

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 March 31, 2023

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 May 8, 2023, there were 7,192,951 shares of the registrant’s Class A common stock, par value \$0.0001 per share, and 18,677,681 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	
	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash	\$ 550	\$ 5,279
Accounts receivable, net	19,906	20,316
Inventories	45,360	39,479
Other current assets	1,278	1,026
Total current assets	67,094	66,100
Property and equipment, net	37,590	38,497
Operating lease right-of-use assets	10,522	10,881
Deferred loan cost	887	970
Goodwill	12,486	12,486
Restricted Cash	2,326	2,318
Other noncurrent assets	187	187
Total assets	<u>\$131,092</u>	<u>\$ 131,439</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 22,906	\$ 23,424
Operating lease liabilities	1,504	1,455
Finance lease liabilities	3,229	3,310
Business acquisition liabilities, current portion	—	946
Accrued and other current liabilities	2,472	3,719
Current portion of long-term debt	479	370
Total current liabilities	30,590	33,224
Revolving line of credit/capex line	59,768	59,481
Long-term operating lease liabilities	9,632	10,030
Long-term finance lease liabilities	23,269	24,099
Term loan	20,000	10,000
Equipment loan	7,645	—
Long-term Business acquisition liabilities	—	2,405
Other long term liabilities	191	302
Total Liabilities	151,095	139,541
Commitments and contingencies (Note 11)		
Stockholders' Deficit/Equity:		
Preferred stock, \$0.0001 par value—10,000,000 shares authorized; no shares issued and outstanding as of March 31, 2023 and December 31, 2022	—	—
Class A common stock, \$0.0001 par value—100,000,000 shares authorized; 7,187,951 and 6,424,840 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	1	1
Class B common stock, \$0.0001 par value—25,000,000 shares authorized; and 18,677,681 and 19,377,681 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	2	2
Additional paid-in capital	58,049	56,273
Accumulated deficit	(24,819)	(21,126)
Total stockholders' equity attributable to The Real Good Food Company, Inc.	33,233	35,150
Non-controlling interest	(53,236)	(43,252)
Total stockholders' deficit	(20,003)	(8,102)
Total liabilities and stockholders' equity	<u>\$131,092</u>	<u>\$ 131,439</u>

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 and per share data)

	THREE MONTHS ENDED MARCH 31,	
	2023	2022
Net sales	\$ 29,798	\$ 37,576
Cost of sales	24,810	33,329
Gross profit	4,988	4,247
Operating expenses:		
Selling and distribution	5,424	5,327
Marketing	1,634	1,786
Administrative	8,673	5,801
Total operating expenses	15,731	12,914
Loss from operations	(10,743)	(8,667)
Interest expense	3,282	890
Other income	(348)	—
Loss before income taxes	(13,677)	(9,557)
Income tax expense	—	—
Net Loss	\$ (13,677)	\$ (9,557)
Less: net loss attributable to non-controlling interest	(9,984)	(7,263)
Net loss attributable to The Real Good Food Company, Inc.	\$ (3,693)	\$ (2,294)
Net loss per common share (basic and diluted)	\$ (0.53)	\$ (0.37)
Weighted-average common shares outstanding (basic and diluted)	6,992,101	6,169,885

See accompanying notes to the Consolidated Financial Statements

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

	Class A Common Stock		Class B Common Stock		Additional Paid-	Accumulated	Non-Controlling	Total Equity
	Shares	Amount	Shares	Amount	in Capital	Deficit	Interest	(Deficit)
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
	Class A Common Stock		Class B Common Stock		Additional Paid-	Accumulated	Non-Controlling	Total Equity
	Shares	Amount	Shares	Amount	in Capital	Deficit	Interest	(Deficit)
Balance, December 31, 2022	6,424,840	\$ 1	19,377,681	\$ 2	\$ 56,273	\$ (21,126)	\$ (43,252)	\$ (8,102)
Net loss	—	—	—	—	—	(3,693)	(9,984)	(13,677)
Conversion of Class B units	700,000	—	(700,000)	—	—	—	—	—
Equity-based compensation ¹	63,111	—	—	—	1,776	—	—	1,776
Balance, March 31, 2023	7,187,951	\$ 1	18,677,681	\$ 2	\$ 58,049	\$ (24,819)	\$ (53,236)	\$ (20,003)

See accompanying notes to the Consolidated Financial Statements

¹ Net of \$0.2 million for shares surrendered and cancelled in connection with income taxes related to equity compensation.

