CHARLOTTE'S WEB HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period ended March 31, 2025

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 000-56364

Charlotte's Web Holdings, Inc.

(Exact name of registrant as specified in its charter)

British Columbia	**98-1508633**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

700 Tech Court
Louisville, CO 80027
(Address of principal executive offices and zip code)
(720) 484-8930
Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Securities registered pursuant to section 12(g) of the Act:
Common stock, no par value

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes ☒ No ☐

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

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

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

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

The registrant had outstanding 158,617,767 shares of common shares as of May 12, 2025.

CHARLOTTE'S WEB HOLDINGS, INC.
FORM 10-Q
For the Quarter Ended March 31, 2025

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PART I

Item 1. Financial Statements

CHARLOTTE’S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2025 (unaudited)	December 31, 2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,357	$ 22,618
Accounts receivable, net	1,531	1,263
Inventories, net	18,916	18,907
Prepaid expenses and other current assets	4,201	4,194
Total current assets	44,005	46,982
Property and equipment, net	25,758	26,337
License and media rights	12,717	13,691
Operating lease right-of-use assets, net	12,404	12,876
Investment in unconsolidated entity	10,700	10,800
SBH purchase option and other derivative assets	970	1,075
Intangible assets, net	1,003	1,049
Other long-term assets	466	632
Total assets	$ 108,023	$ 113,442
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 3,943	$ 3,426
Accrued and other current liabilities	4,764	5,246
Lease obligations – current	1,844	2,055
License and media rights payable - current	7,937	5,209
Total current liabilities	18,488	15,936
Convertible debenture	44,753	43,631
Lease obligations	13,257	13,652
License and media rights payable	9,227	11,809
Derivative and other long-term liabilities	1,236	1,327
Total liabilities	86,961	86,355
Commitments and contingencies (Note 7)		
Shareholders’ equity:		
Common shares, nil par value; unlimited shares authorized; 158,009,541 and 158,009,541 shares issued and outstanding as of March 31, 2025 and December 31, 2024	1	1
Additional paid-in capital	328,842	328,655
Accumulated deficit	(307,781)	(301,569)
Total shareholders’ equity	21,062	27,087
Total liabilities and shareholders’ equity	$ 108,023	$ 113,442

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

	Three Months Ended March 31, (unaudited)	
	2025	**2024**
Revenue	$ 12,262	$ 12,124
Cost of goods sold	6,032	5,213
Gross profit	6,230	6,911
Selling, general, and administrative expenses	11,578	15,280
Operating loss	(5,348)	(8,369)
Change in fair value of financial instruments	(126)	(1,860)
Other income (expense), net	(738)	611
Loss before provision for income taxes	$ (6,212)	$ (9,618)
Income tax expense	—	(16)
Net loss	$ (6,212)	$ (9,634)
Per common share amounts (Note 10)		
Net loss per common share, basic and diluted	$ (0.04)	$ (0.06)

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

	Common Shares		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount			
Balance—December 31, 2024	158,009,541	$ 1	$ 328,655	$ (301,569)	$ 27,087
Common shares issued upon vesting of restricted share units, net of withholding	—	—	—	—	—
Share-based compensation	—	—	187	—	187
Net loss		—		(6,212)	(6,212)
Balance—March 31, 2025	158,009,541	$ 1	$ 328,842	$ (307,781)	$ 21,062
Balance—December 31, 2023	154,332,366	$ 1	$ 327,280	$ (271,723)	$ 55,558
Common shares issued upon vesting of restricted share units, net of withholding	2,895,489	—	(98)	—	(98)
Share-based compensation		—	842	—	842
Net loss		—		(9,634)	(9,634)
Balance—March 31, 2024	157,227,855	$ 1	$ 328,024	$ (281,357)	$ 46,668

