	Restricted Stock Units	Grant Date Fair Value
Outstanding/Unvested at December 31, 2021	1,113,410	$ 9.50
Granted	1,393,395	$ 6.26
Forfeited	(5,000)	$ 6.26
Vested	(5,000)	$ 6.52
Outstanding/Unvested at September 30, 2022	2,496,805	

The grant date fair value of grants issued was based on the closing price of the Company's Class A common stock as of the date the grant is issued. Of the total RSUs issued during the nine months ended September 30, 2022, 1,131,412 were issued to officers of the Company and 87,072 were issued to the Company's directors. The remaining shares were issued to various employees of the Company and certain consultants. All vesting related to RSUs is subject to continued service, with the exception of involuntary terminations for reasons other than cause.

With the exception of RSUs granted to directors, which generally vest 50% on each of the two anniversary dates of the grants, the RSUs granted during 2022 vest 1/3 on each of the three anniversary dates of the grants.

Equity Compensation Expense

The Company values RSUs (the grant date fair value) based on the closing price of the Company's Class A common stock on the date the grant is issued, and recognizes the expense related to this value on a straight-line basis over the vesting term. During the three and nine months ended September 30, 2022, the Company recorded approximately $1.8 million and $5.2 million, respectively in expense related to outstanding RSU grants. There were no benefits related to income taxes during the period. Unrecognized compensation expense as of September 30, 2022, was $13.7 million and is to be recognized over a weighted average period of approximately 2.08 years.

NOTE 15. INCOME TAXES

During the three and nine months ended September 30, 2022 the Company provided no amounts related to current income taxes as a result of the net losses incurred. As such only deferred taxes were applicable for the three and nine months, and as a result of the full valuation allowance applied to the deferred tax assets, there were no amounts related to income taxes recognized in the consolidated statement of operations.

The Company's effective tax rate includes a rate benefit attributable to approximately 24% of the Company's earnings which are not subject to corporate level taxes, due to the applicable income taxes that are the obligation of the non-controlling members of RGF. Thus, the effective tax rate on the portion of loss attributable to the Company is 25.0%, before taking into effect the valuation allowance, for the quarter September 30, 2022. There were no deferred taxes related to the three or nine months ended September 30, 2021 as the Company was a pass through for all periods prior to the IPO.

NOTE 16. NON-CONTROLLING INTEREST

In connection with the Reorganization described in Note 1, The Real Good Food Company, Inc. became the sole managing member of RGF and, as a result, consolidates the financial results of RGF. The Real Good Food Company, Inc. reports a non-controlling interest representing continuing Member interests in RGF. Any future changes in The Real Good Food Company, Inc.'s ownership interest in RGF, while retaining its controlling interest in RGF, will be accounted for as an equity transaction. As such, future redemptions or direct exchanges of RGF interests by the continuing Members will result in a change in ownership and reduce the amount of earnings or loss recorded as a non-controlling interest and increase or decrease the balance of additional paid-in capital concurrently.

NOTE 17. SUBSEQUENT EVENTS

The Company evaluated subsequent events to determine if events or transactions occurred after the balance sheet date up to the date that the financial statements were issued. The Company identified no subsequent events as of the date that the financial statements were issued.

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

The following discussion and analysis of our financial condition and results of operations ("MD&A") is provided to assist readers in understanding our performance, as reflected in the results of our operations, our financial condition and our cash flows. The following discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and cash flows as of and for the periods presented below. This MD&A contains "forward-looking statements, which are subject to considerable risks and uncertainties, and should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q (this "Quarterly Report").

Our future results could differ materially from our historical performance as a result of various factors, such as those discussed in "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the "Annual Report"), filed with the Securities and Exchange Commission on March 30, 2022, and the section entitled "Forward-Looking Statements" within this Quarterly Report.

Overview of Our Business

We are a frozen food company that develops, markets, and manufactures foods that are designed to be high in protein, low in sugar, and gluten- and grain- free. We, along with our co-manufacturers, produce breakfast sandwiches, entrées, and other products, which are primarily sold in the U.S. frozen food category, excluding frozen and refrigerated meat. Our customers include retailers, which primarily sell their products through natural and conventional grocery, drug, club, and mass merchandise stores throughout the United States. We also sell our products through our e-commerce channel, which includes direct-to-consumer sales through our website, as well as sales through our retail customers' online platforms.

Since our inception, we have focused on creating health and wellness ("H&W") products for the frozen food aisle, where we believe H&W brands are underrepresented compared to other categories. We compete in multiple large subcategories within the U.S. frozen food category, including frozen entrée and breakfast, which we consider our two core, strategic growth subcategories. Currently, we sell comfort foods such as our bacon wrapped stuffed chicken, chicken enchiladas, grain-free cheesy bread breakfast sandwiches, and various entrée bowls. All of our products are prepared with our proprietary ingredient systems and recipes, allowing us to provide consumers with delicious meals designed to be high in protein, low in sugar, and gluten and grain free.