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

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$(13,677)	\$ (9,557)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,591	400
Amortization of loan costs	83	50
Non-Cash interest and debt fees	1,940	297
Equity Compensation expense	1,943	1,699
Changes in operating assets and liabilities:		
Accounts receivable	410	2,053
Inventories	(5,881)	(3,887)
Other assets	(264)	1,794
Accounts payable, accrued expenses and lease liabilities	(2,088)	962
Net cash used in operating activities	<u>(15,943)</u>	<u>(6,189)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(537)	(3,647)
Net cash used in investing activities	<u>(537)</u>	<u>(3,647)</u>
Cash flows from financing activities:		
Proceeds from line of credit borrowings	23,000	1,850
Payments on line of credit borrowings	(10,210)	—
Payments on acquisition related Contingent consideration	—	(7,125)
Payments on acquisition related term loan	(99)	(202)
Payments on finance lease liabilities	(932)	(59)
Net cash provided by (used in) financing activities	<u>11,759</u>	<u>(5,536)</u>
Net decrease in cash and restricted cash	\$ (4,721)	\$ (15,372)
Beginning cash and restricted cash	7,597	29,745
Ending cash and restricted cash	<u>\$ 2,876</u>	<u>\$ 14,373</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,631	\$ 640
Supplemental disclosures of noncash investing and financing activities:		
Purchase of property and equipment in lease line of credit	\$ —	\$ 7,384
Purchase of property and equipment in AP and accrued liabilities	\$ 343	\$ 2,048

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 decreased to 73% as of March 31, 2023.

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 produces 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 months ended March 31, 2023 and 2022, 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, 2022 (the “Annual Report”), filed with the Securities and Exchange Commission on March 31, 2023. 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, 2022, 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.

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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.

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 months ended March 31, 2023 and 2022, 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.

Liquidity

The accompanying consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. At March 31, 2023, the Company had an accumulated deficit of \$24.8 million and a working capital surplus of \$37.0 million. For the three months ended March 31, 2023, the Company had a net loss of \$3.7 million (after taking into effect the loss of \$10.0 related to the non-controlling interest) and negative cash flows from operations of \$15.9 million. The Company's operating activities consume the majority of its cash resources. The Company anticipates that it will continue to incur net losses into the following quarter. In addition, the Company has had and expects to have negative cash flows from operations, at least into the second quarter of 2023. The Company has previously funded, and plans to continue funding, these losses primarily through current cash on hand and borrowing availability under its debt facility.

The Company's management believes it has the ability to continue as a going concern as a result of the cash on hand and the Company's borrowing capacity under its debt facility. In addition, management believes the Company will achieve a level of sales and gross margin adequate to support the Company's cost structure. As a result of the above, and cash on hand as of March 31, 2023, the Company believes it has sufficient cash to fund operations for foreseeable future.

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 March 31, 2023, and December 31, 2022.

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 March 31, 2023, 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 2024.

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

(In thousands)	MARCH 31, 2023	MARCH 31, 2022
Cash	\$ 550	\$ 12,063
Restricted cash	2,326	2,310
Total cash reported in statements of cash flows	<u>\$ 2,876</u>	<u>\$ 14,373</u>

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 March 31, 2023 and 2022 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 months ended March 31, 2023 and 2022.

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 over the following range of estimated useful lives of the assets as follows:

	<u>Estimated Useful Lives</u>
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, plus any initial direct costs. 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. Additionally, these ROU assets and liabilities are adjusted for any prepayments and/or lease incentives received. As the discount rate implicit in the lease is not readily

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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 months ended March 31, 2023 and 2022.

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, 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.

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. Generally, control transfers to the customer when the product is delivered to the customer, and on occasion upon being shipped to the customer, depending 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 March 31, 2023.

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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 March 31, 2023 and December 31, 2022, 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 \$1.6 million and \$1.0 million during the three months ended March 31, 2023 and 2022, 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 \$3.0 million and \$4.3 million during the three months ended March 31, 2023 and 2022, respectively.

Marketing Expenses

Marketing costs are expensed as incurred. The Company incurred \$1.6 million and \$1.8 million during the three months ended March 31, 2023 and 2022, 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 March 31, 2023 and 2022, the Company incurred \$3.1 million and \$0.2 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.

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 related to the 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.

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Income Taxes

For periods prior to the Company's 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. 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 27%.

Given the foregoing, the Company is subject to income tax on operating results limited to its controlling interest in RGF of 27%. The Company accounts 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 March 31, 2023, 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 months ended March 31, 2023 and 2022, amounts provided for state income taxes were de minimis.