See Notes to Unaudited Condensed Consolidated Financial Statements

CHARLOTTE'S WEB HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31, (unaudited)	
	2025	**2024**
Cash flows from operating activities:		
Net loss	$ (6,212)	$ (9,634)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,449	2,493
Change in fair value of financial instruments	126	1,860
Convertible debenture and other accrued interest	868	1,015
Changes in right-of-use assets	473	443
Share-based compensation	187	842
Other	126	(956)
Changes in operating assets and liabilities:		
Accounts receivable, net	(394)	98
Inventories, net	19	(1,026)
Prepaid expenses and other current assets	28	150
License and media rights	—	(2,500)
Operating lease obligations	(605)	(551)
Accounts payable, accrued and other liabilities	71	663
Other operating assets and liabilities, net	96	(76)
Net cash used in operating activities	(2,768)	(7,179)
Cash flows from investing activities:		
Purchases of property and equipment and intangible assets	(521)	(2,060)
Proceeds from sale of assets	28	27
Net cash used in investing activities	(493)	(2,033)
Cash flows from financing activities:		
Other financing activities	—	(98)
Net cash used in financing activities	—	(98)
Net decrease in cash and cash equivalents	(3,261)	(9,310)
Cash and cash equivalents —beginning of period	22,618	47,820
Cash and cash equivalents —end of period	$ 19,357	$ 38,510
Non-cash activities:		
Non-cash purchase of property and equipment and intangible assets	$ (83)	$ (374)

See Notes to Unaudited Condensed Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND PRESENTATION OF FINANCIAL STATEMENTS

Description of the Business

Charlotte's Web Holdings, Inc. together with its subsidiaries (collectively "Charlotte's Web" or the "Company") is a public company incorporated pursuant to the laws of the Province of British Columbia and a Certified B Corp. The Company's common shares are publicly listed on the Toronto Stock Exchange ("TSX") under the symbol "CWEB" and quoted on the OTCQX under the symbol "CWBHF." The Company's corporate headquarters is located in Louisville, Colorado in the United States of America. The majority of the Company's business is conducted in the United States of America.

The Company's primary products are made from high quality and proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids, and other hemp compounds. Hemp extracts are produced from the plant *Cannabis sativa L.* ("cannabis" or "CBD"), and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol ("THC") concentration of not more than 0.3% on a dry weight basis ("hemp"). The Company is engaged in research involving the effectiveness of a broad variety of compounds derived from hemp, as well as other botanical-based wellness products such as functional mushrooms. The Company does not currently produce or sell medical or recreational marijuana or products derived from high THC cannabis plants. The Company does not currently have any plans to expand into such high-THC products in the near future.

The Company's current product categories include full spectrum hemp extract oil tinctures (liquid product), gummies, capsules, and soft-gels, CBD topical creams and lotions, broad-spectrum botanical CBD gummies, functional mushrooms gummies, and pet products. The Company's products are distributed through its e-commerce website, third-party e-commerce websites, select distributors, health practitioners, and a variety of brick-and-mortar and specialty retailers.

The Company grows its proprietary hemp domestically in the United States on farms leased in northeastern Colorado and sources high quality hemp through contract farming operations in Arizona, Colorado, Kentucky, New Mexico, and Canada. The hemp grown in Canada is utilized exclusively in the Canadian markets or for research purposes and not in products sold within the United States.

In furtherance of the Company's research and development ("R&D") efforts, the Company established CW Labs, an internal division for R&D, to expand the Company's efforts around the science of hemp derived compounds. CW Labs is currently engaged in clinical trials addressing hemp-based health solutions. CW Labs is located in Louisville, Colorado at the Company's current good manufacturing practice ("cGMP") production and distribution facility.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Any reference in these notes to applicable guidance is meant to refer to U.S. GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB").

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's financial position as of March 31, 2025 and its results of operations for the three months ended March 31, 2025 and 2024, cash flows for the three months ended March 31, 2025 and 2024, and stockholders' equity for the three months ended March 31, 2025 and 2024. Operating results for the three months ended March 31, 2025, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2025. The unaudited interim condensed consolidated financial statements presented herein do not contain the required disclosures under U.S. GAAP for annual consolidated financial statements. Certain amounts presented in prior periods have been reclassified to conform with the current period presentation. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes as of and for the year ended December 31, 2024, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 19, 2025.

(In thousands, except share, per share, per unit, and number of years)

Inventories

Inventories are stated at the lower of cost or net realizable value. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. The Company's inventory production process for cannabinoid products includes the cultivation of botanical raw material. Due to the duration of the cultivation process, a portion of the inventory will not be sold within one year. Consistent with the practice in other industries that cultivate botanical raw materials, all inventory is classified as a current asset.

Revenue Recognition

The majority of the Company's revenue is derived from sales of branded products to consumers via the Company's direct-to-consumer e-commerce website, as well as distributors, retail and wholesale business-to-business customers, and health practitioners. The service revenue is due to the Company and DeFloria, Inc. ("DeFloria") entering into a Master Services Agreement ("Services Agreement") in which the Company is compensated for the provision of certain services to DeFloria. Refer to Note 3 for additional disclosure on the DeFloria Service Agreement. The following table sets forth the disaggregation of the Company's revenue:

	Three Months Ended March 31,	
	2025	**2024**
Product revenue	$ 12,187	$ 11,813
Service revenue	75	311
Total revenue	$ 12,262	$ 12,124

Substantially all of the Company's revenue is earned in the United States.

