

Terra Tech Corp.  
Form 10-Q  
August 08, 2017

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

**FORM 10-Q**

**x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended June 30, 2017**

**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: **000-54258**

**TERRA TECH CORP.**

(Exact Name of Registrant as  
Specified in its Charter)

**NEVADA**

**26-3062661**

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(State or Other Jurisdiction of Incorporation  
or Organization)

(I.R.S. Employer Identification No.)

**2040 Main Street, Suite 225**

**Irvine, California**

(Address of Principal Executive Offices)

**92614**

(Zip Code)

**(855) 447-6967**

(Registrant's Telephone Number, Including Area Code)

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes x 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. (Check one):

Large accelerated filer	..	Accelerated filer	x
Non-accelerated filer	..	Smaller reporting company	..
Emerging growth company	..		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
.. No x

As of August 4, 2017, there were 640,043,036 shares of common stock outstanding, 100 shares of Series A Preferred Stock, convertible at any time into 100 shares of common stock, 33,146,112 shares of Series B Preferred Stock,

convertible into 178,469,458 shares of common stock, 15,668,298 shares of common stock issuable upon the exercise of all of our outstanding warrants, and 4,744,687 shares of common stock issuable upon the exercise of all vested stock options.

**TERRA TECH CORP. AND SUBSIDIARIES**  
**FORM 10-Q**  
**QUARTERLY PERIOD ENDED JUNE 30, 2017**

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	<b>June 30, 2017 (Unaudited)</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 9,131,306	\$ 9,749,572
Accounts Receivable	784,071	747,792
Inventory	3,233,072	1,909,330
Prepaid Expenses	1,238,529	704,721
<b>Total Current Assets</b>	<b>14,386,978</b>	<b>13,111,415</b>
Property, Equipment and Leasehold Improvements, Net	10,581,265	10,464,764
Intangible Assets, Net	22,768,048	23,627,098
Goodwill	28,921,260	28,921,260
Other Assets	221,118	54,193
<b>TOTAL ASSETS</b>	<b>\$ 76,878,669</b>	<b>\$ 76,178,730</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY****LIABILITIES:**

## Current Liabilities:

Accounts Payable and Accrued Expenses	\$ 3,526,498	\$ 2,417,400
Derivative Liabilities	3,163,000	6,987,000
Short-Term Debt	575,705	564,324
Income Taxes Payable	615,830	615,830
Contingent Consideration	-	12,085,859

<b>Total Current Liabilities</b>	<b>7,881,033</b>	<b>22,670,413</b>
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## Long-Term Liabilities:

Long-Term Debt	736,290	1,354,352
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<b>Total Long-Term Liabilities</b>	<b>736,290</b>	<b>1,354,352</b>
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<b>Total Liabilities</b>	<b>8,617,323</b>	<b>24,024,765</b>
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**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS' EQUITY:**

Preferred Stock, Convertible Series A, Par Value \$0.001:

100 Shares Authorized as of June 30, 2017 and December 31, 2016;  
 100 Shares Issued and Outstanding as of June 30, 2017 and December 31,  
 2016

-

-

Preferred Stock, Convertible Series B, Par Value \$0.001:

49,999,900 Shares Authorized as of June 30, 2017 and December 31, 2016;  
 33,146,112 and 36,825,953 Shares Issued and Outstanding as of June 30,  
 2017 and December 31, 2016, respectively

33,146

36,826

Common Stock, Par Value \$0.001:

990,000,000 Shares Authorized as of June 30, 2017 and December 31, 2016;  
 618,667,265 and 553,863,812 Shares Issued and Outstanding as of June 30,  
 2017 and December 31, 2016, respectively

618,667

553,864

Additional Paid-In Capital

152,354,775

124,915,182

Accumulated Deficit

(83,436,756)

(72,870,999)

Total Terra Tech Corp. Stockholders' Equity

69,569,832

52,634,873

Non-Controlling Interest

(1,308,486)

(480,908)

**Total Stockholders' Equity****68,261,346****52,153,965****TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY****\$ 76,878,669 \$ 76,178,730**

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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**TERRA TECH CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Total Revenues	\$ 7,842,873	\$ 9,699,909	\$ 14,667,329	\$ 11,248,076
Cost of Goods Sold	6,336,500	8,152,935	12,801,893	9,686,575
Gross Profit	1,506,373	1,546,974	1,865,436	1,561,501
Selling, General and Administrative Expenses	6,029,287	5,364,351	12,415,587	7,291,252
Loss from Operations	(4,522,914)	(3,817,377)	(10,550,151)	(5,729,751)
Other Income (Expense):				
Amortization of Debt Discount	(515,654)	(218,126)	(1,126,270)	(312,532)
Loss on Extinguishment of Debt	(1,639,137)	-	(2,678,595)	(920,797)
Loss from Derivatives Issued with Debt Greater than Debt Carrying Value	-	(488,000)	-	(488,000)
Gain (Loss) on Fair Market Valuation of Derivatives	987,200	(206,000)	2,597,950	(1,366,700)
Interest Expense	(130,510)	(60,565)	(288,343)	(116,560)
Loss on Fair Market Valuation of Contingent Consideration	(77,286)	-	(4,426,047)	-
Gain on Settlement of Contingent Consideration	4,991,571	-	4,991,571	-
Total Other Income (Expense)	3,616,184	(972,691)	(929,734)	(3,204,589)
Loss Before Provision for Income Taxes	(906,730)	(4,790,068)	(11,479,885)	(8,934,340)
Provision for Income Taxes	-	381,000	-	381,000
<b>NET LOSS</b>	<b>(906,730)</b>	<b>(5,171,068)</b>	<b>(11,479,885)</b>	<b>(9,315,340)</b>
Net Loss Attributable to Non-Controlling Interests	452,961	236,830	914,128	255,038



<b>NET LOSS ATTRIBUTABLE TO TERRA TECH CORP.</b>	<b>\$</b>	<b>(453,769)</b>	<b>\$</b>	<b>(4,934,238)</b>	<b>\$</b>	<b>(10,565,757)</b>	<b>\$</b>	<b>(9,060,302)</b>
Net Loss Per Common Share Attributable to Terra Tech Corp. Common Stockholders – Basic and Diluted	\$	–	\$	(0.01)	\$	(0.02)	\$	(0.03)
Weighted-Average Number of Common Shares Outstanding – Basic and Diluted		583,096,376		349,893,516		575,249,192		338,187,946

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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**TERRA TECH CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>For the Six Months Ended</b>	
	<b>2017</b>	<b>June 30, 2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (11,479,885)	\$ (9,315,340)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
(Gain) Loss on Fair Market Valuation of Derivatives	(2,597,950)	1,366,700
Loss on Fair Market Valuation of Contingent Consideration	4,426,047	–
Gain on Settlement of Contingent Consideration	(4,991,571)	–
Loss on Extinguishment of Debt	2,678,595	920,797
Amortization of Debt Discount	1,126,270	312,532
Deferred Tax Expense	–	49,000
Depreciation and Amortization	1,778,782	787,178
Warrants Issued with Common Stock and Debt	211,534	–
Stock Issued for Compensation	1,356,138	–
Stock Issued for Director Fees	221,973	60,550
Stock Issued for Services	591,359	20,727
Stock Option Expense	205,019	95,177
Equity Instruments Issued with Debt Greater than Debt Carrying Value	–	488,000
Change in Allowance for Doubtful Accounts	–	102,253
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(36,279)	(369,557)
Inventory	(1,323,742)	(472,970)
Prepaid Expenses	(533,808)	257,238
Other Assets	(166,925)	–
Accounts Payable and Accrued Expenses	1,383,860	2,393,183
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(7,150,583)</b>	<b>(3,304,532)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash Assumed in Acquisition	–	163,566
Purchase of Property, Equipment and Leasehold Improvements	(1,036,233)	(1,988,587)
Purchase of Intangible Assets – Domain Names	–	(75,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,036,233)</b>	<b>(1,900,021)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		

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Proceeds from Issuance of Notes Payable	6,000,000	3,250,000
Cash Paid for Debt Discount	(180,000)	—
Proceeds from Issuance of Common Stock	3,750,000	3,208,134
Payment of Contingent Consideration	(2,088,000)	—
Cash Contribution from Non-Controlling Interest	86,550	—
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>7,568,550</b>	<b>6,458,134</b>
<b>NET CHANGE IN CASH</b>	<b>(618,266)</b>	<b>1,253,581</b>
Cash at Beginning of Period	9,749,572	418,082
<b>CASH AT END OF PERIOD</b>	<b>\$ 9,131,306</b>	<b>\$ 1,671,663</b>
<b>SUPPLEMENTAL DISCLOSURE FOR OPERATING ACTIVITIES:</b>		
Cash Paid for Interest	\$ —	\$ 10,100
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Settlement of Contingent Consideration	\$ 4,739,638	\$ —
Gain on Settlement of Contingent Consideration Recorded Against Additional Paid-In Capital	\$ 4,692,697	\$ —
Fair Value of Debt Discount Recorded	\$ 4,446,000	\$ 2,824,000
Issuance of Common Stock for Debt and Interest Expense	\$ 8,564,324	\$ —

The accompanying notes are an integral part of the unaudited consolidated financial statements.

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**TERRA TECH CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016**

**NOTE 1 – DESCRIPTION OF BUSINESS**

**Organization**

References in the Notes to Unaudited Consolidated Financial Statements to “the Company”, “Terra Tech”, “we”, “us”, or “our” are intended to mean Terra Tech Corp., individually, or as the context requires, collectively with its subsidiaries on a consolidated basis.

Through MediFarm, LLC, a Nevada limited liability company (“MediFarm”), MediFarm I, LLC, a Nevada limited liability company (“MediFarm I”), and MediFarm II, LLC, a Nevada limited liability company (“MediFarm II”), subsidiaries in which the Company owns interests, the Company operates and/or plans to operate medical marijuana dispensary facilities, cultivation, and production facilities in Nevada. Through IVXX, LLC, a Nevada limited liability company (“IVXX LLC”), and IVXX, Inc., a California corporation (“IVXX Inc.”; together with IVXX LLC, “IVXX”), the Company’s wholly-owned subsidiary, the Company produces and sells a line of cannabis flowers, as well as a line of cannabis pure concentrates. Most recently, the Company formed another subsidiary, MediFarm I Real Estate, LLC, a Nevada limited liability company (“MediFarm I RE”), which owns the real property on which a medical marijuana dispensary will be constructed. The dispensary will be operated by MediFarm I. Through Black Oak Gallery, a California corporation (“Black Oak”), we operate a medical marijuana retail dispensary, a medical marijuana cultivation facility, and have a second medical marijuana cultivation facility in the early stages of construction, all in Oakland, California. The Company is a wholesale seller of locally grown hydroponic produce, herbs and floral products through its wholly-owned subsidiary, Edible Garden Corp., a Nevada corporation (“Edible Garden”).

On April 1, 2016, the Company acquired Black Oak. Black Oak operates a medical marijuana retail dispensary in Oakland, California under the name Blüm, pursuant to that certain Agreement and Plan of Merger, dated December 23, 2015 (the “Merger Agreement”), with Generic Merger Sub, Inc., a California corporation and our wholly-owned subsidiary, and Black Oak.

Since the Merger was completed on April 1, 2016, Black Oak’s financial results are included in our unaudited consolidated financial statements subsequent to that date.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The consolidated balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in Terra Tech's annual report on Form 10-K for the year ended December 31, 2016.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Non-Controlling Interest**

Non-controlling interest is shown as a component of shareholders' equity on the consolidated balance sheets and the share of income (loss) attributable to non-controlling interest is shown as a component of income (loss) in the consolidated statements of operations.

**Use of Estimates**

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications did not affect net loss and shareholders' equity.

**Inventory**

We value our inventory at the lower of the actual cost of our inventory, as determined using the first-in, first-out method, or its current estimated net realizable value ("NRV"). ASU No. 2015-11, "*Inventory (Topic 330): Simplifying the Measurement of Inventory*", defines NRV as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We periodically review our physical inventory for excess, obsolete, and potentially impaired items and reserve accordingly. Our reserve estimate for excess and obsolete is based on expected future use. Our reserve estimates have historically been consistent with our actual experience as evidenced by actual sale or disposal of the goods.

### **Prepaid Expenses**

Prepaid expenses consist of various payments that the Company has made in advance for goods or services to be received in the future. These prepaid expenses include advertising, insurance and service contracts requiring up-front payments.

### **Property, Equipment and Leasehold Improvements**

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The approximate useful lives for depreciation of our property, equipment and leasehold improvements are as follows: 32 years for buildings; three to eight years for furniture and equipment; and the shorter of the estimated useful life or the underlying lease term for leasehold improvements. Repairs and maintenance expenditures that do not extend the useful lives of related assets are expensed as incurred.

### **Goodwill**

Goodwill is measured as the excess of consideration transferred and the net of the acquisition date fair value of assets acquired and liabilities assumed in a business acquisition. Goodwill is not amortized for accounting purposes.