Loss per Share

Loss per share is computed by dividing the Company's net loss, after deducting any dividends, by the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of any outstanding dilutive securities. Equity interests in the Company consist 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 9, Loss Per Share.

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 Company adopted the provisions of this guidance on January 1, 2023. The adoption of this guidance had no impact to the Company's consolidated financial statements.

During March 2022 the FASB issued ASU No. 2022-02, Financial Instruments—Credit Losses (Topic 326). This ASU updates certain guidance as set forth in 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

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well as introduce new requirements related to certain modifications for borrowers experiencing financial difficulty. The ASU requires that the provisions are to be applied prospectively. The Company adopted the provisions of this guidance on January 1, 2023. The adoption of this guidance had no impact on the Company's consolidated 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 Company adopted the provisions of this guidance on January 1, 2023, which had no impact to its consolidated financial statements.

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 March 31,	
	2023	2022
	(in '000s)	
Entrees	\$27,327	\$33,245
Breakfast	2,299	2,907
Pizza and Snacks	172	1,424
Total Net Sales	<u>\$29,798</u>	<u>\$37,576</u>

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 generally occurs upon the customers' receipt of the goods, or upon shipment, depending upon applicable shipping terms, 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 March 31, 2023.

[Table of Contents](#)**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 March 31, 2023 and December 31, 2022, there were no contract assets or liabilities recognized.

NOTE 4. INVENTORIES

Inventories as of March 31, 2023 and December 31, 2022, consisted of the following:

(in thousands)	March 31, 2023	As of December 31, 2022
Ingredients and supplies	\$18,100	\$ 16,753
Finished Goods	27,260	22,726
Total inventories	<u>\$45,360</u>	<u>\$ 39,479</u>

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2023 and December 31, 2022 consisted of the following:

(In thousands)	March 31, 2023	As of December 31, 2022
Computer equipment	\$ 122	\$ 122
Vehicles	164	164
Machinery and equipment	43,468	43,193
Leasehold improvements and office equipment	751	751
Total property and equipment	\$ 44,505	\$ 44,230
Less: accumulated depreciation	(7,377)	(5,793)
Subtotal	37,128	38,437
Construction in progress	462	60
Property and equipment, net	<u>\$ 37,590</u>	<u>\$ 38,497</u>

Depreciation and amortization expense was \$1.6 million and \$0.4 million for the three months ended March 31, 2023 and 2022, respectively.

NOTE 6. 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 March 31, 2023, the weighted-average discount rate of the Company's operating and finance leases

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was 7.0% and 8.1%, respectively. As of March 31, 2022, the weighted- average discount rate of the Company's operating and finance leases was 9.0% and 12%, respectively. The components of lease expense were as follows:

	Three Months Ended March 31,	
	2023	2022
	(in '000s)	
Operating lease costs	\$ 603	\$ 592
Finance lease costs:		
Amortization of ROU assets	1,079	68
Interest on lease liabilities	569	10
Short-term lease costs	117	146
Total lease costs	<u>\$ 2,368</u>	<u>\$ 816</u>

Supplemental balance sheet information related to leases is as follows:

		As of March 31,	As of December 31,
	Balance Sheet Location	2023	2022
Assets			
Operating lease right-of-use assets	Operating lease right-of-use assets	\$ 10,522	\$ 10,881
Finance lease right-of-use assets	Property and equipment, net	26,597	27,392
Total lease assets		<u>\$ 37,119</u>	<u>\$ 38,273</u>
Liabilities			
Current:			
Operating lease liabilities	Operating lease liabilities	\$ 1,504	\$ 1,455
Finance lease liabilities	Finance lease liabilities	3,229	3,310
Noncurrent:			
Operating lease liabilities	Long term Operating lease liabilities	9,632	10,030
Finance lease liabilities	Long term Finance lease liabilities	23,269	24,099
Total lease liabilities		<u>\$ 37,634</u>	<u>\$ 38,894</u>

	Three Months Ended March 31,	
	2023	2022
Supplemental Cash Flow Information:		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 592	\$ 219
Operating cash flows from finance leases	\$ 569	\$ 10
Financing cash flows from finance leases	\$ 932	\$ 59

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The maturities of the Company's operating and finance lease liabilities as of March 31, 2023 were as follows:

(in Thousands)	<u>Operating Leases</u>	<u>Finance Leases</u>
Remainder of 2023	\$ 1,789	\$ 3,977
2024	2,443	5,290
2025	2,470	5,290
2026	2,291	5,290
2027	2,176	5,290
Thereafter	2,985	9,107
Total future lease payments	14,154	34,244
Less: Interest	(3,018)	(7,746)
Present value of lease obligations	<u>\$ 11,136</u>	<u>\$ 26,498</u>

As of March 31, 2023, the weighted-average remaining term of our operating and finance leases were approximately 5.85 years and 6.05 years, respectively.