On November 4, 2021, Real Good Foods, LLC ("RGF"), the successor to The Real Good Food Company LLC (the "Predecessor"), underwent a reorganization whereby the RGF become a subsidiary of The Real Good Food Company, Inc. (RGF, together with The Real Good Food Company, Inc., the "Company"). The Real Good Food Company, Inc. completed an initial public offering ("IPO") on November 9, 2021, in which it issued and sold shares of its Class A common stock, $0.0001 par value per share, at an offering price of $12.00 per share. For periods subsequent to November 4, 2021, any references to the Company shall imply The Real Good Food Company, Inc., and its consolidated subsidiary.

Trends and Other Factors Affecting Our Business and Industry

Our results are impacted by economic and consumer trends, as well as pressures impacting food industry market dynamics, such as sourcing and supply chain constraints. Changes in trends in consumer buying patterns may impact the results of our operations. In recent years, there has been an increased focus on healthy eating and on consuming natural, organic and specialty foods. These trends have benefited the Company, as has the rise in at-home consumption as a result of the COVID-19 pandemic (the "Pandemic"). However, consumer spending may shift to the food-away-from-home industry as the impacts of the Pandemic subsides. We believe the trend in in-home consumption positively affected our sales, given the increase in demand of our retail customers during 2021, which we expect to continue throughout 2022. However, commodity cost challenges have persisted due to supply and recent supply chain disruptions, and as such we are experiencing increases in costs for certain ingredients in our products, which has negatively impacted our gross profit margin. In addition, the effects of the avian flu have adversely impacted the cost of chicken and eggs, and created challenges with regards to sourcing. However, as certain market dynamics continue normalize, we expect these sourcing and supply chain challenges to diminish somewhat in the fourth quarter of 2022.

In addition to the above, we believe that changes in work patterns, such as work being performed outside of the traditional office setting, will continue to contribute to in-home consumption. The Pandemic also drove significant growth in e-commerce utilization by grocery consumers, and we expect that trend to continue as well. However, should such demand persist, we may face significant competition by new market entrants within our industry.

Components of Our Results of Operations

Net Sales

Our net sales are primarily derived from the sale of our products directly to our retail customers. Our products are sold to consumers through an increasing number of locations in retail channels, primarily in natural and conventional grocery, drug, club and mass merchandise stores. We sell a limited percentage of our products to consumers through “click-and-collect” e-commerce transactions, where consumers pick up their product at a retailer following an online sale, and traditional direct-to-consumer “deliver-to-me” e-commerce transactions through our own website and third-party websites. We record net sales as gross sales net of discounts, allowances, coupons, slotting fees, and trade advertising that we offer our customers. Such amounts are estimated and recorded as a reduction in total gross sales in order to arrive at reported net sales.

Gross Profit

Gross profit consists of our net sales less cost of sales. Our cost of sales primarily consists of the cost of ingredients for our products, direct and indirect labor cost, co-manufacturing fees, plant and equipment cost, other manufacturing overhead expense, and depreciation and amortization expense, as well as the cost of packaging our products. Our gross profit margin is impacted by a number of factors, including changes in the cost of ingredients, cost and availability of labor, and factors impacting our ability to efficiently manufacture our products, including through investments in production capacity and automation.

Operating Expense

Selling and Distribution Expense

Our products are shipped from our and our co-manufacturers’ facilities directly to customers’ or to third-party logistics providers by truck and rail. Distribution expense includes third-party freight and warehousing costs, as well as salaries and wages, bonuses, and incentives for our distribution personnel. Selling expense includes salaries and wages, commissions, bonuses, and incentives for our sales personnel, broker fees, and sales-related travel and entertainment expenses.

Marketing Expense

Marketing expense includes salaries and wages for marketing personnel, website costs, advertising costs, costs associated with consumer promotions, influencer and promotional agreements, product samples and sales ads incurred to acquire new customers and consumers, retain existing customers and consumers, and build our brand awareness.

Administrative Expense

Administrative expense includes salaries, wages, and bonuses for our management and general administrative personnel, research and development costs, depreciation of non-manufacturing property and equipment, professional fees to service providers including accounting and legal, costs associated with the implementation and utilization of our new enterprise resource planning system, insurance, and other operating expenses.