Table of Contents**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

We review the goodwill allocated to each of our reporting units for possible impairment annually as of August 1 and whenever events or changes in circumstances indicate its carrying amount may not be recoverable. When assessing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform a two-step impairment test. If we conclude otherwise, then no further action is taken. We also have the option to bypass the qualitative assessment and only perform a quantitative assessment, which is the first step of the two-step impairment test. In the two-step impairment test, we measure the recoverability of goodwill by comparing a reporting unit's carrying amount, including goodwill, to the estimated fair value of the reporting unit.

**Intangibles**

Intangible assets are stated at historical cost and amortized over their estimated useful lives. We use a straight-line method of amortization, unless a method that better reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up can be reliably determined. The approximate useful lives for amortization of our intangible assets are as follows:

Customer Relationships	5 to 12 Years
Trade Names	2 to 8 Years
Dispensary License	14 Years
Patent	2 Years

We review intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. Intangible assets that have indefinite useful lives are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount of the reporting unit exceeds its fair value.

**Impairment of Long-Lived Assets**



We have adopted paragraph 360-10-35-17 of FASB Accounting Standards Codification (“ASC”) for our long-lived assets. Our long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We assess the recoverability of our long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the assets expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives.

### **Other Assets**

Other assets are comprised primarily of security deposits for leased properties in California, Nevada and New Jersey. The deposits will be returned at the end of the lease term.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (*Continued*)

**Revenue Recognition**

We recognize revenue in accordance with ASC 605, “*Revenue Recognition*”, by recognizing as revenue the fees we charge customers because persuasive evidence of an arrangement exists, the fees we charge are substantially fixed or determinable during the period that we provide the goods or services, we and our customers understand the specific nature and terms of the agreed upon transactions, and payment is made for the goods or services when they have been rendered.

***Cannabis Dispensary, Cultivation and Production***

We recognize revenue from manufacturing and distribution product sales and upon transfer of title and risk to the customer, which occurs either at shipping (F.O.B. terms), or upon sell through, depending on the arrangement.

Revenue from our retail dispensaries is recognized net of discounts, rebates, promotional adjustments, price adjustments and returns, and net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority. Revenue is recorded upon transfer of title and risk to the customer, which occurs at the time customers take delivery of our products at our retail dispensaries. Upon purchase, we have no further performance obligations and collection is assured as sales are paid for at time of purchase.

Revenue related to the sale of consignment inventory is not recognized until the product is pulled from inventory and sold directly to end-customers. We recognize revenue from the sale of consignment inventory on a gross basis, as we have determined that: 1) we are the primary obligor to the customer; 2) we have latitude in establishing the sales prices and profit margins of our products; 3) we have discretion in selecting our suppliers; 4) we are responsible for loss or damage to consigned inventory; and 5) our customer validation process performs an important part of the process of providing such products to authorized customers. We believe that these factors outweigh the fact that we do not have title to the consigned inventory prior to its sale.

***Herbs and Produce Products***

We recognize revenue from products grown in our greenhouses and sold net of discounts, rebates, promotional adjustments, price adjustments, and estimated returns and upon transfer of title and risk to the customer, which occurs at shipping (F.O.B. terms). Upon shipment, we have no further performance obligations, selling price is fixed, and collection is reasonably assured.

## **Cost of Goods Sold**

### ***Cannabis Dispensary, Cultivation and Production***

Cost of goods sold includes the costs directly attributable to product sales and includes amounts paid for finished goods, such as flower, edibles, and concentrates, as well as packaging and other supplies, fees for services and processing, other expenses for services, and allocated overhead. Overhead expenses include allocations of rent, administrative salaries, utilities, and related costs. It also includes the cost incurred in producing the oils, waxes, shatters, and clears sold by IVXX.

### ***Herbs and Produce Products***

Cost of goods sold are for the plants grown, packaging, other supplies and purchased plants that are sold into the retail marketplace by Edible Garden. Other expenses include freight, allocations of rent, repairs and maintenance, and utilities.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Stock-Based Compensation**

The Company accounts for its stock-based awards in accordance with ASC Subtopic 718-10, “*Compensation*”, which requires fair value measurement on the grant date and recognition of compensation expense for all share-based payment awards made to employees and directors, including restricted stock awards. For stock options, the Company estimates the fair value using a closed option valuation (Black-Scholes) model. The fair value of restricted stock awards is based upon the quoted market price of the common shares on the date of grant. The fair value is then expensed over the requisite service periods of the awards, net of estimated forfeitures, which is generally the performance period and the related amount is recognized in the consolidated statements of operations.

**Warrants**

ASC 815-40, “*Contracts in Entity’s Own Equity*”, requires freestanding contracts that are settled in a company’s own stock, including common stock warrants, to be designated as an equity instrument, asset or a liability. Under the provisions of ASC 815-40, a contract designated as an asset or a liability must be carried at fair value on a company’s balance sheet, with any changes in fair value recorded in the company’s results of operations. A contract designated as an equity instrument must be included within equity, and no fair value adjustments are required from period to period.

ASC 815, “*Derivatives and Hedging*”, requires all derivatives to be recorded on the balance sheet at fair value. Furthermore, ASC 815 precludes contracts issued or held by a reporting entity that are both (1) indexed to its own stock and (2) classified as stockholders’ equity in its statement of financial position from being treated as derivative instruments.

**Research and Development**

Research and development costs are expensed as incurred.

**Income Taxes**

We provide for income taxes based on enacted tax law and statutory tax rates at which items of income and expense are expected to be settled in our income tax return. Certain items of revenue and expense are reported for Federal income tax purposes in different periods than for financial reporting purposes, thereby resulting in deferred income taxes. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. We have incurred net operating losses for financial-reporting and tax-reporting purposes. At June 30, 2017 and December 31, 2016, such net operating losses were offset entirely by a valuation allowance.

The Company recognizes uncertain tax positions based on a benefit recognition model. Provided that the tax position is deemed more likely than not of being sustained, the Company recognizes the largest amount of tax benefit that is greater than 50% likely of being ultimately realized upon settlement. The tax position is derecognized when it is no longer more likely than not of being sustained. The Company classifies income tax related interest and penalties as interest expense and selling, general and administrative expense, respectively, on the consolidated statements of operations.

#### **Loss Per Common Share**

In accordance with the provisions of ASC 260, "*Earnings Per Share*", net loss per share is computed by dividing net loss by the weighted-average shares of common stock outstanding during the period. During a loss period, the effect of the potential exercise of stock options, warrants, convertible preferred stock, and convertible debt are not considered in the diluted loss per share calculation since the effect would be anti-dilutive. The results of operations were a net loss for the three and six months ended June 30, 2017 and 2016. Therefore, the basic and diluted weighted-average shares of common stock outstanding were the same for both periods.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Fair Value of Financial Instruments**

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

*Level 1* – Quoted prices in active markets for identical assets or liabilities.

*Level 2* – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* – Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. We have not elected the fair value option for any eligible financial instruments.

**Recently Issued Accounting Standards**

**FASB ASU 2017-04 (Topic 350), “Intangibles - Goodwill and Others”** – Issued in January 2017, ASU 2017-04 simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s

goodwill with the carrying amount of that goodwill. ASU 2017-04 is effective for annual periods beginning after December 15, 2019 including interim periods within those periods. We are currently evaluating the effect that ASU 2017-04 will have on our consolidated financial statements and related disclosures.

***FASB ASU 2017-01 (Topic 805), “Business Combinations: Clarifying the Definition of a Business”*** – Issued in January 2017, ASU 2017-01 revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for the Company in the first fiscal quarter of 2018 on a prospective basis, and early adoption is permitted. The Company does not expect the standard to have a material impact on our consolidated financial statements.

***FASB ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)”*** – Issued in August 2016, the amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under ASC Topic 230, “*Statement of Cash Flows*”. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. The Company has not yet completed the analysis of how adopting this guidance will affect its consolidated financial statements.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**FASB ASU No. 2016-02 (Topic 842), “Leases”** – Issued in February 2016, ASU No. 2016-02 will require entities to recognize right-of-use assets and lease liabilities on the balance sheet for the rights and obligations created by all leases, including operating leases, with terms of more than 12 months. The new standard also requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The new standard will be effective for the Company on January 1, 2019. Early adoption is permitted. The Company is in the process of evaluating the impact the adoption of this standard will have on its consolidated financial statements and related disclosures.

**FASB ASU No. 2014-09 (Topic 606), “Revenue from Contracts with Customers”** – Issued in May 2014, ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers using a five-step model that requires entities to exercise judgment when considering the terms of the contracts. In August 2015, the FASB issued ASU No. 2015-14, “*Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*”. This amendment defers the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU 2016- 08, “*Principal versus Agent Considerations (Reporting Gross versus Net)*”, which amends the principal versus agent guidance and clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer. In addition, the FASB issued ASU Nos. 2016-20, “*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*” and 2016-12, “*Narrow-Scope Improvements and Practical Expedients*”, both of which provide additional clarification of certain provisions in Topic 606. These ASC updates are effective for annual reporting periods beginning after December 15, 2017, but early adoption is permitted. Early adoption is permitted only as of annual reporting periods after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently in the process of evaluating all revenue streams, accounting policies, practices and reporting to identify and understand any impact on our consolidated financial statements.

**NOTE 3 – CONCENTRATIONS OF BUSINESS AND CREDIT RISK**

The Company maintains cash balances in several financial institutions that are insured by the Federal Deposit Insurance Corporation up to certain federal limitations. At times, the Company’s cash balance exceeds these federal limitations.

The Company provides credit in the normal course of business to customers located throughout the U.S. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information.



**NOTE 4 – INVENTORY**

Raw materials consist of Edible Garden’s herb product lines and material for IVXX’s line of cannabis pure concentrates. Work-in-progress consists of live plants grown for Edible Garden’s herb product lines and live plants grown at Black Oak. Finished goods consists of IVXX’s line of cannabis packaged products to be sold into dispensaries, and Edible Garden’s products to be sold via food, drug, and mass channels.

Cost of goods sold is calculated using the average costing method. The Company reviews its inventory periodically to determine NRV. The Company writes down inventory, if required, based on forecasted demand. These factors are impacted by market and economic conditions, new products introductions, and require estimates that may include uncertain elements.

Table of Contents**NOTE 4 – INVENTORY** (Continued)

As of June 30, 2017 and December 31, 2016, inventory consisted of the following:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Raw Materials	\$ 1,010,401	\$ 486,119
Work-in-Progress	1,179,647	570,145
Finished Goods	1,043,024	853,066
<b>Total Inventory</b>	<b>\$ 3,233,072</b>	<b>\$ 1,909,330</b>

**NOTE 5 – PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

As of June 30, 2017 and December 31, 2016, property, equipment and leasehold improvements at cost, less accumulated depreciation, consisted of the following:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Land and Building	\$ 1,454,124	\$ 1,454,124
Furniture and Equipment	3,376,758	3,141,244
Computer Hardware and Software	438,210	396,479
Leasehold Improvements	8,458,734	7,568,465
Construction in Progress	297,041	459,327
Subtotal	14,024,867	13,019,639
Less Accumulated Depreciation	(3,443,602)	(2,554,875)
<b>Property, Equipment and Leasehold Improvements, Net</b>	<b>\$ 10,581,265</b>	<b>\$ 10,464,764</b>

Depreciation expense related to property, equipment and leasehold improvements for the three months ended June 30, 2017 and 2016 was \$456,659 and \$222,939, respectively, and for the six months ended June 30, 2017 and 2016 was \$919,732 and \$373,668, respectively.

**NOTE 6 – INTANGIBLE ASSETS**

As of June 30, 2017 and December 31, 2016, intangible assets consisted of the following:

	Estimated Useful Life in Years	June 30, 2017			December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized Intangible Assets:							
Customer Relationships	5 to 12	\$ 8,960,700	\$ (1,218,528)	\$ 7,742,172	\$ 8,960,700	\$ (780,960)	\$ 8,179,740
Trade Brands and Patent	2 to 8	498,598	(145,757)	352,841	498,598	(91,061)	407,537
Dispensary License	14	10,270,000	(916,965)	9,353,035	10,270,000	(550,179)	9,719,821
<b>Total Amortized Intangible Assets</b>		<b>19,729,298</b>	<b>(2,281,250)</b>	<b>17,448,048</b>	<b>19,729,298</b>	<b>(1,422,200)</b>	<b>18,307,098</b>
Unamortized Intangible Assets:							
Trade Name	Indefinite	5,320,000	–	5,320,000	5,320,000	–	5,320,000
<b>Total Unamortized Intangible Assets</b>		<b>5,320,000</b>	<b>–</b>	<b>5,320,000</b>	<b>5,320,000</b>	<b>–</b>	<b>5,320,000</b>
<b>Total Intangible Assets</b>		<b>\$ 25,049,298</b>	<b>\$ (2,281,250)</b>	<b>\$ 22,768,048</b>	<b>\$ 25,049,298</b>	<b>\$ (1,422,200)</b>	<b>\$ 23,627,098</b>

Intangible assets with finite lives are amortized over their estimated useful lives. We recorded amortization expense of \$429,525 and \$516,878 for the three months ended June 30, 2017 and 2016, respectively, and \$859,050 and \$527,498 for the six months ended June 30, 2017 and 2016, respectively.