[Table of Contents](#)**NOTE 7. DEBT**

Long-term debt consisted of the following as of March 31, 2023 and December 31, 2022:

	Maturity Date	Interest Rate	March 31, 2023	December 31, 2022
PMC Revolver	November 2025	Prime rate plus 4.25%	\$ 59,768	\$ 55,181
PMC Capex line	N/A*	Prime rate plus 8.5%	—	4,670
PMC Equipment loan	August 2028	Prime rate plus 6.1%	8,125	—
PMC Term Loan	August 2028	Prime rate plus 7.85%	20,000	10,000
			87,893	69,851
Less: Current maturities of long-term debt			479	370
Long-term debt			<u>\$ 87,414</u>	<u>\$ 69,481</u>

* The Capex line was consolidated into the Equipment loan February 2023

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 February 28, 2023, 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 includes an \$8.1 million capital expenditure term loan, which represents a consolidation of the Company’s prior Capex lines, along with Business acquisition liabilities, which matures on August 31, 2028 (the “Equipment loan”). Additionally, as of February 2023, the agreement as amended increased the term loan balance of \$10.0 million to \$20.0 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 on the Equipment loan are to be made monthly beginning on March 31, 2023, and interest and principal shall be repaid monthly in 60 equal installments beginning on September 30, 2023. Regarding the term loan, interest only payments are made monthly until August 31, 2023 where interest and principal payments will be made for 60 months.

The Credit Facility contains no financial covenants and is collateralized by the Company’s accounts receivable, inventory, equipment, deposit accounts, and general intangibles.

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 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 March 31, 2023 was \$0.9 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 March 31, 2023 and 2022, respectively.

The weighted average interest rates for the Company’s debt, by loan type, applicable for the three months ended March 31, 2023, is as follows:

PMC Revolver	12.28%
PMC Equipment loan	13.85%
PMC Term loan	15.60%

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Contractual future payments for all borrowings as of March 31, 2023 are as follows (in thousands):

Remainder of 2023	\$ 1,508
2024	4,299
2025	64,785
2026	5,841
2027	6,801
Thereafter	4,659
Total payments outstanding	<u>\$87,893</u>

NOTE 8. EQUITY

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.

NOTE 9. LOSS PER SHARE

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

	THREE MONTHS ENDED MARCH 31,	
	2023	2022
Numerator:		
Net Loss	<u>\$ (3,693)</u>	<u>\$ (2,294)</u>
Denominator:		
Weighted-average shares outstanding	6,992,101	6,169,885
Loss per common share	<u>\$ (0.53)</u>	<u>\$ (0.37)</u>

As of March 31, 2023, 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 share as they would have been anti-dilutive. Therefore, for all periods presented, there is no difference in the number of shares used to compute basic and diluted shares outstanding due to the Company's net loss position.

NOTE 10. RELATED-PARTY TRANSACTIONS

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 March 31, 2023.

During the three months ended March 31, 2023, the spouse of the Company's CFO provided certain finance related consulting services to the Company. Expenses related to these services recognized during the three months ended March 31, 2023 totaled to approximately \$68,000, and amounts paid for these services totaled to approximately \$73,000 (one payment related to amounts owed from 2022).

NOTE 11. 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 March 31, 2023, 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 March 31, 2023 and December 31, 2022, the Company's management has concluded that it was not necessary to accrue amounts related to any pending litigation.

NOTE 12. 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 months ended March 31, 2023, the Company had three customers which each individually comprised greater than 10% of net sales. These customers represented 43%, 17% and 15% of net sales, respectively, during the three months ended March 31, 2023. During the three months ended March 31, 2022, the Company had two customers which each individually comprised greater than 10% of net sales. These customers represented 59% and 17% of net sales, respectively, during the three months ended March 31, 2022. 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 March 31, 2023, four customers accounted for a total of 74% of the Company's accounts receivable balance, or 33%, 17%, 14% and 11%, respectively. As of December 31, 2022, three customers accounted for a total of 69% of the Company's accounts receivable balance, or 36%, 24%, and 9%, 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 13. 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 2023, 123,397 additional shares were authorized to be granted under the Plan pursuant to an evergreen provision.