Non-Controlling Interest

As the sole managing member of RGF, The Real Good Food Company, Inc. operates and controls all of the business and affairs of RGF. Although it has a minority economic interest in RGF, The Real Good Food Company, Inc. has a majority voting interest in, and control the management of, RGF. Accordingly, it consolidates the financial results of RGF and reports a non-controlling interest on its consolidated statements of operations, representing the portion of net income or loss attributable to the other members of RGF. The ownership percentages during the period are used to calculate the net income or loss attributable to The Real Good Food Company, Inc. and the non-controlling interest holders.

Segment Overview

Our chief operating decision maker, who is our Chief Executive Officer, reviews financial information on an aggregate basis for purposes of allocating resources and evaluating financial performance, as well as for strategic operational decisions and managing the organization. For the periods presented, we have determined that we have one operating segment and one reportable segment. In addition, all of our assets are located within the U.S.

Seasonality

We experience mild seasonal earning characteristics, predominantly with products that experience lower sales volume in warm-weather months. For example, our bacon wrapped stuffed chicken experiences seasonal softness during months that consumers prefer to grill outdoors instead of preparing microwaveable meals. In addition, similar to other H&W brands, the highest percentage of our net sales tends to occur in the first and second quarters of the calendar year, when consumers are more likely to seek H&W brands. Further, certain of the ingredients we process, such as cauliflower and artichoke hearts, are agricultural crops with seasonal production cycles. These seasonal earning characteristics have not historically had a material impact on our net sales primarily due to the timing and strong growth of our total distribution points. The bulk of our distribution point gains are a function of retailer shelf-resets, which tend to occur during the third and fourth quarters of the calendar year, which helps to support year-round performance across our product offerings. As our business continues to grow, we expect the impact from seasonality to increase over time, with net sales growth occurring predominantly in the first and second quarters.

Results of Operations — Comparison of the Three Months Ended September 30, 2022 and 2021

The following table details the results of our operations for the three months ended September 30, 2022 and 2021 (dollars in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,			
	2022	2021	$ Change	% Change
Net sales	$ 37,550	$ 23,014	$ 14,536	63.2%
Cost of sales	35,782	20,659	15,123	73.2%
Gross profit	1,768	2,355	(587)	-24.9%
Operating expenses:				
Selling and distribution	4,615	4,323	292	6.8%
Marketing	1,659	1,732	(73)	-4.2%
Administrative	6,142	1,875	4,267	227.6%
Total operating expenses	12,416	7,930	4,486	56.6%
Loss from operations	(10,648)	(5,575)	(5,073)	91.0%
Interest expense	2,469	839	1,630	194.3%
Other expense	—	(309)		
Change in fair value of convertible debt	—	5,730		
Loss before income taxes	(13,117)	(11,835)	(1,282)	10.8%
Income tax expense	—	—	—	
Net Loss	$ (13,117)	$ (11,835)	$ (1,282)	10.8%
Less: net loss attributable to non-controlling interest	(9,969)	—		
Preferred return on Series A preferred units	—	146		
Net loss attributable to The Real Good Food Company, Inc.	$ (3,148)	$ (11,981)		

Net Sales

Net sales for the three months ended September 30, 2022 increased $14.5 million, or 63.2%, to $37.6 million compared to $23.0 million for the prior year period. This increase was primarily due to strong growth in sales volumes of our core products, driven by greater demand from our existing retail and club customers and to a lesser extent new customers. In addition, we decreased certain sales discounts during the period, resulting in an increase in dollar sales.

Cost of Sales

Cost of sales increased approximately $15.1 million, or 73.2%, to $35.8 million during the three months ended September 30, 2022 compared to $20.7 million for the prior year period. This increase was primarily due to an increase in the sales volume of our products and raw material costs, as well as an increase in plant manufacturing costs related to the start-up of our new manufacturing facility in Bolingbrook, IL. The increases in costs were partially offset by the increase in sales of our self-manufactured products, which yield higher margins. We do not expect that these cost pressures to continue to this degree beyond this current quarter given that the Bolingbrook facility continues to move towards reaching peak efficiency, and that the costs for certain commodities continues to normalize, such as Chicken and Cheese, etc.

Gross Profit

Gross profit decreased $0.6 million to $1.8 million for the three months ended September 30, 2022, compared to $2.4 million for the prior year period. This decrease is primarily due to higher manufacturing costs and the impacts of higher raw material costs.

Operating Expenses

Selling and Distribution Expense

The following table sets forth our selling and distribution expense for the periods indicated (dollar amounts in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2022	THREE MONTHS ENDED SEPTEMBER 30, 2021	$ change	% Change
Selling and distribution	$ 4,615	$ 4,323	$ 292	6.8%
Percentage of net sales	12.3%	18.8%		-6.5%

Selling and distribution expense increased $0.3 million, or 6.8%, for the three months ended September 30, 2022, as compared to the prior year period. Selling and distribution expense increased primarily due to an increase in selling expenses related to the increase in sales. Selling and distribution expense decreased as a percentage of net sales due to gaining economies of scale with regards to our operations, and, to a lesser extent, a decrease in our freight costs.