Table of Contents**NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

As of June 30, 2017 and December 31, 2016, accounts payable and accrued expenses consisted of the following:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Accounts Payable	\$ 1,742,666	\$ 1,986,907
Sales Tax Payable	360,176	122,470
Accrued Interest Payable	110,217	96,633
Accrued Expenses	1,313,439	211,390
<b>Total Accounts Payable and Accrued Expenses</b>	<b>\$ 3,526,498</b>	<b>\$ 2,417,400</b>

**NOTE 8 – NOTES PAYABLE**

As of June 30, 2017 and December 31, 2016, notes payable consisted of the following:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
Unsecured promissory demand notes issued to an accredited investor, which bear interest at a rate of 4% per annum. Holder may elect to convert into common stock at \$0.75 per share. The remaining balance of the note and accrued interest was converted into common stock in April 2017.	\$ –	\$ 64,324
Convertible promissory note dated December 14, 2015, issued to accredited investors, which matured December 13, 2016 and bears interest at a rate of 12% per annum. The holder of the note extended the maturity to December 13, 2017. The conversion price is \$0.1211, subject to adjustment.	500,000	500,000
Senior convertible promissory note dated October 28, 2016, issued to accredited investors, which matures April 28, 2018 and bears interest at a rate of 1% per annum. The conversion price is 90% of the average of the lowest three (3) VWAPs for the five (5) consecutive trading days prior to the conversion date. The remaining balance of the note and accrued interest was converted into common stock in January 2017.	–	102,582
	75,705	31,615

Senior convertible promissory note dated November 1, 2016, issued to accredited investors, which matures May 1, 2018 and bears interest at a rate of 12% per annum. The conversion price is \$0.35, subject to adjustment.

Senior convertible promissory note dated December 16, 2016, issued to accredited investors, which matures June 16, 2018 and bears interest at a rate of 12% per annum. The conversion price is \$0.27, subject to adjustment.	–	1,220,155
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Senior convertible promissory note dated June 23, 2017, issued to accredited investors, which matures December 23, 2018 and bears interest at a rate of 12% per annum. The conversion price is \$0.1362, subject to adjustment.	736,290	–
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<b>Total Debt</b>	<b>1,311,995</b>	<b>1,918,676</b>
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Less Short-Term Portion	575,705	564,324
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Long-Term Portion	\$ 736,290	\$ 1,354,352
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As of June 30, 2017 and December 31, 2016, total debt was \$1,311,995 and \$1,918,676, respectively, which included unamortized debt discount of \$2,338,005 and \$4,295,648, respectively. Senior secured promissory notes are secured by shares of common stock. There was accrued interest payable of \$110,217 and \$96,633 as of June 30, 2017 and December 31, 2016, respectively.

See “*Note 16 – Subsequent Events*” for additional disclosure regarding changes in notes payable subsequent to June 30, 2017.

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**NOTE 8 – NOTES PAYABLE** *(Continued)*

**Securities Purchase Agreement Dated June 23, 2017 and 12% Senior Convertible Promissory Note Due December 23, 2018**

On June 23, 2017, the Company entered into a Securities Purchase Agreement with an accredited investor pursuant to which the Company sold to the accredited investor a 12% Senior Convertible Promissory Note due December 23, 2018 (“Note A”) in the principal amount of \$3,000,000 for a purchase price of \$3,000,000 (“Offering A”). There were no fees or expenses deducted from the net proceeds received by the Company in Offering A. Note A and the shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”) issuable upon conversion of Note A are collectively referred to herein as the “Securities.”

All principal and interest due and owing under Note A is convertible into shares of Common Stock at any time at the election of the holder at a conversion price per share equal to the lower of (i) \$0.1362 or (ii) 85% of the lowest daily volume weighted average price of the Common Stock in the fifteen (15) trading days prior to the conversion date (“Conversion Price A”), which Conversion Price A is subject to adjustment for (i) stock splits, stock dividends, combinations, or similar events and (ii) full ratchet anti-dilution protection. Upon certain events of default, the conversion price of Note A will automatically become 70% of the average of the three (3) lowest volume weighted average prices of the Common Stock in the twenty (20) consecutive trading days prior to the conversion date for so long as such event of default remains in effect.

In addition, at any time that (i) the daily volume weighted average price of the Common Stock for the prior ten (10) consecutive trading days is \$0.70 or more and (ii) the average daily trading value of the Common Stock is greater than \$2,500,000 for the prior ten (10) consecutive trading days, then the Company may demand, upon one (1) day’s notice, that the holder convert Note A at Conversion Price A.

The Company may prepay in cash any portion of the outstanding principal amount of Note A and any accrued and unpaid interest by, upon ten (10) days’ written notice to the holder, paying an amount equal to (i) 110% of the sum of the then-outstanding principal amount of Note A plus accrued but unpaid interest, if the prepayment date is within 90 days of the issuance date of Note A; (ii) 115% of the sum of the then-outstanding principal amount of Note A plus accrued but unpaid interest, if the prepayment date is between 91 days and 180 days of the issuance date of Note A; or (iii) 125% of the sum of the then-outstanding principal amount of Note A plus accrued but unpaid interest, if the prepayment date is after 180 days of the issuance date of Note A.

**Securities Purchase Agreement Dated February 22, 2017 and 12% Senior Convertible Promissory Note Due August 22, 2018**

On February 22, 2017, the Company entered into a Securities Purchase Agreement with an accredited investor pursuant to which the Company sold to the accredited investor a 12% Senior Convertible Promissory Note due August 22, 2018 (“Note B”) in the principal amount of \$3,000,000 for a purchase price of \$3,000,000 (“Offering B”). There were no fees or expenses deducted from the net proceeds received by the Company in Offering B. Note B and the shares of the Common Stock issuable upon conversion of Note B are collectively referred to herein as the “Securities.”

All principal and interest due and owing under Note B is convertible into shares of Common Stock at any time at the election of the holder at a conversion price per share equal to the lower of (i) \$0.2495 or (ii) 85% of the lowest daily volume weighted average price of the Common Stock in the fifteen (15) trading days prior to the conversion date (“Conversion Price B”), which Conversion Price B is subject to adjustment for (i) stock splits, stock dividends, combinations, or similar events and (ii) full ratchet anti-dilution protection. Upon certain events of default, the conversion price of Note B will automatically become 70% of the average of the three (3) lowest volume weighted average prices of the Common Stock in the twenty (20) consecutive trading days prior to the conversion date for so long as such event of default remains in effect. All interest payments under the Note are payable, at the Company’s option, in cash or shares of Common Stock.



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**NOTE 8 – NOTES PAYABLE** (Continued)

In addition, at any time that (i) the daily volume weighted average price of the Common Stock for the prior ten (10) consecutive trading days is \$0.70 or more and (ii) the average daily trading value of the Common Stock is greater than \$2,500,000 for the prior ten (10) consecutive trading days, then the Company may demand, upon one (1) day's notice, that the holder convert Note B at Conversion Price B.

The Company may prepay in cash any portion of the outstanding principal amount of Note B and any accrued and unpaid interest by, upon ten (10) days' written notice to the holder, paying an amount equal to (i) 110% of the sum of the then-outstanding principal amount of Note B plus accrued but unpaid interest, if the prepayment date is within 90 days of the issuance date of Note B; (ii) 115% of the sum of the then-outstanding principal amount of Note B plus accrued but unpaid interest, if the prepayment date is between 91 days and 180 days of the issuance date of Note B; or (iii) 125% of the sum of the then-outstanding principal amount of Note B plus accrued but unpaid interest, if the prepayment date is after 180 days of the issuance date of Note B.

**NOTE 9 – CONTINGENT CONSIDERATION LIABILITY**

The Company accounts for "contingent consideration" according to FASB ASC 805, "*Business Combinations*". Contingent consideration typically represents the acquirer's obligation to transfer additional assets or equity interests to the former owners of the acquiree if specified future events occur or conditions are met. FASB ASC 805 requires that contingent consideration be recognized at the acquisition-date fair value as part of the consideration transferred in the transaction.

In the acquisition of Black Oak, the Company valued the contingent consideration based on an analysis using a cash flow model to determine the expected contingent consideration payment, which model determined that the aggregate expected contingent consideration liability was \$15,305,463 and the present value of the contingent consideration liability was \$12,754,553. Accordingly, the Company recognized at April 1, 2016, the closing date of the Black Oak merger, a \$12,754,553 contingent consideration liability associated with the contingent consideration paid pursuant to the Merger Agreement.

On April 1, 2017, the anniversary date of the acquisition and the settlement date of the contingent consideration, the final contingent consideration was approximately \$16.5 million. A summary of the changes in the contingent consideration as well as the detail is below:

**Amount****Contingent Consideration Summary**

Balance at December 31, 2016	\$	12,085,859
Change in Fair Market Valuation of Contingent Consideration		4,348,761
<b>Balance at March 31, 2017 and April 1, 2017</b>	<b>\$</b>	<b>16,434,620</b>
<b>Contingent Consideration Detail</b>		
Performance-Based Cash Contingent Consideration	\$	2,088,000
Market-Based Stock Contingent Consideration		14,346,620
	<b>\$</b>	<b>16,434,620</b>

Changes in the fair market valuation of the contingent consideration are recognized in the consolidated statements of operations. For the three and six months ended June 30, 2017, the loss on fair market valuation of contingent consideration was \$77,286, and \$4,426,047, respectively.

Table of Contents**NOTE 9 – CONTINGENT CONSIDERATION LIABILITY** *(Continued)*

During April 2017, in final settlement of the contingent consideration, the Company issued approximately \$4.7 million in shares of its common stock, or common stock equivalent of approximately 18.1 million shares of its common stock, and made a cash payment of approximately \$2.1 million. A summary is as follows:

<b>Contingent Consideration Balance at March 31, 2017</b>	<b>\$ 16,434,620</b>
Change in Fair Market Valuation of Contingent Consideration	77,286
Payment of Contingent Consideration in Cash	(2,088,000)
Settlement of Contingent Consideration	(4,739,638)
Settlement of Contingent Consideration Recorded Against Additional Paid-In Capital	(4,692,697)
Gain on Settlement of Contingent Consideration	(4,991,571)
<b>Contingent Consideration Balance at June 30, 2017</b>	<b>\$ –</b>

Pursuant to the terms of the contingent consideration as outlined in the Merger Agreement, the Company was required to release from escrow shares worth approximately \$14.4 million. Of those shares, 18.1 million shares, with a value of \$4,789,638, were issued in final settlement of the Market-Based Contingent Consideration, and approximately 34.2 million shares were additionally clawed-back. The Market-Based Clawback associated with common stock equivalent of approximately 35.1 million shares were clawed-back pursuant to the appreciation of the quoted price of the Company's stock underlying the market-based component of the contingent consideration. An additional common stock equivalent of approximately 34.2 million shares, with a value of \$9,684,268, were clawed-back pursuant to disputes between the sellers of Black Oak and the Company with respect to certain operational and performance goals that would have impacted the appreciation of the quoted price of the Company's common stock underlying the market-based component of the contingent consideration and, in effect, increasing the number of clawback shares. For the three and six months ended June 30, 2017, the Company recognized a gain on settlement of contingent consideration of \$4,991,571. The balance attributable to related parties was recorded in additional paid in capital.

See "Note 10 – Fair Value Measurements" for further information.

Table of Contents**NOTE 10 – FAIR VALUE MEASUREMENTS****Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following tables set forth the financial liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as of the dates indicated:

Description	Fair Value at			
	June 30, 2017	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Derivative Liabilities – Conversion Feature	\$ 3,163,000	\$ –	\$ –	\$ 3,163,000
	<b>\$ 3,163,000</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 3,163,000</b>

Description	Fair Value at			
	December 31, 2016	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Derivative Liabilities – Conversion Feature	\$ 6,987,000	\$ –	\$ –	\$ 6,987,000
Liability – Contingent Consideration	\$ 12,085,859	–	–	12,085,859
	<b>\$ 19,072,859</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 19,072,859</b>

No financial assets were measured on a recurring basis as of June 30, 2017 and December 31, 2016.