Recently Adopted Accounting Pronouncements

In November 2023 the Financial Accounting Standards Board ("FASB") issued *ASU 2023-07—Segment Reporting*. The guidance was issued to provide financial statement users with more disaggregated expense information about a public entity's reportable segments. The guidance was effective for the year ended December 31, 2024, and the expanded interim disclosures are effective in entities in 2025 and will be applied retrospectively to all prior periods presented. Refer to Note 13 "Operating Segment" for additional disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

Other than described below, no new accounting pronouncements issued by the FASB had or may have a material impact on the Company's consolidated financial statements.

In November 2024, the FASB issued *ASU 2024-04, Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments.* The guidance clarifies the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion. ASU 2024-04 is effective for the Company beginning December 31, 2025. The Company is currently evaluating the effect of adopting this ASU.

In November 2024, the FASB issued *ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses.* The new guidance requires disaggregated disclosure of income statement expenses for public business entities. ASU 2024-03 is effective for the Company beginning December 31, 2026. The Company is currently evaluating the effect of adopting this ASU.

(In thousands, except share, per share, per unit, and number of years)

In December 2023 the FASB issued a final standard on improvements to income tax disclosures, *ASU 2023-09, Improvements to Income Tax Disclosures*. The standard requires disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. The standard is intended to benefit investors by providing more detailed income tax disclosures that would be useful in making capital allocation decisions. For public business entities, the new requirements is effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact, if any, that the updated standard will have on the Company's consolidated financial statements and related disclosures.

3. FAIR VALUE MEASUREMENT

The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis at March 31, 2025 and December 31, 2024, by level within the fair value hierarchy:

	March 31, 2025			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Holdings purchase option	$ —	$ —	$ —	$ —
Debt interest rate conversion feature	—	—	970	970
Total financial assets	$ —	$ —	$ 970	$ 970
Investment in unconsolidated entity:	$ —	$ —	$ 10,700	$ 10,700
Financial liabilities:				
Debt conversion option	$ —	$ 709	$ —	$ 709

	December 31, 2024			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Stanley Brothers USA Holdings purchase option	$ —	$ —	$ 52	$ 52
Debt interest rate conversion feature	—	—	1,023	1,023
Total financial assets	$ —	$ —	$ 1,075	$ 1,075
Investment in unconsolidated entity:	$ —	$ —	$ 10,800	$ 10,800
Financial liabilities:				
Debt conversion option	$ —	$ 786	$ —	$ 786

There were no transfers between levels of the fair value hierarchy and there were no changes in the fair value methodologies during the three months ended March 31, 2025, and the year ended December 31, 2024.

Investment in Unconsolidated Entity

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA BioSciences ("AJNA"), and a subsidiary of British American Tobacco ("BAT"). AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by a member of the Stanley Brothers. The seven Stanley brothers (the "Stanley Brothers") founded CWB Holdings, Inc. (predecessor to Charlotte's Web, Inc).

(In thousands, except share, per share, per unit, and number of years)

As of March 31, 2025, BAT holds an equity interest in DeFloria in the form of 2,000,000 or 100% preferred units (200,000 preferred units as of March 31, 2024) following its $10 million initial investment and has the right to participate in future equity issuances to maintain its pro rata equity position. In 2024, BAT and AJNA invested an additional $5 million and $2 million, respectively, into DeFloria in exchange for a convertible debenture. The Company and AJNA each hold 4,000,000 or approximately 50% (400,000 common shares as of March 31, 2024), respectively, of DeFloria's voting common units following a 1-10 stock split when DeFloria converted from a Limited Liability Company to a Corporation. The Company's contribution to DeFloria is a license permitting the use of certain proprietary hemp intellectual property, including clinical and consumer data. Additionally, the Company has a supply agreement with DeFloria, under which the Company supplies the oils at cost used to produce and develop the new drug. AJNA's contribution to the entity is laboratory and regulatory services, clinical expertise, and the provision of clinical services. DeFloria used the investments for the clinical development of a hemp botanical Investigational New Drug application and has concluded Phase I clinical development.