Marketing Expense

The following table sets forth our marketing expense for the periods indicated (dollar amounts in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2022	THREE MONTHS ENDED SEPTEMBER 30, 2021	$ change	% Change
Marketing	$ 1,659	$ 1,732	$ (73)	-4.2%
Percentage of net sales	4.4%	7.5%		-3.1%

Marketing expense remained relatively unchanged during the three months ended September 30, 2022, as compared to the prior year period. Marketing expense relates primarily to advertising and promotional costs we incur to increase household awareness of our brand as well as support our sales growth. Marketing expense decreased as a percentage of sales for the three months ended September 30, 20202, primarily due to a decrease in the intensity of our efforts during the three months ended September 30, 2022, relative to sales, due to the cumulative effect of our previous efforts in penetrating new markets.

Administrative Expense

The following table sets forth our administrative expense for the periods indicated (dollar amounts in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2022	THREE MONTHS ENDED SEPTEMBER 30, 2021	$ change	% Change
Administrative	$ 6,142	$ 1,875	$ 4,267	227.6%
Percentage of net sales	16.4%	8.1%		8.2%

Administrative expense increased $4.3 million, or 227.6% during the three months ended September 30, 2022, as compared to the prior year period. This increase was primarily driven by expenses related to being a publicly owned company as well as to equity compensation expense and other personnel related expenses incurred in support of our growth. An increase in research and development costs also contributed to the increase compared to the prior year period.

Loss from Operations

As a result of the foregoing, loss from operations increased $5.1 million, or 91.0% to $10.6 million for the three months ended September 30, 2022, compared to a loss from operations of $5.6 million for the prior year period. Loss from operations as a percentage of sales was (28.4)% for the current period, compared to (24.2)% for the prior year period.

Interest Expense

Interest expense increased $1.6 million, or 194.3%, to $2.5 million during the three months ended September 30, 2022, as compared to $0.8 million for the prior year period. The increase in interest expense during the 2022 period, was primarily due to having higher levels of interest bearing debt during the three months ended September 30, 2022 as compared to the prior year period.

Net Loss

As a result of the foregoing, our net loss increased $1.3 million, or 10.8%, to $13.1 million during the three months ended September 30, 2022, compared to a net loss of $11.8 million for the prior year period.

Results of Operations — Comparison of the Nine months ended September 30, 2022 and 2021

The following table details the results of our operations for the nine months ended September 30, 2022 and 2021 (dollars in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,			
	2022	2021	$ Change	% Change
Net sales	$105,935	$ 58,477	$ 47,458	81.2%
Cost of sales	97,569	49,447	48,122	97.3%
Gross profit	8,366	9,030	(664)	-7.4%
Operating expenses:				
Selling and distribution	14,851	10,291	4,560	44.3%
Marketing	4,617	3,119	1,498	48.0%
Administrative	18,009	7,677	10,332	134.6%
Total operating expenses	37,477	21,087	16,390	77.7%
Loss from operations	(29,111)	(12,057)	(17,054)	141.4%
Interest expense	4,650	4,322	328	7.6%
Other expense	—	(309)		
Change in fair value of convertible debt	—	6,100		
Loss before income taxes	(33,761)	(22,170)	(11,591)	52.3%
Income tax expense	—	—	—	
Net Loss	$ (33,761)	$ (22,170)	$(11,591)	52.3%
Less: net loss attributable to non-controlling interest	(25,659)	—		
Preferred return on Series A preferred units	—	438		
Net loss attributable to The Real Good Food Company, Inc.	$ (8,102)	$(22,608)		

Net Sales

Net sales for the nine months ended September 30, 2022 increased $47.5 million, or 81.2% to $105.9 million compared to $58.5 million for the prior year period. This increase was primarily due to strong growth in sales volumes of our core products, driven by greater demand from our existing retail and club customers and to a lesser extent new customers. In addition, a decrease in sales promotions also contributed to the dollar increase in net sales.

Cost of Sales

Cost of sales increased approximately $48.1 million, or 97.3%, to $97.6 million, during the nine months ended September 30, 2022, as compared to $49.4 million for the prior year period, primarily due to an increase in the sales volume of our products, as well as to an increase in manufacturing costs related to start-up costs associated with our new manufacturing in Bolingbrook, IL. The increases in costs were partially offset by the increase in sales of our self-manufactured products, which yield a higher margin.