The following table presents a reconciliation of the derivative liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2017:

<b>Balance at December 31, 2016</b>	<b>\$ 6,987,000</b>
Change in Fair Market Value of Conversion Feature	(2,597,950)
Derivative Debt Converted into Equity	(5,672,050)
Issuance of Debt Instruments with Derivatives	4,446,000

<b>Balance at June 30, 2017</b>	<b>\$ 3,163,000</b>
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The following table presents a reconciliation of the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2017:

<b>Balance at December 31, 2016</b>	<b>\$ 12,085,859</b>
Change in Fair Market Valuation of Contingent Consideration	4,426,047
Payment of Contingent Consideration in Cash	(2,088,000)
Settlement of Contingent Consideration	(4,739,638)
Settlement of Contingent Consideration Recorded Against Additional Paid-In Capital	(4,692,697)
Gain on Settlement of Contingent Consideration	(4,991,571)
<b>Balance at June 30, 2017</b>	<b>\$ —</b>

#### Non-Financial Assets Measured at Fair Value on a Non-Recurring Basis

Non-financial assets, such as property, equipment and leasehold improvements, goodwill, and intangible assets, are required to be measured at fair value only when an impairment loss is recognized. The Company did not record an impairment charge related to these assets during the three and six months ended June 30, 2017 and 2016.

Table of Contents**NOTE 11 – INCOME TAXES**

For the three and six months ended June 30, 2017 and 2016, the Company had no income tax expense (benefit).

As of June 30, 2017 and December 31, 2016, the components of deferred income tax assets and deferred income tax liabilities consisted of the following:

	<b>June 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2016</b>
<b>Deferred Income Tax Assets:</b>		
Warrants Expense	\$ 4,832,000	\$ 4,186,000
Derivatives Expense	6,443,000	4,067,000
Net Operating Losses	19,105,000	15,242,000
<b>Deferred Income Tax Liabilities:</b>		
Depreciation	(1,818,000)	(1,334,000)
Total	28,562,000	22,161,000
Valuation Allowance	(28,562,000)	(22,161,000)
<b>Net Deferred Tax Liabilities</b>	<b>\$ –</b>	<b>\$ –</b>

For the three and six months ended June 30, 2017 and 2016, certain of the Company's subsidiaries produced and sold cannabis or cannabis pure concentrates, subjecting the Company to the limits of IRC Section 280E. Pursuant to IRC Section 280E, the Company is allowed only to deduct expenses directly related to sales of product.

Permanent differences include ordinary and necessary business expenses deemed by the Company as a non-allowable deduction under IRC Section 280E, and tax deductions related to equity compensation that are less than the compensation recognized for financial reporting.

As of June 30, 2017 and December 31, 2016, the Company had net operating loss carryforwards of \$42,623,000 and \$34,940,000, respectively, which, if unused, will expire beginning in the year 2034. These tax attributes are subject to an annual limitation from equity shifts, which constitute a change of ownership as defined under Internal Revenue Code ("IRC") Section 382, which will limit their utilization. The Company has yet to assess the effect of these

limitations, but expects these losses to be substantially limited. Accordingly, the Company has placed a reserve against any assets associated with these losses.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. All tax years from 2012 to 2015 are subject to examination.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative losses incurred through the period ended June 30, 2017. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth. On the basis of this evaluation, as of June 30, 2017, a valuation allowance has been recorded against all deferred tax assets as these assets are more likely than not to be unrealized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

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**NOTE 12 – EQUITY**

**Preferred Stock**

Series A Preferred Stock is convertible on a one-for-one basis into common stock and has all of the voting rights of the Company's common stock.

Each share of Series B Preferred Stock: (i) is entitled to 100 votes for each share of common stock into which a share of Series B Preferred Stock is convertible and (ii) is convertible, at the option of the holder, on a 1-for-5.384325537 basis, into shares of the Company's common stock.

See “*Note 16 – Subsequent Events*” for additional disclosure regarding changes to the Company's Series B Preferred Stock subsequent to June 30, 2017.

During the six months ended June 30, 2017, the Company issued 600,000 shares of Series B Preferred Stock for compensation in the amount of \$1,035,406.

During the six months ended June 30, 2017, the Company cancelled 4,279,841 shares of Series B Preferred Stock that had been previously issued and held in escrow in connection with the contingent consideration related to the Black Oak acquisition. See “*Note 9 – Contingent Consideration Liability*” for further information.

**Common Stock**

During the six months ended June 30, 2017, senior secured convertible promissory notes and accrued interest in the amount of \$8,839,084 were converted into 50,710,473 shares of common stock.

During the six months ended June 30, 2017, the Company issued 17,674,027 shares of common stock for cash in the amount of \$3,750,000 pursuant to an equity financing facility with an accredited investor.



During the six months ended June 30, 2017, the Company issued 1,215,909 shares of common stock for director fees in the amount of \$221,973, issued 2,859,005 shares of common stock for services performed in the amount of \$591,359 and issued 1,635,780 shares of common stock for compensation in the amount of \$320,732.

During the six months ended June 30, 2017, the Company cancelled 9,291,744 shares of common stock that had been previously issued and held in escrow in connection with the contingent consideration related to the Black Oak acquisition. See “*Note 9 – Contingent Consideration Liability*” for further information.

During the six months ended June 30, 2016, senior secured convertible promissory notes and accrued interest in the amount of \$961,740 were converted into 13,906,149 shares of common stock.

During the six months ended June 30, 2016, the Company sold 25,715,674 shares of common stock for the net amount of \$3,208,134 pursuant to an equity financing facility with an accredited investor.

Table of Contents**NOTE 12 – EQUITY** (Continued)**Stock-Based Compensation Expense**

A summary of stock-based compensation for the three months ended June 30, 2017 and 2016 is as follows:

Type of Award	For the Three Months Ended			
	June 30, 2017		June 30, 2016	
	Number of Shares or Options Granted	Stock-Based Compensation Expense	Number of Shares or Options Granted	Stock-Based Compensation Expense
Stock Options	8,250,000	\$ 157,430	–	\$ 47,589
Stock Grants:				
Employees (Common Stock)	1,535,780	294,632	–	–
Employees (Series B Preferred Stock)	–	–	–	–
Directors (Common Stock)	1,090,909	184,473	–	–
Non-Employee Consultants (Common Stock)	2,391,358	446,348	–	–
<b>Total Stock-Based Compensation</b>	<b>13,268,047</b>	<b>\$ 1,082,883</b>	<b>–</b>	<b>\$ 47,589</b>

A summary of stock-based compensation for the six months ended June 30, 2017 and 2016 is as follows:

Type of Award	For the Six Months Ended			
	June 30, 2017		June 30, 2016	
	Number of Shares or Options Granted	Stock-Based Compensation Expense	Number of Shares or Options Granted	Stock-Based Compensation Expense
Stock Options	8,250,000	\$ 205,019	6,700,000	\$ 95,178
Stock Grants:				
Employees (Common Stock)	1,635,780	320,732	–	–
Employees (Series B Preferred Stock)	600,000	1,035,406	–	–

Directors (Common Stock)	1,215,909	221,973	350,000	60,550
Non-Employee Consultants (Common Stock)	2,859,005	591,359	70,000	20,727
<b>Total Stock-Based Compensation</b>	<b>14,560,694</b>	<b>\$ 2,374,489</b>	<b>7,120,000</b>	<b>\$ 176,455</b>

**NOTE 13 – COMMITMENTS****Operating Lease Commitments**

The Company leases certain business facilities under operating lease agreements that specify minimum rentals. Many of these have renewal provisions. The Company's net rent expense for the three months ended June 30, 2017 and 2016 was \$312,254 and \$298,092, respectively, and for the six months ended June 30, 2017 and 2016 was \$627,067 and \$431,959, respectively.

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**NOTE 13 – COMMITMENTS** (Continued)

**Production Operating Agreement**

On May 23, 2017, the Company entered into a one-year operating agreement with Panther Gap Farms pursuant to which Panther Gap Farms will grow up to approximately one metric ton of the Company's IVXX cannabis annually. The operating agreement is renewable for up to three additional terms of one year each. The agreement also requires the Company to issue common stock, with a value of \$1,150,000, upon execution of the agreement, which the Company had not issued as of June 30, 2017. In addition to the common stock, the Company is required to issue common stock for the profit share of the cannabis ultimately sold by the Company upon execution of the agreement. The shares to be received by Panther Gap Farms under the profit share agreement are dependent on the ultimate profit recognized by the Company when the cannabis product is sold. As of June 30, 2017, the Company has not issued the required shares.

The Company and Panther Gap Farms also entered into a lease agreement pursuant to which the Company leases the property on which the cannabis is grown. The lease agreement requires monthly payments of \$30,000 for eight months and is also renewable for up to three additional terms of one year each.

**NOTE 14 – SEGMENT INFORMATION**

The Company's operating and reportable segments are currently organized around the following products that it offers as part of its core business strategy:

- **Herbs and Produce Products** – Includes herbs and leafy greens that are grown using classic Dutch hydroponic farming methods.

These two reportable segments, which are described in greater detail below, had previously been reported on a combined basis as they had been operated and evaluated as one operating segment. The Company experienced significant growth over the last few years in most of our product areas. As the Company has grown organically, and as the Company previously added to its capabilities through acquisitions, its products have increased in scale and become more strategically important and distinctly organized and managed under these two groupings. In addition, Derek Peterson, the Company's Chief Operating Decision Maker ("CODM"), reviews results, manages and allocates resources

between these two strategic business groupings, and budgets using these business segments. The Company's CODM reviews revenues including intersegment revenues, gross profit and operating income (loss) before income taxes when evaluating segment performance and allocating resources to each segment. Accordingly, intersegment revenue is included in the segment revenues presented in the tables below and is eliminated from revenues and cost of goods sold in the "Eliminations and Other" column. The "Eliminations and Other" column also includes various income and expense items that the Company does not allocate to its operating segments. These income and expense amounts include the results of the Company's hydroponic equipment, which are not material, interest income, interest expense, corporate overhead, and corporate-wide expense items such as legal and professional fees as well as expense items for which we have not identified a reasonable basis for allocation. The accounting policies of the reportable segments are the same as those described in "Note 2 - Summary of Significant Accounting Policies" of the Notes to Unaudited Consolidated Financial Statements.

### **Herbs and Produce Products**

Either independently or in conjunction with third parties, we are a retail seller of locally grown hydroponic herbs, produce, and floral products, which are distributed through major grocery stores throughout the East and Midwest regions of the U.S.

Table of Contents**NOTE 14 – SEGMENT INFORMATION** (Continued)**Cannabis Dispensary, Cultivation and Production**

Either independently or in conjunction with third parties, we operate medical marijuana retail dispensaries, medical marijuana cultivation and production facilities in California and Nevada. We own real property in Nevada on which we plan to build a medical marijuana dispensary. All of our retail dispensaries in California and Nevada offer a broad selection of medical cannabis products including flowers, concentrates and edibles. We also produce and sell a line of medical cannabis flowers, as well as a line of medical cannabis-extracted products, which include concentrates, cartridges, vape pens and wax products.

Summarized financial information concerning the Company's reportable segments is shown in the following tables. Total assets at June 30, 2017 and 2016 exclude intercompany receivable balances eliminated in consolidation.

	<b>For the Three Months Ended June 30, 2017</b>			
	<b>Herbs and Produce Products</b>	<b>Cannabis Dispensary, Cultivation and Production</b>	<b>Eliminations and Other</b>	<b>Total</b>
Total Revenues	\$ 1,777,067	\$ 6,049,319	\$ 16,487	\$ 7,842,873
Cost of Goods Sold	1,325,729	5,010,771	–	6,336,500
Gross Profit	451,338	1,038,548	16,487	1,506,373
Selling, General and Administrative Expenses	855,999	2,210,475	2,962,813	6,029,287
Loss from Operations	(404,661)	(1,171,927)	(2,946,326)	(4,522,914)
Other Income (Expense):				
Amortization of Debt Discount	–	–	(515,654)	(515,654)
Loss on Extinguishment of Debt	–	–	(1,639,137)	(1,639,137)
Gain on Fair Market Valuation of Derivatives	–	–	987,200	987,200
Interest Expense	–	–	(130,510)	(130,510)
Loss on Fair Market Valuation of Contingent Consideration	–	(77,286)	–	(77,286)
	–	4,991,571	–	4,991,571

## Gain on Settlement of Contingent Consideration

Total Other Income (Expense)		–	4,914,285	(1,298,101)	3,616,184
Loss Before Provision for Income Taxes	\$	(404,661)	\$ 3,742,358	\$ (4,244,427)	\$ (906,730)
Total Assets at June 30, 2017	\$	7,104,469	\$ 60,224,138	\$ 9,550,062	\$ 76,878,669

## For the Three Months Ended June 30, 2016

		Herbs and Produce Products	Cannabis Dispensary, Cultivation and Production	Eliminations and Other	Total
Total Revenues	\$	5,873,418	\$ 3,768,977	\$ 57,514	\$ 9,699,909
Cost of Goods Sold		5,517,052	2,596,035	39,848	8,152,935
Gross Profit		356,366	1,172,942	17,666	1,546,974
Selling, General and Administrative Expenses		756,405	1,649,452	2,958,494	5,364,351
Loss from Operations		(400,039)	(476,510)	(2,940,828)	(3,817,377)
Other Income (Expense):					
Amortization of Debt Discount		–	–	(218,126)	(218,126)
Loss from Derivatives Issued with Debt Greater than Debt Carrying Value		–	–	(488,000)	(488,000)
Loss on Fair Market Valuation of Derivatives		–	–	(206,000)	(206,000)
Interest Income (Expense)		–	250	(60,815)	(60,565)
Total Other Income (Expense)		–	250	(972,941)	(972,691)
Loss Before Provision for Income Taxes	\$	(400,039)	\$ (476,260)	\$ (3,913,769)	\$ (4,790,068)
Total Assets at June 30, 2016	\$	6,834,863	\$ 57,142,755	\$ 2,784,814	\$ 66,762,432