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The Company grants 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 March 31, 2023, there were 617,482 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 three months ended March 31, 2023:

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding/Unvested at December 31, 2022	2,384,896	7.66
Granted	725,604	6.61
Forfeited	—	—
Vested	(88,011)	6.26
Outstanding/Unvested at March 31, 2023	<u>3,022,489</u>	<u>7.45</u>

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. All vesting related to RSUs is subject to continued service, with the exception of involuntary terminations for reasons other than cause.

All RSUs issued during 2023 were issued to employees and consultants of the Company. The RSUs issued to the Company's officers cliff vest 100% on the 3rd anniversary date of the grant. Those granted to non-officer employees generally vest one-third over three years on the first, second and third anniversary dates of the grant. All vesting related to RSUs is subject to continued service, with the exception of involuntary terminations for reasons other than cause.

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 period ended March 2023 and 2022, the Company recorded expense related to outstanding RSU grants of approximately \$1.9 million and \$1.7 million, respectively. Income tax benefits related to the vesting of RSUs during the three months ended March 31, 2023 were de minimus. There were no benefits related to income taxes during the three months ended March 31, 2022. Unrecognized compensation expense as of March 31, 2023, was \$14.5 million, to be recognized over a weighted average period of approximately 1.9 years.

NOTE 14. INCOME TAXES

During the three months ended March 31, 2023 and 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 month period, 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 27% 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 ended March 31, 2023.

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NOTE 15. 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 the equity attributable to The Real Good Food Company, Inc. concurrently.

NOTE 16. 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, 2022 (the “Annual Report”), filed with the Securities and Exchange Commission on March 31, 2023, 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 2022 and 2023, which we expect to continue throughout 2023. However, cost challenges, though stabilizing, were persistent during 2022 due to supply and supply chain disruptions, and an increase in costs for certain ingredients in our products may occur again during 2023.

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.

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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.

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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 March 31, 2023 and 2022

The following table details the results of our operations for the three months ended March 31, 2023 and 2022 (dollars in thousands):

	THREE MONTHS ENDED MARCH 31,		\$ Change	% Change
	2023	2022		
Net sales	\$ 29,798	\$ 37,576	\$ (7,778)	-20.7%
Cost of sales	24,810	33,329	(8,519)	-25.6%
Gross profit	4,988	4,247	741	17.4%
Operating expenses:				
Selling and distribution	5,424	5,327	97	1.8%
Marketing	1,634	1,786	(152)	-8.5%
Administrative	8,673	5,801	2,872	49.5%
Total operating expenses	15,731	12,914	2,817	21.8%
Loss from operations	(10,743)	(8,667)	(2,076)	24.0%
Interest expense	3,282	890	2,392	
Other income	(348)	—	(348)	
Loss before income taxes	(13,677)	(9,557)	(4,120)	43.1%
Income tax expense	—	—	—	
Net Loss	\$ (13,677)	\$ (9,557)	\$ (4,120)	43.1%
Less: net loss attributable to non-controlling interest	(9,984)	(7,263)		
Net loss attributable to The Real Good Food Company, Inc.	\$ (3,693)	\$ (2,294)		

Net Sales

Net sales for the three months ended March 31, 2023, decreased \$7.8 million, or 20.7%, to \$29.8 million compared to \$37.6 million for the prior year period. This decrease was primarily due to the timing of certain promotional events, which positively impacted our net sales during the first quarter of 2022, that did not occur during the three months ended March 31, 2023. We expect these promotional events to occur in the later part of 2023. In addition, delays in transitioning to certain revised product offerings, owing to customer execution issues, also negatively impacted sales for the three months ended March 31, 2023, though to a lesser degree. We expect to fulfill the sales shortfall related to the foregoing, beginning in the second quarter of 2023, and more fully in the second half of 2023.

Cost of Sales

Cost of sales decreased approximately \$8.5 million, or 25.6%, to \$24.8 million during the three months ended March 31, 2023 compared to \$33.3 million for the prior year period. This decrease was primarily due to the decrease in the sales volume of our products, as well as to decreases in certain raw material costs. We expect these raw material costs to continue to be lower throughout 2023 relative to the prior year. In addition, we experienced decreases in formulation costs during the three months ended March 31, 2023. These decreases in cost of sales were offset, in part, by increases in certain plant overhead costs.

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Gross Profit

Gross profit increased \$0.7 million to \$5.0 million for the three months ended March 31, 2023, compared to \$4.2 million for the prior year period. This increase is due to the net decrease in cost of sales described above.