Gross Profit

Gross profit decreased $0.7 million to $8.4 million for the nine months ended September 30, 2022, compared to $9.0 million for the prior year period. This decrease is primarily due to the impact of increased manufacturing and raw material costs.

Operating Expenses

Selling and Distribution Expense

The following table sets forth our selling and distribution expense for the periods indicated (dollar amounts in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,			
	2022	2021	$ change	% Change
Selling and distribution	$ 14,851	$ 10,291	$ 4,560	44.3%
Percentage of net sales	14.0%	17.6%		-3.6%

Selling and distribution expense increased $4.6 million, or 44.3%, for the nine months ended September 30, 2022, as compared to the prior year period. Selling and distribution expense increased primarily due to an increase in selling expenses related to the increase in sales, and, to a lesser extent, an increase in industry freight rates. Selling and distribution expense decreased as a percentage of net sales due to gaining economies of scale with regards to our operations and as well as a reduction of distribution costs, as shipping costs continue to normalize.

Marketing Expense

The following table sets forth our marketing expense for the periods indicated (dollar amounts in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,			
	2022	2021	$ change	% Change
Marketing	$ 4,617	$ 3,119	$ 1,498	48.0%
Percentage of net sales	4.4%	5.3%		-1.0%

Marketing expense increased $1.5 million, or 48.0%, during the nine months ended September 30, 2022, as compared to the prior year period. Marketing expense increased primarily due to an increase in advertising and promotional costs we incurred to increase household awareness of our brand as well as support our sales growth. Marketing expense decreased as a percentage of sales primarily due to our ability to leverage our previous efforts in penetrating new markets.

Administrative Expense

The following table sets forth our administrative expense for the periods indicated (dollar amounts in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,			
	2022	2021	$ change	% Change
Administrative	$ 18,009	$ 7,677	$10,332	134.6%
Percentage of net sales	17.0%	13.1%		3.9%

Administrative expense increased $10.3 million, or 134.6%, during the nine months ended September 30, 2022, as compared to the prior year period. This increase was primarily driven by expenses related to being a publicly owned company as well as to equity compensation expense and other personnel related expenses incurred in support our of growth. Additionally, we incurred significant expenses in bringing our new manufacturing facility in Bolingbrook into full operation. We expect these costs to continue through the remainder of 2022.

Loss from Operations

As a result of the foregoing, loss from operations increased $17.1 million, or 141.4%, to $29.1 million for the nine months ended September 30, 2022, compared to a loss from operations of $12.1 million for the prior year period. Loss from operations as a percentage of sales was (27.5)% for the current period, compared to (20.6)% for the prior year period.

Interest Expense

Interest expense increased $0.3 million, or 7.6%, to $4.7 million during the nine months ended September 30, 2022, as compared to $4.3 million for the prior year period. The increase in interest expense during the 2022 period, was primarily due to having more interest bearing debt during the nine months ended September 30, 2022 as compared to the prior year period.

Net Loss

As a result of the foregoing, our net loss increased $11.6 million, or 52.3%, to $33.8 million during the nine months ended September 30, 2022, compared to a net loss of $22.2 million for the prior year period.

Liquidity and Capital Resources

Our primary uses of cash are to fund working capital, operating expenses, promotional activities, debt service and capital expenditures related to our manufacturing facilities. Since our inception, we have dedicated substantially all of our resources to the commercialization of our products, the development of our brand and social media presence, and the growth of our operational infrastructure. Historically, we have financed our operations primarily through issuances of equity and debt securities and borrowings under our credit agreements and, to a lesser extent, through cash flows from our operations.

On August 14, 2022, we amended our debt agreement with PMC to, among other things, (a) increase the maximum borrowing capacity under the Revolver from $50.0 million to $75.0 million, (b) create the 2022 Term Loan in the principal amount of $10.0 million, and (c) amend the interest rates of the Revolver and CapEx Line.

As of September 30, 2022, we had $5.4 million in cash (which includes restricted cash of $2.3 million), current debt obligations of $0.4 million, and long-term debt obligations of $67.7 million. Additionally, as of September 30, 2022, we had current business acquisition liabilities of $0.9 million and long-term business acquisition liabilities of $2.7 million. We believe that our cash on-hand and cash received from operations, together with borrowing capacity under our credit facilities, will provide sufficient financial flexibility to meet working capital requirements and to fund capital expenditures and debt service requirements for the remainder of 2022 as well as the foreseeable future. We expect to make future capital expenditures of approximately $0.5 million in connection with the enhancement of our current production capabilities during the remainder of 2022.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	September 30,	
(In thousands)	2022	2021
Net cash used in operating activities	$(49,512)	$ (7,483)
Net cash used in investing activities	(3,737)	(4,629)
Net provided by financing activities	28,857	13,734
Net (decrease) increase in cash and cash equivalents	(24,392)	1,622
Cash and cash equivalents at beginning of period	29,745	28
Cash and cash equivalents at end of period	$ 5,353	$ 1,650