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## NOTE 14 – SEGMENT INFORMATION (Continued)

	<b>For the Six Months Ended June 30, 2017</b>			
	<b>Herbs and Produce Products</b>	<b>Cannabis Dispensary, Cultivation and Production</b>	<b>Eliminations and Other</b>	<b>Total</b>
Total Revenues	\$ 2,694,210	\$ 11,936,357	\$ 36,762	\$ 14,667,329
Cost of Goods Sold	2,295,544	10,506,349	–	12,801,893
Gross Profit	398,666	1,430,008	36,762	1,865,436
Selling, General and Administrative Expenses	1,515,062	4,837,480	6,063,045	12,415,587
Loss from Operations	(1,116,396)	(3,407,472)	(6,026,283)	(10,550,151)
Other Income (Expense):				
Amortization of Debt Discount	–	–	(1,126,270)	(1,126,270)
Loss on Extinguishment of Debt	–	–	(2,678,595)	(2,678,595)
Gain on Fair Market Valuation of Derivatives	–	–	2,597,950	2,597,950
Interest Expense	–	–	(288,343)	(288,343)
Loss on Fair Market Valuation of Contingent Consideration	–	(4,426,047)	–	(4,426,047)
Gain on Settlement of Contingent Consideration	–	4,991,571	–	4,991,571
Total Other Income (Expense)	–	565,524	(1,495,258)	(929,734)
Loss Before Provision for Income Taxes	\$ (1,116,396)	\$ (2,841,948)	\$ (7,521,541)	\$ (11,479,885)
Total Assets at June 30, 2017	\$ 7,104,469	\$ 60,224,138	\$ 9,550,062	\$ 76,878,669

	<b>For the Six Months Ended June 30, 2016</b>			
	<b>Herbs and Produce Products</b>	<b>Cannabis Dispensary, Cultivation and Production</b>	<b>Eliminations and Other</b>	<b>Total</b>
Total Revenues	\$ 7,274,861	\$ 3,899,180	\$ 74,035	\$ 11,248,076
Cost of Goods Sold	6,837,431	2,809,296	39,848	9,686,575



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Gross Profit	437,430	1,089,884	34,187	1,561,501
Selling, General and Administrative Expenses	1,155,610	1,851,588	4,284,054	7,291,252
Loss from Operations	(718,180)	(761,704)	(4,249,867)	(5,729,751)
Other Income (Expense):				
Amortization of Debt Discount	–	–	(312,532)	(312,532)
Loss on Extinguishment of Debt	–	–	(920,797)	(920,797)
Loss from Derivatives Issued with Debt Greater than Debt Carrying Value	–	–	(488,000)	(488,000)
Loss on Fair Market Valuation of Derivatives	–	–	(1,366,700)	(1,366,700)
Interest Income (Expense)	–	250	(116,810)	(116,560)
Total Other Income (Expense)	–	250	(3,204,839)	(3,204,589)
Loss Before Provision for Income Taxes	\$ (718,180)	\$ (761,454)	\$ (7,454,706)	\$ (8,934,340)
Total Assets at June 30, 2016	\$ 6,834,863	\$ 57,142,755	\$ 2,784,814	\$ 66,762,432

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**NOTE 15 – LITIGATION AND CLAIMS**

The Company is the subject of lawsuits and claims arising in the ordinary course of business from time to time. The Company reviews any such legal proceedings and claims on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. The Company establishes accruals for those contingencies where the incurrence of a loss is probable and can be reasonably estimated, and it discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for the Company's financial statements to not be misleading. To estimate whether a loss contingency should be accrued by a charge to income, the Company evaluates, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of the loss. The Company does not record liabilities when the likelihood that the liability has been incurred is probable, but the amount cannot be reasonably estimated. Based upon present information, the Company determined that there were no matters that required an accrual as of June 30, 2017, nor were there any asserted or unasserted material claims for which material losses are reasonably possible.

**NOTE 16 – SUBSEQUENT EVENTS**

**Certificate of Amendment to the Certificate of Designation of the Company's Series B Preferred Stock**

On July 26, 2017, the Company filed a Certificate of Amendment to the Certificate of Designation of the Company's Series B Preferred Stock (the "Amendment") with the Secretary of State of the State of Nevada to provide for an adjustment of the Conversion Rate of the Company's Series B Preferred Stock in the event of a reverse stock split or combination in the same ratio as the Company's common stock. A copy of the Amendment was filed as Exhibit 3.14 to the Company's Current Report on Form 8-K dated July 26, 2017.

**Put on Equity Financing Facility**

Subsequent to June 30, 2017, the Company sold 5,519,660 shares of common stock for the net amount of \$1,250,000 pursuant to an equity financing facility with an accredited investor.

**Debt and Interest Converted into Equity**

Subsequent to June 30, 2017, senior convertible promissory notes and accrued interest in the amount of \$2,092,492 were converted into 15,738,463 shares of common stock.

### **Employee Stock-Based Compensation**

Subsequent to June 30, 2017, the Company issued 117,648 shares of common stock for employee stock-based compensation.

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**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**FORWARD-LOOKING STATEMENTS**

*In addition to historical information, this Quarterly Report on Form 10-Q may contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which provides a “safe harbor” for forward-looking statements made by us. All statements, other than statements of historical facts, including statements concerning our plans, objectives, goals, beliefs, business strategies, future events, business conditions, results of operations, financial position, business outlook, business trends, and other information, may be forward-looking statements. Words such as “might,” “will,” “may,” “should,” “estimates,” “expects,” “continues,” “contemplates,” “anticipates,” “projects,” “plans,” “potential,” “predicts,” “intends,” “believes,” “forecasts,” “future,” and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, and are based upon our current expectations, beliefs, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs, estimates, and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management’s expectations, beliefs, estimates, and projections will occur or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.*

*There are a number of risks, uncertainties, and other important factors, many of which are beyond our control, that could cause actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. Such risks, uncertainties, and other important factors that could cause actual results to differ include, among others, the risk, uncertainties and factors set forth under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission (the “SEC”), and in this report, as such risk factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov).*

*We caution you that the risks, uncertainties, and other factors set forth in our periodic filings with the SEC may not contain all of the risks, uncertainties, and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits, or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. There can be no assurance that: (i) we have correctly measured or identified all of the factors affecting our business or the extent of these factors’ likely impact, (ii) the available information with respect to these factors on which such analysis is based is complete or accurate, (iii) such analysis is correct, or (iv) our strategy, which is based in part on this analysis, will be successful. All forward-looking statements in this report apply only as of the date of the report or as of the date they were made and, except as required by applicable law, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments, or otherwise.*

## COMPANY OVERVIEW

Terra Tech is a holding company with the following subsidiaries:

- Edible Garden Corp., a Nevada corporation (“Edible Garden”);
- MediFarm, LLC, a Nevada limited liability company (“MediFarm”);
- MediFarm I, LLC, a Nevada limited liability company (“MediFarm I”);
- MediFarm I Real Estate, LLC, a Nevada limited liability company (“MediFarm I RE”);
- MediFarm II, LLC, a Nevada limited liability company (“MediFarm II”);
- IVXX, LLC, a Nevada limited liability company (“IVXX LLC”);
- IVXX, Inc., a California corporation (“IVXX Inc.”; together with IVXX LLC, “IVXX”);
- Blüm San Leandro, a California corporation (“Blüm San Leandro”);
- Black Oak Gallery, a California corporation (“Black Oak”);
- GrowOp Technology Ltd., a Nevada corporation (“GrowOp Technology”); and
- EG Transportation, LLC, a Nevada limited liability company (“EG Transportation”).

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Our corporate headquarters is located at 2040 Main Street, Suite 225, Irvine, California 92614 and our telephone number is (855) 447-6967. Our website addresses are as follows: [www.terratechcorp.com](http://www.terratechcorp.com), [www.blumoak.com](http://www.blumoak.com), [www.letsblum.com](http://www.letsblum.com), [www.ivxx.com](http://www.ivxx.com), and [www.ediblegarden.com](http://www.ediblegarden.com). No information available on or through our websites shall be deemed to be incorporated into this Quarterly Report on Form 10-Q. Our common stock, par value \$0.001 (the “Common Stock”), is quoted on the OTC Markets Group, Inc.’s OTCQX tier under the symbol “TRTC.”

**History and Background**

Our original business was developing a software program that would allow for automatic call processing through voice-over-Internet protocol, or “VoIP”, technology. Our operations were limited to capital formation, organization, and development of our business plan and target customer market. We generated no revenue.

On February 9, 2012, we completed a reverse-triangular merger with GrowOp Technology whereby we acquired all of the issued and outstanding shares of GrowOp Technology. As a result of the merger, GrowOp Technology became our wholly-owned subsidiary. Following the merger, we ceased our prior operations and are now solely a holding company with seven wholly-owned subsidiaries. We also own interests in four other subsidiaries.

**Our Business**

We are a vertically integrated cannabis-focused agriculture company that is committed to cultivating and providing the highest quality medical cannabis, as well as other agricultural products, such as herbs and leafy greens that are grown using classic Dutch hydroponic farming methods.

Through Black Oak, we operate a medical marijuana retail dispensary, a medical marijuana cultivation, and have a second medical marijuana cultivation facility under construction (the “Hegenberger facility”), all in Oakland, California. Through MediFarm, MediFarm I, and MediFarm II (together “MediFarm”), we operate four retail medical marijuana dispensary facilities in Nevada, and have in various stages of construction medical marijuana cultivation and production facilities in Nevada. Through MediFarm I RE, we own the real property in Nevada on which we plan to build a medical marijuana dispensary of which we are in the planning phase. All of our retail dispensaries in California and Nevada operate under the name Blüm, which offer a broad selection of medical cannabis products including flowers, concentrates and edibles. Through IVXX, we produce and sell a line of medical cannabis flowers, as well as a line of medical cannabis-extracted products, which include concentrates, cartridges, vape pens and wax products. Through Edible Garden, we are a retail seller of locally grown hydroponic produce, herbs and floral products, which are distributed through major grocery stores such as ShopRite, Walmart, Winn-Dixie, Raley’s, Meijer, Kroger, and others throughout New Jersey, New York, Delaware, Maryland, Connecticut, Pennsylvania and the

Midwest. EG Transportation is a company in good standing and no operations to date.

We have a “rollup” growth strategy, which includes the following components:

- With our brand recognition and experienced management team, maximize productivity, provide economies of scale, and increase profitability through our public market vehicle;

### **Marijuana Industry Overview**

Marijuana cultivation refers to the planting, tending, improving and harvesting of the flowering plant Cannabis, primarily for the production and consumption of cannabis flowers, often referred to as “buds”. The cultivation techniques for marijuana cultivation differ than for other purposes such as hemp production and generally references to marijuana cultivation and production do not include hemp.

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Cannabis belongs to the genus Cannabis in the family Cannabaceae and for the purposes of production and consumption, includes three species, C. sativa (“Sativa”), C. indica (“Indica”), and C. ruderalis (“Ruderalis”). Sativa and Indica generally grow tall with some varieties reaching approximately four meters. The females produce flowers rich in tetrahydrocannabinol (“THC”). Ruderalis is a short plant and produces trace amounts of THC, but is very rich in cannabidiol (“CBD”) and which is an antagonist (inhibits the physiological action) to THC.

As of May 2017, there are a total of 29 states, plus the District of Columbia, with legislation passed as it relates to medicinal cannabis. These state laws are in direct conflict with the United States Federal Controlled Substances Act (21 U.S.C. § 811) (“CSA”), which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug, which is viewed as having a high potential for abuse, has no currently-accepted use for medical treatment in the U.S., and lacks acceptable safety for use under medical supervision.

These 29 states, and the District of Columbia, have adopted laws that exempt patients who use medicinal cannabis under a physician’s supervision from state criminal penalties. These are collectively referred to as the states that have de-criminalized medicinal cannabis, although there is a subtle difference between de-criminalization and legalization, and each state’s laws are different.

The states that have legalized medicinal cannabis are as follows (in alphabetical order):

1. Alaska	11. Maine	21. New York
2. Arizona	12. Maryland	22. North Dakota
3. Arkansas	13. Massachusetts	23. Ohio
4. California	14. Michigan	24. Oregon
5. Colorado	15. Minnesota	25. Pennsylvania
6. Connecticut	16. Montana	26. Rhode Island
7. Delaware	17. Nevada	27. Vermont
8. Florida	18. New Hampshire	28. Washington
9. Hawaii	19. New Jersey	29. West Virginia
10. Illinois	20. New Mexico	

Medical cannabis decriminalization is generally referred to as the removal of all criminal penalties for the private possession and use of cannabis by adults, including cultivation for personal use and casual, nonprofit transfers of small amounts. Legalization is generally referred to as the development of a legally controlled market for cannabis, where consumers purchase from a safe, legal, and regulated source.