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 MARCH 31,		\$ change	% Change
	2023	2022		
Selling and distribution	\$ 5,424	\$ 5,327	\$ 97	1.8%
Percentage of net sales	18.2%	14.2%		4.0%

Selling and distribution expense remained relatively unchanged for the three months ended March 31, 2023, as compared to the prior year period. Selling and distribution expense increased as a percentage of sales primarily owing to a temporary increase in transportation costs related to a strategic decision to consolidate our carrier network. We expect this transition to be completed by the end of the second quarter of 2023. Additionally, a greater proportion of our sales during the period were to smaller customers which do not experience the economies of scale that our larger customers do with regards to shipping costs.

Marketing Expense

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

	THREE MONTHS ENDED MARCH 31,		\$ change	% Change
	2023	2021		
Marketing	\$ 1,634	\$ 1,786	(\$ 152)	-8.5%
Percentage of net sales	5.5%	4.8%		0.7%

Marketing expense remained relatively unchanged during the three months ended March 31, 2023, 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.

Administrative Expense

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

	THREE MONTHS ENDED MARCH 31,		\$ change	% Change
	2023	2021		
Administrative	\$ 8,673	\$ 5,801	\$ 2,872	49.5%
Percentage of net sales	29.1%	15.4%		13.7%

Administrative expense increased \$2.9 million, or 49.5% during the three months ended March 31, 2023, as compared to the prior year period. This increase was primarily driven by research and development costs to support new product development for 2023 and beyond, as well as to increases in equity compensation expenses incurred during the period.

Loss from Operations

As a result of the foregoing, loss from operations increased \$2.1 million, or 24.0% to \$10.7 million for the three months ended March 31, 2023, compared to a loss from operations of \$8.7 million for the prior year period. Loss from operations as a percentage of sales was (36.1)% for the current period, compared to (23.1)% for the prior year period.

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Interest Expense

Interest expense increased \$2.4 million, to \$3.3 million during the three months ended March 31, 2023, as compared to \$0.9 million for the prior year period. The increase in interest expense during the 2023 period, was primarily due to having higher levels of debt as well as an increase in interest rates during the three months ended March 31, 2023 as compared to the prior year period.

Other Income

Other income recognized during the three months ended March 31, 2023 related entirely to certain government payments related to the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was granted to certain companies who did not decrease their workforce during the pandemic. There were no amounts recognized related to Other Income during the prior year period.

Net Loss

As a result of the foregoing, our net loss increased \$4.1 million, or 43.1%, to \$13.7 million during the three months ended March 31, 2023, compared to a net loss of \$9.6 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 February 28, 2023, we amended our debt agreement with PMC to, among other things i) decrease the outstanding balance of the Company's revolving credit facility by \$10.0 million, resulting in an increase in availability by \$10.0 million, which was achieved by converting \$10.0 million of the revolving credit facility balance to a term loan increasing the term loan balance to \$20.0 million at the date of the amendment, (ii) change the definition of "Borrowing Base" to allow for borrowing up to 85% of the value of the eligible assets which comprise the Borrowing Base (not to exceed \$75.0 million in borrowing in the aggregate) and (iii) consolidate equipment loans for both the revolving Capex Line and termed portion, to one \$8.1 million term loan, which commenced on February 28, 2023 and matures on August 31, 2028, with payments for first six months of that term being interest only, and payments of both principal and interest to be made beginning in August 2023.

As of March 31, 2023, we had \$2.9 million in cash (which includes restricted cash of \$2.3 million), current debt obligations of \$0.5 million, and long-term debt obligations of \$87.4 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 2023 as well as the foreseeable future. We expect to make future capital expenditures of approximately \$2.0 million to \$5.0 Million in connection with the enhancement of our current production capabilities during the remainder of 2023.

Cash Flows

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

	March 31,	
	2023	2022
(In thousands)		
Net cash used in operating activities	\$(15,943)	\$ (6,189)
Net cash used in investing activities	(537)	(3,647)
Net cash provided by (used in) financing activities	11,759	(5,536)
Net (decrease)increase in cash and cash equivalents	(4,721)	(15,372)
Cash and cash equivalents at end of period	\$ 2,876	\$ 14,373

Net Cash Used in Operating Activities

Net cash used in operating activities was \$15.9 million during the three months ended March 31, 2023, as compared to net cash used in operating activities of \$6.2 million for the three months ended March 31, 2022. The increase in net cash used in operating activities

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is primarily due to the increase in our working capital and an increase in our net loss during the 2023 period. The increase in working capital was primarily driven by an increase in inventory, to support our new product introductions, as well as an increase in accounts payable and accrued expenses during the three months ended March 31, 2023. Additionally, there was an increase in our accounts receivable for the three months ended March 31, 2023, which was attributable to a greater proportion of our accounts receivable belonging to customers with longer payment terms relative to the same period last year.