Net Cash Used in Operating Activities

Net cash used in operating activities was $49.5 million during the nine months ended September 30, 2022, as compared to net cash used in operating activities of $7.5 million for the nine months ended September 30, 2021. The increase in net cash used in operating activities is primarily due to the increase in our working capital and an increase in our net loss during the 2022 period. The increase in working capital was primarily driven by an increase in inventory to support growth and create safety stock to avoid potential supply disruptions related to the start-up of our new facility in Bolingbrook, IL. Additionally, there was an increase our accounts receivable for the nine months ended September 30, 2022, which was attributable to sales made late in the third quarter which were not collected upon at September 30, 2022.

Net Cash Used in Investing Activities

During the nine months September 30, 2022 and 2021, net cash used in investing activities was $3.7 million and $4.6 million, respectively. Cash used in investing activities during the nine months ended September 30, 2022 was primarily related to equipment purchases related to our manufacturing facilities. Our capital expenditures during the nine months ended September 30, 2021 were primarily related to equipment purchased for our City of Industry, CA, facility, which were necessary to bring that facility into full operational status.

Net Cash Provided by Financing Activities

Net cash provided by financing activities totaled $28.9 million during the nine months ended September 30, 2022, as compared to net cash provided by financing activities of $13.7 million during the same period last year. This increase was primarily due to the increases in borrowing on our revolving credit facility, offset in part, by payments made in connection with our acquisition related liabilities.

Contractual Obligations

As of September 30, 2022, there were no material changes in payments due under contractual obligations from those disclosed in our Annual Report.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

New Accounting Standards

For discussion of new accounting standards, see Note 2, "Summary of Significant Accounting Policies and New Accounting Standards," in Part I, Item 1, of this Quarterly Report.

Critical Accounting Policies and Estimates

There were no material changes to the critical accounting policies and estimates as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report contains forward-looking statements which are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of the Company about future events and are therefore subject to risks and uncertainties. All statements other than statements of historical or current fact included in this report are forward-looking statements. Forward-looking statements discuss our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "aim," "anticipate," "believe," "estimate," "expect," "forecast," "outlook," "potential," "project," "projection," "plan," "intend," "seek," "may," "could," "would," "will," "should," "can," "can have," "likely," the negatives thereof and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our expected net sales, cost of sales, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, or strategies are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected. Such statements are based on certain key assumptions, which could cause actual results to differ materially from those projected or implied in any forward-looking statements. For additional information of the risks and uncertainties that may impact our forward-looking statements, refer to the section entitled "Risk Factors" in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and are not required to provide the information under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We are required to maintain “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act. In designing and evaluating our disclosure controls and procedures, our management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

During the three months ended September 30, 2022, an evaluation was carried out under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-5(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation as of September 30, 2022, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end of such period, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the three months ended September 30, 2022.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Information required by this Item is incorporated herein by reference to Note 12 to the Financial Statements, *Commitments and Contingencies*, in Part I, Item 1, of this Quarterly Report.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in the section entitled “Risk Factors” in our Annual Report, which could materially affect our business, financial condition or future results.

There were no material changes in the Company’s risk factors from the risks disclosed in the Annual Report.

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

Not applicable.

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Item 6. Exhibits

Exhibit No.	Description of Exhibit
10.1*	Amendment Number Twenty Three dated as of August 14, 2022, by and between Real Good Foods, LLC and PMC Financial Services Group, LLC.
31.1*	Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.

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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.

November 14, 2022	By: /s/ Gerard Law Gerard Law Chief Executive Officer (Principal Executive Officer)
November 14, 2022	By: /s/ Akshay Jagdale Akshay Jagdale Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 10.1

Execution Version

AMENDMENT NUMBER TWENTY THREE TO LOAN AND SECURITY AGREEMENT

THIS AMENDMENT NUMBER TWENTY THREE TO LOAN AND SECURITY AGREEMENT (this “Amendment”), dated as of August 14, 2022 (the “Amendment Twenty Three Effective Date”) is entered into between **PMC FINANCIAL SERVICES GROUP, LLC,** a Delaware limited liability company (“Lender”), and **REAL GOOD FOODS, LLC,** a Delaware limited liability company (“Borrower”), in light of the following:

RECITALS

WHEREAS, Borrower and Lender have previously entered into that certain Loan and Security Agreement, dated as of June 30, 2016, as amended from time to time (the “Agreement”).