The dichotomy between federal and state laws has also limited the access to banking and other financial services by marijuana businesses. Recently the U.S. Department of Justice and the U.S. Department of Treasury issued guidance for banks considering conducting business with marijuana dispensaries in states where those businesses are legal, pursuant to which banks must now file a Marijuana Limited Suspicious Activity Report that states the marijuana business is following the government's guidelines with regard to revenue that is generated exclusively from legal sales. However, since the same guidance noted that banks could still face prosecution if they provide financial services to marijuana businesses, it has led to the widespread refusal of the banking industry to offer banking services to marijuana businesses operating within state and local laws.

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In November 2016, California and Nevada voters both approved marijuana use for adults over the age of 21 without a physician's prescription or recommendation, so called recreational marijuana, and permitted the cultivation and sale of marijuana, in each case subject to certain limitations. We have obtained the necessary permits and licenses to expand our existing business to cultivate and distribute marijuana in compliance with the laws in the state of Nevada and California. We have received provisional permits to operate a dispensary and production facility in the city of San Leandro, California, and upon project completion and inspection, to receive final operating permits. Although, there is no guarantee that we will be successful in doing so. Despite the changes in state laws, marijuana remains illegal under federal law.

In November 2016, California voters approved Proposition 64, which is also known as the Adult Use of Marijuana Act ("the AUMA"), in a ballot initiative. Among other things, the AUMA makes it legal for adults over the age of 21 to use marijuana and to possess up to 28.5 grams of marijuana flowers and 8 grams of marijuana concentrates. Individuals are also permitted to grow up to six marijuana plants for personal use. In addition, the AUMA establishes a licensing system for businesses to, among other things, cultivate, process and distribute marijuana products under certain conditions. Many of the provisions of the AUMA do not become effective until January 1, 2018 and the California Bureau of Marijuana Control is expected to enact regulations to implement the AUMA by that date.

Nevada voters approved Question 2 in a ballot initiative in November 2016. Among other things, Question 2 makes it legal for adults over the age of 21 to use marijuana and to possess up to one ounce of marijuana flowers and one-eighth of an ounce of marijuana concentrates. Individuals are also permitted to grow up to six marijuana plants for personal use. In addition, Question 2 authorizes businesses to cultivate, process and distribute marijuana products under certain conditions. On June 30, 2017, the State of Nevada Department of Taxation approved our Dual Use Marijuana business licenses. This approval allowed all four of our Blüm cannabis dispensaries in Nevada to commence sales of cannabis for adult-use beginning on July 1, 2017.

In an effort to provide guidance to federal law enforcement, the Department of Justice (the "DOJ") has issued Guidance Regarding Marijuana Enforcement to all United States Attorneys in a memorandum from Deputy Attorney General David Ogden on October 19, 2009, in a memorandum from Deputy Attorney General James Cole on June 29, 2011 and in a memorandum from Deputy Attorney General James Cole on August 29, 2013. Each memorandum provides that the DOJ is committed to the enforcement of the CSA, but the DOJ is also committed to using its limited investigative and prosecutorial resources to address the most significant threats in the most effective, consistent, and rational way.

The August 29, 2013 memorandum provides updated guidance to federal prosecutors concerning marijuana enforcement in light of state laws legalizing medical and recreational marijuana possession in small amounts. The memorandum sets forth certain enforcement priorities that are important to the federal government:

- Distribution of marijuana to children;
- Revenue from the sale of marijuana going to criminals;
- Diversion of medical marijuana from states where it is legal to states where it is not;
- Using state authorized marijuana activity as a pretext of other illegal drug activity;
- Preventing violence in the cultivation and distribution of marijuana;
- Preventing drugged driving;
- Growing marijuana on federal property; and
- Preventing possession or use of marijuana on federal property.

The DOJ has not historically devoted resources to prosecuting individuals whose conduct is limited to possession of small amounts of marijuana for use on private property, but has relied on state and local law enforcement to address marijuana activity. In the event the DOJ reverses its stated policy and begins strict enforcement of the CSA in states that have laws legalizing medical marijuana and recreational marijuana in small amounts, there may be a direct and adverse impact to our business and our revenue and profits.

Furthermore, H.R. 83, enacted by Congress on December 16, 2014, provides that none of the funds made available to the DOJ pursuant to the 2015 Consolidated and Further Continuing Appropriations Act may be used to prevent certain states, including Nevada and California, from implementing their own laws that authorized the use, distribution, possession, or cultivation of medical marijuana.

We are monitoring the Trump administration's, the DOJ's and Congress' positions on federal marijuana law and policy. Based on public statements and reports, we understand that certain aspects of those laws and policies are currently under review, but no official changes have been announced. It is possible that certain changes to existing laws or policies could have a negative effect on our business and results of operations.

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We currently operate medical marijuana businesses in California and Nevada. Although the possession, cultivation and distribution of marijuana for medical use is permitted in California and Nevada, provided compliance with applicable state and local laws, rules, and regulations, marijuana is illegal under federal law. We believe we operate our business in compliance with applicable Nevada and California law and regulations. Any changes in federal, state or local law enforcement regarding marijuana may affect our ability to operate our business. Strict enforcement of federal law regarding marijuana would likely result in the inability to proceed with our business plans, could expose us to potential criminal liability and could subject our properties to civil forfeiture. Any changes in banking, insurance or other business services may also affect our ability to operate our business.

**Our Medical Marijuana Dispensaries, Cultivation and Manufacturing**

***Black Oak Gallery***

On April 1, 2016, we acquired Black Oak, which operates a medical marijuana dispensary in Oakland, California under the name Blüm. Black Oak opened its retail storefront in Oakland, California in November 2012.

Black Oak sells a combination of our own cultivated products as well as high quality name-brand products from outside suppliers. In addition to multiple grades of medical marijuana, Black Oak sells “edibles”, which include cannabis-infused baked goods, chocolates, and candies; cannabis-infused topical products, such as lotions, massage oils and balms; clones of marijuana plants; and numerous kinds of cannabis concentrates, such as hash, shatter and wax.

Black Oak’s target markets are those individuals located in the areas surrounding its dispensary and qualify as “patients” under state and local rules and regulations. Black Oak services approximately 1,000 patients per day and has over 42,000 registered patients. Collectively known as the Blüm Campus, Black Oak’s location consists of a retail dispensary storefront, indoor cultivation area, laboratory and a 20-car capacity parking lot.

During March 2017, we executed a lease for 13,000 square feet of industrial space on over 30,000 square feet of land in Oakland’s industrial corridor. We are in the early stages of construction of the Hegenberger facility. We expect to complete construction by late 2017.

On May 11, 2017, we terminated the Operations and Asset Management Agreement (the “Agreement”) by and among the Company, Black Oak and Platinum Standard, LLC (“Platinum”), dated March 31, 2016. There is no relationship

between the Company or its affiliates and Platinum, other than pursuant to the Agreement. Pursuant to the Agreement, the Company hired and appointed Platinum as the operator and asset manager of the Company's licensed medical cannabis dispensary business located at 578 West Grand Avenue, in the City of Oakland, State of California, commonly known as Blüm Oakland, in exchange for certain payments to be made by the Company to Platinum, all as more fully set forth in the Agreement. We terminated the Agreement as a result of the default by Platinum in the performance of certain of its material obligations under the Agreement. We did not incur any early termination penalty in connection with terminating the Agreement. A copy of the Agreement was filed as Exhibit 10.29 to the Company's Form 10-Q for the quarterly period ended March 31, 2016. See "*Note 9 – Contingent Consideration Liability*" for further information.

### ***Blüm San Leandro***

We incorporated Blüm San Leandro, a California corporation, a wholly-owned subsidiary, on October 14, 2016. Blüm San Leandro has received the necessary governmental approvals and permitting to operate a medical marijuana dispensary and production facility in San Leandro, California. We have executed a lease for 13,300 square feet of industrial space in San Leandro's industrial corridor and are in the final planning and design stages of the retail dispensary and production facility. We also plan on incorporating community meeting space at this facility. We expect to complete construction of the dispensary by late 2017 and we expect to complete construction of the production facility and community meeting space by early 2018.

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***MediFarm, MediFarm I, and MediFarm II***

We formed three subsidiaries for the purposes of cultivation or production of medical marijuana and/or operation of dispensary facilities in various locations in Nevada. MediFarm, MediFarm I, and MediFarm II have received four final dispensary licenses, two provisional cultivation licenses and two provisional production licenses from the State of Nevada, and we have received approval from local authorities with respect to all eight of such licenses. The receipt of both the provisional licenses from the State of Nevada and approval from local authorities were necessary to commence the final permitting process for the cultivation and production licenses. The receipt of final permits and licenses was necessary to commence the cultivation and production businesses of MediFarm, MediFarm I, and MediFarm II. Effectuation of the businesses of each of (i) MediFarm, (ii) MediFarm I, and (iii) MediFarm II is also dependent upon the continued legislative authorization of medical marijuana at the state level.

Each subsidiary was formed with different investors, thus necessitating the need for multiple entities with different strategic partners and advisory board members. In addition, we anticipate each subsidiary will service a different geographical market in Nevada. We expect to allocate future business opportunities among MediFarm, MediFarm I, and MediFarm II based on the locations of such opportunities.

We formed MediFarm, LLC on March 19, 2014. We own 60% of the membership interests in MediFarm. The remaining membership interests are owned by Camden Goorjian (20%) and by Richard Vonfeldt (20%), two otherwise unaffiliated individuals. MediFarm has received the necessary governmental approvals and permitting to operate medical marijuana cultivation, production, and/or dispensary facilities in Clark County, Nevada and a medical marijuana dispensary facility in the City of Las Vegas. As of June 30, 2017, MediFarm has three fully operational retail medical marijuana dispensaries in the greater Las Vegas region.

We formed MediFarm I, LLC on July 18, 2014. We own 50% of the membership interests in MediFarm I. The remaining membership interests are owned by Forever Green NV, LLC (50%), an otherwise unaffiliated entity that also owns certain membership interests in MediFarm II. MediFarm I has the necessary governmental approvals and permitting to operate a medical marijuana dispensary in Reno, Nevada. As of June 30, 2017, MediFarm I has one fully operational retail medical marijuana dispensary in Reno, Nevada.

We formed MediFarm II, LLC on July 30, 2014. We own 55% of the membership interests in MediFarm II. The remaining membership interests are owned by Nevada MF, LLC (30%) and by Forever Green NV, LLC (15%), two otherwise unaffiliated entities. Forever Green NV, LLC also owns certain membership interests in MediFarm I. MediFarm II has received provisional licenses from the State of Nevada to operate a medical marijuana cultivation and production facility in Spanish Springs, Nevada.

MediFarm, MediFarm I, and MediFarm II may face substantial competition in the operation of cultivation, production, and dispensary facilities in Nevada. Numerous other companies were also granted licenses, and, therefore, we anticipate that we will face competition with these other companies if such companies operate cultivation, production, and dispensary facilities in and around the locations at which we operate our facilities. Our management has extensive experience in successfully developing, implementing, and operating all facets of equivalent businesses in other markets. We believe this experience will provide MediFarm, MediFarm I, and MediFarm II with a competitive advantage over these other companies.

MediFarm, MediFarm I, and MediFarm II rely on a combination of trademark laws, trade secrets, confidentiality provisions, and other contractual provisions to protect their proprietary rights. MediFarm, MediFarm I, and MediFarm II do not own any patents.

### ***IVXX and IVXX Branded Products***

On September 16, 2014, Terra Tech formed IVXX, a wholly-owned subsidiary, for the purposes of producing a line of IVXX branded cannabis flowers as well as a complete line of IVXX branded pure cannabis concentrates including: oils, waxes, shatters, and clears.

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The science of cannabis concentrate extraction functions on the solubility of the cannabinoids and other active ingredients in the cannabis plant. Cannabinoids are not water soluble, so to extract them properly, the cannabinoids must be dissolved in a solvent. IVXX utilizes multiple proprietary extraction methods to produce its concentrates in its lab located in Oakland, California. The Company's extractors process raw cannabis plants and separate the chemical cannabinoids from the cannabis plant material, producing a concentrate. IVXX also sells clothing, apparel, and other various branded products.

IVXX currently sells its branded products at wholesale to multiple medical cannabis dispensaries throughout California. None of IVXX's products cross state lines. IVXX continues to actively seek opportunities to sell its products to other retailers located throughout the State of California. IVXX anticipates expanding its business into other states in which the sale of marijuana is legally permitted. In order for such expansion to occur, IVXX must secure the necessary licenses and permits required to operate in any given state, the timing and occurrence of which there can be no assurance. Initially, IVXX anticipates selling its products in Nevada in the four dispensaries operated by MediFarm and MediFarm I. They will be produced at our extraction lab operated by MediFarm II once they are issued final permits and commence operations, as to the occurrence of which there can be no assurance.