Net Cash Used in Investing Activities

During the three months March 31, 2023 and 2022, net cash used in investing activities was \$0.5 million and \$3.6 million, respectively. Cash used in investing activities during the three months ended March 31, 2023 was related to equipment purchased for our manufacturing facilities. Our capital expenditures during the three months ended March 31, 2022 were primarily related to equipment for our Bolingbrook facility, necessary to bring the facility fully into full operations.

Net Cash Provided by Financing Activities

Net cash provided by financing activities totaled \$11.8 million during the three months ended March 31, 2023, as compared to net cash used by financing activities of \$5.5 million during the same period last year. This increase was primarily due to the increases in borrowing on our revolving credit facility, as compared to the same period last year.

Contractual Obligations

As of March 31, 2023, 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, 2022.

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.

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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 March 31, 2023, 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 this evaluation as of March 31, 2023, our Chief Executive Officer and Chief Financial Officer each concluded that, as of the end of such period, our disclosure controls and controls over financial reporting were not effective. This determination is based on the previously reported material weakness management identified as part of our fiscal year 2022 assessment (See Item 9A in our Annual Report on Form 10-K, filed on March 31, 2023). We are in the process of remediating the material weakness in our internal controls over financial reporting and disclosure controls, as described below. We believe the completion of these processes should remedy the material weakness. We will continue to monitor these issues.

Remediation Efforts to Address Material Weakness

As previously disclosed in Item 9A in our Annual Report on Form 10-K, filed on March 31, 2023, in response to the material weaknesses identified during our 2022 year end assessment described above, we have hired and anticipate to continue to hire additional resources during this fiscal year, which we believe will help remediate certain weaknesses previously identified. In addition, we are in the process of implementing a new ERP system to address weaknesses identified with regards to our current accounting system. Although it is our intent to complete this process within sufficient time to remediate the material weakness by the end of 2023, we may encounter certain delays in the implementation of our new ERP system as well as face certain challenges with regards to having sufficient resources in place in the requisite time, and cannot provide any assurance regarding when these efforts will be complete.

Changes in Internal Control over Financial Reporting

Except for the changes described above 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 March 31, 2023.

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.

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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 Four dated as of February 28, 2023, 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.

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.

May 15, 2023	By: <u>/s/ Gerard Law</u> Gerard Law Chief Executive Officer (Principal Executive Officer)
May 15, 2023	By: <u>/s/ Akshay Jagdale</u> Akshay Jagdale Chief Financial Officer (Principal Financial Officer)

**AMENDMENT NUMBER TWENTY FOUR TO
LOAN AND SECURITY AGREEMENT**

THIS AMENDMENT NUMBER TWENTY FOUR TO LOAN AND SECURITY AGREEMENT (this “Amendment”), dated as of February 28, 2023 (the “Amendment Twenty Four 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, Lender has previously made equipment loans to Borrower under the following credit facilities: (i) \$20 Million Capex Line as set forth in Amendment Twenty-one (the “Amendment Twenty-one Capex Line”), (ii) term loan (the “Term Loan One”), in the original principal amount \$4,500,000, which was made pursuant to the terms of Amendment Sixteen, and (iii) \$2 Million Capex Line as set forth in that certain Amendment Number Ten to Loan and Security Agreement, dated as of August 1, 2019, between Lender and Borrower (“Amendment Ten”) (the “Amendment Ten Capex Line”, and together with the Amendment Twenty-one Capex Line, the “Capex Lines”).

WHEREAS, Lender has previously made a term loan (the “Term Loan Two”) to Borrower, in the original principal amount of \$10,000,000, pursuant to Amendment Number Twenty Three.

WHEREAS, Borrower has requested that Lender consolidate the Term Loan One and the outstanding balance of the equipment loans made pursuant to the Capex Lines and reset the amortization schedule and interest rate for the consolidated equipment loans.

WHEREAS, Borrower has requested that Lender increase the Term Loan #2 and reset the amortization schedule for Term Loan Two.

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 Four 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 following definitions:

“Amendment Ten Capex Line” shall have the meaning set forth in the recitals to Amendment Twenty Four.