WHEREAS, Borrower has requested that Lender (i) increase the Maximum Revolver Amount to $75,000,000, and (ii) extend to Borrower a new $10,000,000 term loan.

WHEREAS, Lender has agreed to Borrower’s request pursuant to the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1. DEFINITIONS. All terms which are defined in the Agreement shall have the same definition when used herein unless a different definition is assigned to such term under this Amendment.

2. AMENDMENTS. Effective as of the Amendment Twenty Three Effective Date (as that term is defined in Section 2.1 of this Amendment), the Agreement is amended as follows:

2.1 **Additional Definitions.** Section 8 of the Agreement is amended by adding the definitions of “Amendment Twenty Three” and “Amendment Twenty Three Effective Date” as follows:

“Amendment Twenty Three” means that certain Amendment Number Twenty Three to Loan and Security Agreement, dated as of August 14, 2022, between Lender and Borrower.

“Amendment Twenty Three Effective Date” shall have the meaning set forth in the preamble to Amendment Twenty Three.

2.2 **Increase in Maximum Revolver Amount.** Section 1.A. of the Schedule to Loan Agreement is hereby amended such that the Maximum Revolver Amount is increased from $50,000,000 to $75,000,000.

2.3 **New Term Loan.** A new Section 1D is added to the Schedule to Loan and Security Agreement as follows:

D. Term Loan Two. Subject to the terms and conditions of this Agreement, Lender agrees to make a term loan (the "Term Loan Two") to Borrower in the principal amount of Ten Million Dollars ($10,000,000).

Commencing on September 30, 2022, interest on the Term Loan shall be paid monthly as provided in Section 1.2 of this Agreement and Section 2 of the Schedule. In the event the Prime Rate increases, Borrower will be charged the difference (so long as it is positive) between (i) the Prime Rate plus 7.85% and (ii) 13.35%. The amount of such difference will be charged to (and payable by) Borrower as of the last day of each fiscal quarter.

The Term Loan shall be repaid by the Borrower to Lender in 60 equal monthly installments of principal, plus accrued but unpaid interest, commencing on September 30, 2023, and continuing on the last day of the month thereafter until the earliest of the following dates ("Term Loan Maturity Date"): (i) the date the Term Loan has been paid in full, (ii) the Revolver Maturity Date or (iii) the date this Agreement terminates by its terms or is terminated, as provided in this Agreement. On the Term Loan Maturity Date (or, if earlier, upon acceleration of the Obligations in accordance with the terms of this Agreement), the entire unpaid principal balance of the Term Loan, plus all other Obligations relating to the Term Loan shall be due and payable. Any portion of the Term Loan that is repaid may not be reborrowed.

All payments by Borrower to Lender in respect of the Term Loan shall be made via ACH banking transfer to Lender's bank account per written instructions that Lender shall provide to Borrower.

2.4 **Change in Interest Rates.** The first paragraph of Section 2 of the Schedule to the Loan and Security Agreement is deleted in its entirety and is replaced by the following:

The Revolving Loans outstanding from time to time and Capex Loans shall bear interest at an annual rate equal to the "Prime Rate" in effect from time to time, plus 4.25% per annum.

2.5 **Change in Anniversary Fee.** Section 3 of the Schedule to the Loan and Security Agreement is hereby amended to delete and replace the Anniversary Fee in its entirety with the following:

Anniversary Fee:	With respect to the Revolving Loans: a fee equal to 0.80% of the Maximum Revolver Amount payable on each anniversary of the Activation Date prior to Revolver Maturity Date. The Anniversary Fee under this Section 3 shall be fully earned each anniversary of the Activation Date prior to Revolver Maturity Date and shall be non-refundable.

2.6 **<u>Addition of Revolver Administrative Fees</u>.** Section 3 of the Schedule to the Loan and Security Agreement is hereby amended by adding the following provision concerning Revolver Administrative Fees:

Administrative Fee:	With respect to the Revolving Loans, a monthly amount, determined as of the first day of each calendar month commencing on September 1, 2022, and continuing on the first day of each month thereafter until all Obligations have been repaid in full and this Agreement has been terminated, equal to 0.1458% of the average outstanding principal balance of the Revolving Loans during the immediately preceding calendar month. The Administrative Fee under this Section 3 shall be fully earned and payable on the first day of each calendar month and shall be non-refundable.

3. <u>FEES</u>. Borrower agrees that on the Amendment Twenty Three Effective Date Borrower shall pay to Lender the following loan fees:

3.1 In connection with the increase of the Revolver Amount, an amount equal to $250,000 (1.0% of the increase in the Maximum Revolver Amount) . The loan fee under this Section 3.1 shall be fully earned on the Amendment Twenty Three Effective Date and shall be non-refundable.