IVXX's target markets are those individuals located in the areas surrounding the dispensaries that sell IVXX's products and that qualify as "patients" under state and local rules and regulations.

IVXX also intends to produce, market and sell their line of IVXX branded cannabis products in the adult use, recreational cannabis markets in both California and Nevada pursuant to Proposition 64 and Question 2, respectively, which made marijuana consumption legal, with certain restrictions and rules, for adults over the age of 21. IVXX is consistently engaged in research and development with respect to increasing the efficiency of the processes used to produce its products, as well as improving the quality of its products for the benefit of its patients.

On May 24, 2017, we announced the launch of a new "Craft Cultivation" model to expand our cultivation capabilities and the signing of our first "Craft Cultivator" in Northern California. This farm, which is approved for up to one full acre (approximately 44,000 square feet) of cannabis cultivation and uses 22,000 square feet of engineered greenhouse space, is estimated to yield approximately one metric ton of our proprietary high grade "IVXX" cannabis on an annual basis.

***MediFarm I RE***

On October 14, 2015, we formed MediFarm I RE, LLC. We own 50% of the membership interests in MediFarm I RE. The remaining membership interests are owned by Forever Young Investments, LLC (50%), an otherwise unaffiliated



entity. MediFarm I RE is a real estate holding company that owns the real property and a building that is situated on such real property, at which a medical marijuana dispensary facility is expected to be located. This facility is in the early stages of planning. It is our intention that MediFarm I will operate the medical marijuana dispensary.

## **Herbs and Produce Products**

### ***Edible Garden***

Edible Garden was incorporated on April 9, 2013. Edible Garden is a retail seller of locally grown hydroponic produce, herbs, and floral products that are distributed throughout the Northeast and Midwest United States. Currently, Edible Garden's products are sold at approximately 1,800 retailers throughout these markets. Most of the produce and herbs grown by Edible Garden are certified organic. Our target customers are those individuals seeking organic and fresh produce locally grown using environmentally sustainable methods.

Pursuant to letter agreements with Gro-Rite Inc., a New Jersey corporation, and Heartland Growers Inc. (collectively the "Farmers"), have agreed to cultivate the various parts of the line of Edible Garden produce to be sold into the retail grocery channel. Pursuant to the terms of the agreements, Edible Garden will manage the marketing and sales, while the Farmers will be responsible for the cultivation, packaging, and shipping of the product for retail sale under the Edible Garden brand. The terms of the agreements are now month-to-month.

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There are numerous growers that are available to us, and therefore, we are not limited in the number of growers available nor are we dependent on any one grower. We completed construction of a greenhouse structure in 2014, which can be used to grow plants to satisfy selling demands; however, we may incur additional freight costs to distribute these plants until growers are replaced.

Edible Garden's main competitors are Shenandoah Growers and Sun Aqua Farms. To a lesser extent, Edible Garden competes with Green Giant, Del Monte, Rock Hedge Herbs, and Infinite Herbs. Edible Garden is an up and coming brand that has increased its retailers to approximately 1,800 retail sellers since we acquired Edible Garden in March 2013. Edible Garden believes the following three factors set it apart from its competitors: (1) its branding and marketing displays, which are predominately placed in high traffic areas on its proprietary racks; (2) it uses proprietary strands and seeds for its produce and its methodology for growing such produce; and (3) all of its produce is hydroponically grown and sold "alive" (*i.e.*, the produce is sold "rooted").

Edible Garden relies on a combination of trademark laws, trade secrets, confidentiality provisions, and other contractual provisions to protect its proprietary rights, which are primarily its brand names, marks, and proprietary pods and seeds. Edible Garden owns trademarks, but does not own any patents. Edible Garden signed an exclusive license agreement with Nutrasorb LLC, a spin-off from Rutgers University, to grow and commercialize nutritionally-enhanced lettuce varieties. Under the terms of the agreement, Edible Garden has the right to grow and sell Green and Red Superleaf Lettuce across the North American and European continents as well as Australia. With five times more antioxidants than ordinary lettuce, the produce is high in vitamins A and C, magnesium, iron and potassium contents. It also has high levels of fiber and chlorogenic acid for superior digestion. These nutritionally-enhanced, proprietary Green and Red Superleaf Lettuces were developed by scientists at Rutgers University following years of intensive research. Edible Garden pays a license fee to Nutrasorb, LLC for each unit sold.

Edible Garden's produce is Global Food Safety Initiative certified. Edible Garden also obtained certain organic certifications for its products. No other governmental regulations or approvals are needed or affect its business.

Edible Garden's research and development activities have primarily focused on developing and testing new pods and seeds, as well as different fertilizers, nutrient blends, and lighting.

## **Our Operations**

We are organized into two reportable segments:

- ***Herbs and Produce Products*** – Includes herbs and leafy greens that are grown using classic Dutch hydroponic farming methods; and

### ***Herbs and Produce Products***

Either independently or in conjunction with third parties, we are a retail seller of locally grown hydroponic herbs, produce, and floral products, which are distributed through major grocery stores throughout the East and Midwest regions of the U.S.

### ***Cannabis Dispensary, Cultivation and Production***

Either independently or in conjunction with third parties, we operate medical marijuana retail dispensaries and a medical marijuana cultivation in California. In addition, we operate four retail medical marijuana dispensary facilities in Nevada, and have in various stages of construction, medical marijuana cultivation and production facilities in Nevada. We own real property in Nevada on which we plan to build a medical marijuana dispensary. All of our retail dispensaries in California and Nevada offer a broad selection of medical cannabis products including flowers, concentrates and edibles. We also produce and sell a line of medical cannabis flowers, as well as a line of medical cannabis-extracted products, which include concentrates, cartridges, vape pens and wax products.

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**RESULTS OF OPERATIONS**

**Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016**

*Revenues*

For the three months ended June 30, 2017, we generated revenues of \$7.84 million, compared to \$9.70 million for the three months ended June 30, 2016, a decrease of \$1.86 million or 19.2 percent. The decrease was primarily due to revenues from floral sales resulting from a contract that expired at December 31, 2016. The floral revenues were \$4.40 million for the three months ended June 30, 2016 versus zero for the three months ended June 30, 2017. The decrease was partially offset by increased revenue generated by: (i) the Black Oak, MediFarm and MediFarm I dispensaries; (ii) IVXX from the sale of its cannabis products; and (iii) Edible Garden from the sale of its herbs and produce products. At this stage in our development, revenues are not yet sufficient to cover ongoing operating expenses.

*Cost of Goods Sold*

For the three months ended June 30, 2017, cost of goods sold was \$6.34 million, compared to \$8.15 million for the three months ended June 30, 2016, a decrease of \$1.81 million or 22.2%. The decrease in cost of goods sold was attributable to: (i) a decrease of \$4.19 million from the herbs and produce segment, which had \$1.33 million and \$5.52 million cost of goods sold for the three months ended June 30, 2017 and 2016, respectively; and (ii) an increase of \$2.41 million from the cannabis segment, which had \$5.01 million and \$2.60 million cost of goods sold for the three months ended June 30, 2017 and 2016, respectively. The cannabis segment increase was related to two additional MediFarm dispensaries and one additional MediFarm I dispensary that were open during the three months ended June 30, 2017 versus not being open during the three months ended June 30, 2016. The herbs and produce segment decrease was related to the expiration of the floral product contract.

*Gross Profit*

Our gross profit for the three months ended June 30, 2017 was \$1.51 million, compared to a gross profit of \$1.55 million for the three months ended June 30, 2016, a decrease of \$41,000 or 2.6 percent. Our gross margin percentage for the three months ended June 30, 2017 was 19.2 percent, compared to 15.9 percent for the three months ended June 30, 2016. The increase in gross margin percentage was attributable to: (i) the cannabis segment, which had \$1.04 million and \$1.17 million gross profit for the three months ended June 30, 2017 and 2016, respectively, or 17.2

percent and 31.1 percent gross margin for the three months ended June 30, 2017 and 2016, respectively; and (ii) the herbs and produce segment, which had \$451,000 and \$356,000 gross profit for the three months ended June 30, 2017 and 2016, respectively, or 25.4 percent and 6.1 percent gross margin for the three months ended June 30, 2017 and 2016, respectively. The cannabis segment decrease was related to two additional MediFarm dispensaries and one additional MediFarm I dispensary that were open during the three months ended June 30, 2017 versus not being open during the three months ended June 30, 2016. The cannabis products gross margin percentage decreased due to discounting of the products sold at the new dispensaries in an effort to gain market share. The herbs and produce segment increase was related to the expiration of the floral product contract.

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***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the three months ended June 30, 2017 were \$6.03 million, compared to \$5.36 million for the three months ended June 30, 2016, an increase of \$665,000 or 12.4 percent. The increase was primarily due to salaries for the MediFarm dispensaries in Las Vegas, Nevada.

***Operating Income (Loss)***

We realized an operating loss of \$4.52 million for the three months ended June 30, 2017, compared to an operating loss of \$3.82 million for the three months ended June 30, 2016, an increase of \$706,000 or 18.5 percent.

***Other Income (Expense)***

Other income for the three months ended June 30, 2017 was \$3.62 million, compared to other expense of \$973,000 for the three months ended June 30, 2016, an increase of \$4.59 million. This increase was primarily attributable to: (i) a \$4.99 million gain on settlement of contingent consideration related to the Black Oak acquisition (see “*Note 9 – Contingent Consideration Liability*” for further information); (ii) a \$4.43 million loss on fair market valuation of contingent consideration; (iii) an increase in loss on extinguishment of debt of \$1.64 million, which was \$1.64 million for the three months ended June 30, 2017, compared to zero in the prior year period; (iv) an increase in amortization of debt discount of \$298,000, which was \$516,000 for the three months ended June 30, 2017, compared to \$218,000 in the prior year period; (v) a decrease in gain (loss) on fair market valuation of derivatives of \$1.19 million, which was a gain of \$987,000 for the three months ended June 30, 2017, compared to a loss of \$206,000 in the prior year period; and (vi) a decrease in loss from derivatives issued with debt greater than debt carrying value of \$488,000, which was zero for the three months ended June 30, 2017, compared to \$488,000 in the prior year period.

***Net Loss Attributable to Terra Tech Corp.***

We incurred a net loss attributable to Terra Tech Corp. of \$454,000, or \$0.00 per share, for the three months ended June 30, 2017, compared to a net loss attributable to Terra Tech Corp. of \$4.93 million, or \$0.01 per share, for the three months ended June 30, 2016. The primary reasons for the decrease were a decrease in revenue, an increase in selling, general and administrative expenses, and an increase in gain on settlement of contingent consideration during the three months ended June 30, 2017, compared to the prior year period.

Management will continue its efforts to lower operating expenses and increase revenue. We will continue to invest in further expanding our operations and a comprehensive marketing campaign with the goal of accelerating the education of potential clients and promoting our name and our products. Given the fact that most of the operating expenses are fixed or have a quasi-fixed character, management expects that, as revenue increases, those expenses, as a percentage of revenue, will significantly decrease. Nevertheless, there can be no assurance that we will be able to increase our revenues in succeeding quarters.

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**Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016**

***Revenues***

For the six months ended June 30, 2017, we generated revenues of \$14.67 million, compared to \$11.25 million for the six months ended June 30, 2016, an increase of \$3.42 million or 30.4 percent. The increase was primarily due to revenue generated by: (i) the Black Oak, MediFarm and MediFarm I dispensaries; (ii) IVXX from the sale of its cannabis products; and (iii) Edible Garden from the sale of its herbs and produce products; partially offset by a decrease in revenues from floral sales resulting from the expiration of a contract for floral product that expired at December 31, 2016. The floral revenues were \$4.79 million for the six months ended June 30, 2016 versus zero for the six months ended June 30, 2017. At this stage in our development, revenues are not yet sufficient to cover ongoing operating expenses.

***Cost of Goods Sold***

For the six months ended June 30, 2017, cost of goods sold was \$12.80 million, compared to \$9.69 million for the six months ended June 30, 2016, an increase of \$3.11 million or 32.1%. The increase in cost of goods sold was attributable to: (i) an increase of \$7.70 million from the cannabis segment, which had \$10.51 million and \$2.81 million cost of goods sold for the six months ended June 30, 2017 and 2016, respectively; and (ii) a decrease of \$4.54 million from the herbs and produce segment, which had \$2.30 million and \$6.84 million cost of goods sold for the six months ended June 30, 2017 and 2016, respectively. The cannabis segment increase was related to: (i) a full six months of cost of goods sold for Black Oak during the six months ended June 30, 2017 versus cost of goods sold for only three months of ownership for the six months ended June 30, 2016; and (ii) two additional MediFarm dispensaries and one additional MediFarm I dispensary that were open during the six months ended June 30, 2017 versus not being open during the six months ended June 30, 2016. The herbs and produce segment decrease was related to the expiration of the floral product contract.