‘Amendment Twenty Four’ means that certain Amendment Number Twenty Four to Loan and Security Agreement, dated as of February __, 2023, between Lender and Borrower.

‘Amendment Twenty Four Effective Date’ shall have the meaning set forth in the preamble to Amendment Twenty Four.

“Amendment Twenty-one Capex Line” shall have the meaning set forth in the recitals to Amendment Twenty Four.

“Capex Lines” shall have the meaning set forth in the recitals to Amendment Twenty Four.

2.2 **Increase in Inventory Advance Rates.** The Inventory advance rates in Clause (b) of the definition of Borrowing Base in Section 1A(c) of the Schedule to Loan and Security Agreement is deleted in its entirety and is replaced with the following:

(b) up to **85%** of Eligible Inventory (the “Inventory Advance Rate”, and also an “Advance Rate”) of the value of Borrower’s Eligible Inventory (as defined in Section 8 above), calculated at the lower of cost or market value and determined on a first-in, first-out basis.

2.3 **Consolidation of Equipment Loans.** The equipment loans made pursuant to the Capex Lines (Section 1B Capex Line of the Schedule) and the Term Loan made pursuant to Section 1C of the Schedule are hereby consolidated. Section 1B and Section 1C of the Schedule are hereby deleted and replaced with the following:

B. [Reserved]

C. **Consolidation of CapEx Loans and Term Loan.** Borrower and Lender acknowledge (i) that the aggregate outstanding principal balance of the equipment loans made pursuant to the Amendment Ten Capex Line is \$856,899.41 (the “Amendment Ten Equipment Loan Balance”), (ii) that the aggregate outstanding principal balance of the equipment loans made pursuant to the Amendment Twenty-one Capex Line is \$4,008,829.31 (the “Amendment Twenty-one Equipment Loan Balance”, and (iii) that the aggregate outstanding principal balance of the Term Loan One is \$3,258,977.35 (the “Term Loan Balance”). The aggregate amount of the Amendment Ten Equipment Loan Balance, Amendment Twenty-one Equipment Loan Balance and Term Loan Balance equals \$8,124,706.07 (such aggregate amount shall be referred to as the “COI Equipment Term Loan”).

Commencing on March 31, 2023, interest on the COI Equipment 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 6.10% and (ii) 13.85%. The amount of such difference will be charged to (and payable by) Borrower as of the last day of each fiscal quarter.

The COI Equipment 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, as set forth in the amortization schedule attached as Exhibit A to the Amendment Twenty Four, and continuing on the last day of the month thereafter until the earliest of the following dates ("COI Equipment Term Loan Maturity Date"): (i) the date the COI Equipment 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 COI Equipment 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 COI Equipment Term Loan, plus all other Obligations relating to the COI Equipment 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 COI Equipment 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 **Increase in Term Loan Two.** The first sentence of Section 2.3D of the Schedule is hereby deleted and replaced with the following:

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 Twenty Million Dollars (\$20,000,000). Borrower hereby instructs Lender on the Amendment Number Twenty Four Effective Date to apply Ten Million Dollars of Term Loan Two to the outstanding Obligations under the Revolving Loans.

3. **CONDITION PRECEDENT AND SUBSEQUENT.**

3.1 **Condition Precedent.** 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 Four.
- B. Lender shall have received a fully executed Amendment Fee Letter, of even date herewith, between Borrower and Lender.

4. **REPRESENTATIONS AND WARRANTIES.** 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.

5. **LIMITED EFFECT.** Except for the specific amendment contained in this Amendment, the Agreement shall remain unchanged and in full force and effect.

6. RELEASE BY BORROWER. 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:

6.1 Arise out of the Loan Documents;

6.2 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

6.3 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.

7. 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.”

8. 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.

9. 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

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

PMC FINANCIAL SERVICES GROUP, LLC

By /s/ Walter E. Buttkus, III

Name: Walter E. Buttkus, III

Title: President

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

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 15, 2023

(Date)

/s/ Gerard Law

Gerard Law

Chief Executive Officer

(Principal Executive Officer)

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 15, 2023

(Date)

/s/ Akshay Jagdale

Akshay Jagdale

Chief Financial Officer

(Principal Financial Officer)

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICERPURSUANT 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 March 31, 2023 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.

May 15, 2023

(Date)

/s/ Gerard Law

Gerard Law

Chief Executive Officer

(Principal Executive Officer)

May 15, 2023

(Date)

/s/ Akshay Jagdale

Akshay Jagdale

Chief Financial Officer

(Principal Financial 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.