3.2 With respect to the Term Loan Two, an amount equal to $150,000 (1.5% of the the principal amount of Term Loan Two). The loan fee under this Section 3.2 shall be fully earned on the Amendment Twenty Three Effective Date and shall be non-refundable.

4. <u>CONDITION PRECEDENT</u>. This Amendment shall be effective only upon satisfaction in full of the following conditions precedent:

A. Lender shall have received a fully executed copy of this Amendment Twenty Three.

B. Lender shall have received the payment in full of the loan fees set forth in Sections 3.1 and 3 .2 of this Amendment.

5. <u>REPRESENTATIONS AND WARRANTIES</u>. Borrower hereby affirms to Lender that all of Borrower's representations and warranties set forth in the Agreement are true, complete and accurate in all respects as of the date hereof.

6. <u>LIMITED EFFECT</u>. Except for the specific amendment contained in this Amendment, the Agreement shall remain unchanged and in full force and effect.

7. <u>RELEASE BY BORROWER</u>. Borrower, for itself, and for its agents, servants, officers, directors, shareholders, employees, heirs, executors, administrators, successors and assigns, forever release and discharge Lender and its servants, employees, accountants, attorneys, shareholders, subsidiaries, officers, directors, heirs, executors, administrators, successors and

assigns from any and all claims, demands, liabilities, accounts, obligations, costs, expenses, liens, actions, causes of action, rights to indemnity (legal or equitable), rights to subrogation, rights to contribution and remedies of any nature whatsoever, known or unknown, which Borrower had, now has, or has acquired, individually or jointly, at any time prior to the Agreement Date, including specifically, but not exclusively, and without limiting the generality of the foregoing, any and all of the claims, damages, demands and causes of action, known or unknown, suspected or unsuspected by Borrower which:

7.1 Arise out of the Loan Documents;

7.2 Arise by reason of any matter or thing alleged or referred to in, directly or indirectly, or in any way connected with, the Loan Documents; or

7.3 Arise out of or in any way are connected with any loss, damage, or injury, whatsoever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of the Lender or any party acting on behalf of Lender.

8. WAIVER OF CALIFORNIA CIVIL CODE SECTION 1542. Borrower acknowledges that there is a risk that subsequent to the execution of this Agreement it may incur or suffer losses, damages or injuries which are in some way caused by the transactions referred to in the Loan Documents or this Agreement, but which are unknown and unanticipated at the time this Agreement is executed. Borrower does hereby assume the above mentioned risks and agree that this Agreement shall apply to all unknown or unanticipated results of the transactions and occurrences described herein, as well as those known and anticipated, and upon advice of counsel,, Borrower does hereby knowingly waive any and all rights and protections under California Civil Code Section 1542 which section has been duly explained and reads as follows:

> "A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party."

9. LEGAL ADVICE OBTAINED. The advice of legal counsel has been obtained by each party prior to signing this Agreement and each party executes this Agreement voluntarily, with full knowledge of its significance, and with the express intention of effecting the legal consequences provided by Section 1541 of the California Civil Code, namely, the extinguishment of obligations except for the executory provisions of this Agreement.

10. COUNTERPARTS; EFFECTIVENESS. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which when so executed and delivered shall be deemed to be an original. All such counterparts, taken together, shall constitute but one and the same Amendment. This Amendment shall become effective upon the execution of this Amendment by each of the parties hereto.

IN WITNESS WHEREOF, Lender and Borrower have executed this Amendment.

REAL GOOD FOODS, LLC

By: The Real Good Food Company, Inc.
Its: Managing Member

By: /s/ Bryan Freeman
Name: Bryan Freeman
Title: Executive Chairman

PMC FINANCIAL SERVICES GROUP, LLC

By	/s/ Walter E. Buttkus, III
Name:	Walter E. Buttkus, III
Title:	President

Signature Page to Amendment Number Twenty Three to Loan and Security Agreement

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gerard Law, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Real Good Food Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2022	/s/ Gerard Law
(Date)	Gerard Law Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Akshay Jagdale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Real Good Food Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2022	/s/ Akshay Jagdale
(Date)	Akshay Jagdale Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER

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 The Real Good Food Company, Inc. (the “Company”) for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gerard Law, Chief Executive Officer, and Akshay Jagdale, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the dates presented.

November 14, 2022	/s/ Gerard Law
(Date)	Gerard Law Chief Executive Officer (Principal Executive Officer)
November 14, 2022	/s/ Akshay Jagdale
(Date)	Akshay Jagdale Chief Financial Officer (Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Exchange Act, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.