***Gross Profit***

Our gross profit for the six months ended June 30, 2017 was \$1.87 million, compared to a gross profit of \$1.56 million for the six months ended June 30, 2016, an increase of \$304,000 or 19.5 percent. Our gross margin percentage for the six months ended June 30, 2017 was 12.7 percent, compared to 13.9 percent for the six months ended June 30, 2016. The decrease in gross margin percentage was attributable to: (i) the cannabis segment, which had \$1.43 million and \$1.09 million gross profit for the six months ended June 30, 2017 and 2016, respectively, or 12.0 percent and 28.0 percent gross margin for the six months ended June 30, 2017 and 2016, respectively; and (ii) the herbs and produce



segment, which had \$399,000 and \$437,000 gross profit for the six months ended June 30, 2017 and 2016, respectively, or 14.8 percent and 6.0 percent gross margin for the six months ended June 30, 2017 and 2016, respectively. The cannabis segment increase was related to: (i) a full six months of gross profit for Black Oak during the six months ended June 30, 2017 versus only three months of ownership that contributed to gross profit for the six months ended June 30, 2016; and (ii) two additional MediFarm dispensaries and one additional MediFarm I dispensary that were open and contributed to gross profit for the six months ended June 30, 2017 versus not being open during the six months ended June 30, 2016. The cannabis products gross margin percentage decreased due to discounting of the products sold at the new dispensaries in an effort to gain market share. The herbs and produce segment decrease in gross profit was partially offset by an increase in gross margin percentage related to the expiration of the floral products contract.

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***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the six months ended June 30, 2017 were \$12.42 million, compared to \$7.29 million for the six months ended June 30, 2016, an increase of \$5.13 million or 70.4 percent. The increase was primarily due to two factors: (i) an increase in salaries and wages for operations at the MediFarm dispensaries, which includes \$1.36 million of stock compensation expense issued to employees during the six months ended June 30, 2017, compared to no stock compensation issued to employees during the six months ended June 30, 2016; and (ii) three additional months of activity for the Black Oak operations acquired on April 1, 2016.

***Operating Income (Loss)***

We realized an operating loss of \$10.55 million for the six months ended June 30, 2017, compared to an operating loss of \$5.73 million for the six months ended June 30, 2016, an increase of \$4.82 million or 84.1 percent.

***Other Income (Expense)***

Other expense for the six months ended June 30, 2017 was \$930,000, compared to \$3.20 million for the six months ended June 30, 2016, a decrease of \$2.27 million or 71.0 percent. This decrease was primarily attributable to: (i) a \$4.99 million gain on settlement of contingent consideration related to the Black Oak acquisition (see “*Note 9 – Contingent Consideration Liability*” for further information); (ii) a \$4.43 million loss on fair market valuation of contingent consideration; (iii) an increase in loss on extinguishment of debt of \$1.76 million, which was \$2.68 million for the six months ended June 30, 2017, compared to \$921,000 in the prior year period; (iv) an increase in amortization of debt discount of \$814,000, which was \$1.13 million for the six months ended June 30, 2017, compared to \$313,000 in the prior year period; (v) a decrease in gain (loss) on fair market valuation of derivatives of \$3.96 million, which was a gain of \$2.60 million for the six months ended June 30, 2017, compared to a loss of \$1.37 million in the prior year period; and (vi) a decrease in loss from derivatives issued with debt greater than debt carrying value of \$488,000, which was zero for the six months ended June 30, 2017, compared to \$488,000 in the prior year period.

***Net Loss Attributable to Terra Tech Corp.***

We incurred a net loss attributable to Terra Tech Corp. of \$10.57 million, or \$0.02 per share, for the six months ended June 30, 2017, compared to a net loss attributable to Terra Tech Corp. of \$9.06 million, or \$0.03 per share, for the six

months ended June 30, 2016. The primary reasons for the increase were a decrease in revenue, and an increase in selling, general and administrative expenses during the six months ended June 30, 2017, compared to the prior year period.

Management will continue its efforts to lower operating expenses and increase revenue. We will continue to invest in further expanding our operations and a comprehensive marketing campaign with the goal of accelerating the education of potential clients and promoting our name and our products. Given the fact that most of the operating expenses are fixed or have a quasi-fixed character, management expects that, as revenue increases, those expenses, as a percentage of revenue, will significantly decrease. Nevertheless, there can be no assurance that we will be able to increase our revenues in succeeding quarters.

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**DISCLOSURE ABOUT OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any transactions, agreements or other contractual arrangements that constitute off-balance sheet arrangements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” section discusses our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed 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. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described in “*Note 2 - Summary of Significant Accounting Policies*” of the Notes to Unaudited Consolidated Financial Statements included in this report.

**LIQUIDITY AND CAPITAL RESOURCES**

We have never reported net income. We incurred net losses for the six months ended June 30, 2017, and have an accumulated deficit of \$83.44 million as of June 30, 2017, compared to an accumulated deficit of \$72.87 million at December 31, 2016. As of June 30, 2017, we had working capital of \$6.51 million, compared to a working capital deficit of \$9.56 million at December 31, 2016. At June 30, 2017, we had a cash balance of \$9.13 million, compared to a cash balance of \$9.75 million at December 31, 2016.

We have not been able to generate sufficient cash from operating activities to fund our ongoing operations. Since our inception, we have raised capital through private sales of preferred stock, common stock, and debt securities. Our future success is dependent upon our ability to achieve profitable operations and generate cash from operating activities. There is no guarantee that we will be able to generate enough revenue and/or raise capital to support our operations.

We anticipate requiring additional capital for the commercial development of our subsidiaries. Black Oak, Blüm San Leandro and the Hegenberger facility, together, will require approximately \$3.0 million in capital to complete. Construction for the completion of the packaging facility for Edible Garden will require approximately \$1.2 million. The estimated construction budget for the development of the cultivation and production facilities under MediFarm II is approximately \$2.0 million. Forever Green NV, LLC, a member of MediFarm II, has agreed to contribute approximately \$750,000 in the form of debt to MediFarm II. We will be obligated to contribute the remaining amount.

We will be required to raise additional funds through public or private financing, additional collaborative relationships or other arrangements until we are able to raise revenues to a point of positive cash flow. We believe our existing and available capital resources will be sufficient to satisfy our funding requirements through the second quarter of 2018. We are evaluating various options to further reduce our cash requirements to operate at a reduced rate, as well as options to raise additional funds, including obtaining loans and selling common stock. There is no guarantee that we will be able to generate enough revenue and/or raise capital to support our operations, or if we are able to raise capital, that it will be available to us on acceptable terms, on an acceptable schedule, or at all.

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The issuance of additional securities may result in a significant dilution in the equity interests of our current stockholders. Obtaining loans, assuming these loans would be available, will increase our liabilities and future cash commitments. There is no assurance that we will be able to obtain further funds required for our continued operations or that additional financing will be available for use when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, we will not be able to meet our other obligations as they become due and we will be forced to scale down or perhaps even cease our operations.

**Operating Activities**

Cash used in operating activities for the six months ended June 30, 2017 was \$7.15 million, compared to \$3.30 million for the six months ended June 30, 2016, an increase of \$3.85 million, or 116.4 percent. Increases in cash used in operating activities were primarily due to: (i) a \$11.48 million net loss for the six months ended June 30, 2017, compared to a \$9.32 million loss for the six months ended June 30, 2016, an increase of \$2.16 million; (ii) a decrease in gain (loss) on fair market valuation of derivatives of \$3.96 million, which was a gain of \$2.60 million for the six months ended June 30, 2017, compared to a loss of \$1.37 million in the prior year period; and (iii) a decrease in accounts payable and accrued expenses of \$1.35 million. Decreases in cash used in operating activities were primarily due to: (i) an increase in loss on extinguishment of debt of \$1.76 million, which was \$2.68 million for the six months ended June 30, 2017, compared to \$921,000 in the prior year period; and (ii) an increase in amortization of debt discount of \$814,000, which was \$1.13 million for the six months ended June 30, 2017, compared to \$313,000 in the prior year period.

**Investing Activities**

Cash used in investing activities for the six months ended June 30, 2017 was \$1.04 million, compared to cash used in investing activities of \$1.90 million for the six months ended June 30, 2016, a decrease of \$864,000, or 45.5 percent. During the first six months of 2017, cash used in investing activities was primarily comprised of expenditures related to: (i) the construction of the San Leandro and Oakland facilities; and (ii) capital expenditures at Edible Garden in Belvidere, N.J.

**Financing Activities**

Cash provided by financing activities for the six months ended June 30, 2017 was \$7.57 million, compared to \$6.46 million for the six months ended June 30, 2016, an increase of \$1.11 million, or 17.2 percent. Cash provided by financing activities for the six months ended June 30, 2017 was primarily due to: (i) \$6.00 million from the issuance

of debt; (ii) \$3.75 million from the sale of common stock; partially offset by (iii) payment of \$2.09 million for the contingent consideration related to the Black Oak acquisition.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our primary market risks are attributable to fluctuations in commodity prices and interest rates. These fluctuations can affect revenues and cash flow from operating, investing and financing activities.

**Commodity Price Risk**

Our most significant market risk relates to fluctuations in marijuana prices. Management expects the prices of these commodities to remain volatile and unpredictable. As these prices decline or rise significantly, revenues and cash flow will also decline or rise significantly.

**Interest Rate Risk**

As of June 30, 2017, we had no outstanding variable-rate debt and \$3.65 million of principal fixed-rate debt.

**Credit Risk**

Our exposure to non-payment or non-performance by our customers and counterparties presents a credit risk. Generally, non-payment or non-performance results from a customer's or counterparty's inability to satisfy obligations. We may also be exposed to credit risk due to the concentration of our customers in the medical marijuana industry, as our customers may be similarly affected by changes in regulatory and legal conditions in the states and municipalities in which we operate.

**ITEM 4. CONTROLS AND PROCEDURES.**

Under the supervision and with the participation of our management, our principal executive officer and our principal financial officer are responsible for conducting an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the fiscal year covered by this report. Disclosure controls and procedures means that the material information



required to be included in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms relating to our company, including any consolidating subsidiaries, and was made known to us by others within those entities, particularly during the period when this report was being prepared. Based on this evaluation, our principal executive officer and principal financial officer concluded as of the evaluation date that our disclosure controls and procedures were not effective as of June 30, 2017.

There were no changes in our internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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**PART II — OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

We are not currently subject to any legal proceedings. From time to time, we may become subject to litigation or proceedings in connection with our business, as either a plaintiff or defendant. There are no such pending legal proceedings to which we are a party that, in the opinion of management, is likely to have a material adverse effect on our business, financial condition or results of operations.

**ITEM 1A. RISK FACTORS.**

There have been no material changes to the risk factors disclosed in Part I, Item 1A, “*Risk Factors*”, of our Annual Report on Form 10-K for the year ended December 31, 2016. Please refer to that section for disclosures regarding the risk and uncertainties relating to our business.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

None.

**ITEM 5. OTHER INFORMATION.**

None.

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<b>Exhibit</b>	<b>Description</b>
<u>3.1</u>	<u>Certificate of Amendment to Certificate of Designation of Series B Preferred Stock, dated July 26, 2017 (1)</u>
<u>4.1</u>	<u>Form of 12% Senior Convertible Promissory Note (2)</u>
<u>4.2</u>	<u>Form of 12% Senior Convertible Promissory Note (3)</u>
<u>10.1</u>	<u>Operations and Asset Management Agreement dated March 31, 2016, by and among Platinum Standard, LLC, Black Oak Gallery, and Terra Tech Corp. (4)</u>
<u>10.2</u>	<u>Form of Security Agreement, dated as of June 23, 2017 (2)</u>
<u>10.3</u>	<u>Form of Security Agreement, dated as of February 22, 2017 (3)</u>
<u>31.1</u>	<u>Certification of Derek Peterson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *</u>
<u>31.2</u>	<u>Certification of Michael C. James, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *</u>
<u>32.1</u>	<u>Certification of Derek Peterson, Chief Executive Officer, pursuant to Sections 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. *</u>
<u>32.2</u>	<u>Certification of Michael C. James, Chief Financial Officer, pursuant to Sections 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. *</u>
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculations Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Presentation Linkbase Document *

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\* Filed herewith

- (1) Incorporated by reference to Current Report on Form 8-K filed with the SEC on July 26, 2017.*
- (2) Incorporated by reference to Current Report on Form 8-K filed with the SEC on June 23, 2017.*
- (3) Incorporated by reference to Current Report on Form 8-K filed with the SEC on February 22, 2017.*
- (4) Incorporated by reference to Quarterly Report on Form 10-Q filed with the SEC on May 12, 2016.*

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**SIGNATURES**

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

**TERRA TECH CORP.**

Date: August 8, 2017

By: */s/ Michael C. James*  
Michael C. James  
Chief Financial Officer Chief  
Accounting Officer