Concurrently with the formation of DeFloria, the Company was issued a warrant to purchase 865,052 shares of Class A Common Stock of AJNA for an exercise price of $2.89 per share. Management determined the warrant should be accounted for in accordance with ASC 321, which requires the warrant to be measured at fair value at issuance and subsequently remeasured at fair value each reporting period. All changes from the remeasurement of the warrant will be recorded as a change in fair value of financial instruments in the condensed consolidated statements of operations. The Company determined the fair value of the AJNA warrants to be de minimis and as such no value was recorded as of March 31, 2025 and December 31, 2024, respectively.

The Company determined that it has a variable interest in the investment in DeFloria; however, the Company is not the primary beneficiary of DeFloria as it lacks the power to direct DeFloria's key activities. The Company concluded that the investment in DeFloria should not be consolidated. The maximum exposure to loss in the investment in DeFloria is limited to the Company's investment, which is represented by the financial statement carrying amount of its retained interest.

In accordance with ASC 825-10, equity method investments are eligible for the fair value option as they represent recognized financial assets. As the Company is not required to consolidate the investment and does not meet any of the other scope exceptions, the Company had the ability to adopt the fair value option for the investment at inception. Upon formation of the entity, the Company elected the fair value option because it allowed the investment to be valued based on current market conditions.

The investment has been remeasured at fair value at each reporting date, with changes recognized in condensed consolidated statements of operations as changes in fair value of financial instruments for the period. For the three months ended March 31, 2025 and March 31, 2024, a loss of $100 and $800, respectively, related to the investment in DeFloria was recognized as a change in fair value of financial instruments in the condensed consolidated statements of operations. As of March 31, 2025 and December 31, 2024, the DeFloria investment represents an investment of $10,700 and $10,800 within the condensed consolidated balance sheets.

The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. To determine the value of the investment, the Company utilizes an Option Pricing Model ("OPM"). The OPM considers the various terms of the stockholder agreements, including the level of seniority among the securities, dividend policy, conversion ratios, and cash allocations upon liquidation of the entity. The OPM is appropriate when the range of potential future outcomes is difficult to predict with any certainty.

The following additional assumptions are used in the model:

	March 31,	December 31,
	2025	2024
Expected term (years)	5.0	5.27
Volatility	86.3%	83.6%
Risk-free interest rate	4.0%	4.4%
Expected dividend yield	—%	—%
Discount for lack of marketability	31.0%	31.0%

(In thousands, except share, per share, per unit, and number of years)

Convertible Debt Derivatives

On November 14, 2022, the Company entered into a subscription agreement (the "Subscription Agreement") with BT DE Investments, Inc. a wholly-owned subsidiary of BAT Group (LSE: BATS and NYSE: BTI) (the "Lender"), providing for the issuance of a $56.8 million (C$75.3 million) convertible debenture (the "debenture"). The debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company on the TSX. The debenture will accrue interest at a stated annualized rate of 5% until such time that there is federal regulation permitting the use of cannabidiol, a phytocannabinoid derived from the plant Cannabis sativa L. as an ingredient in food products and dietary supplements in the United States. The term "federal regulation" is defined as the date that federal laws in the United States permit, authorize or do not prohibit the use of CBD as an ingredient in food products and dietary supplements. Following federal regulation of CBD, the annualized rate of interest shall reduce to 1.5%. The maturity date for the debenture is November 14, 2029 (the "Maturity Date").

Debt Interest Rate Conversion Feature

The debt interest rate conversion feature is classified as a financial asset and is remeasured at fair value at each reporting date, with changes recognized in condensed consolidated statements of operations as changes in fair value of financial instruments for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. The debt interest rate conversion feature, if triggered, reduces the stated interest rate of the debenture to 1.5% upon federal regulation of CBD in the United States.

For the three months ended March 31, 2025 and March 31, 2024, a loss of $53 and $54, respectively, related to the debt interest rate conversion feature was recognized as a change in fair value of financial instruments in the condensed consolidated statement of operations. As of March 31, 2025 and December 31, 2024, the debt interest rate conversion feature represents a financial asset of $970 and $1,023, respectively, within SBH purchase option and other derivative assets in the condensed consolidated balance sheets.

To determine the value of the debt interest rate conversion feature, the Company utilizes a probability weighted income approach. This method calculates the present value of the reduced interest accrued on the debenture assuming the feature is triggered at a certain time, after accounting for the probability of federal regulation of CBD. This approach is useful when ultimate valuation is based on an unverifiable outcome, such as an event outside of the Company's influence. The following additional assumptions are used in the model:

	March 31, 2025	**December 31, 2024**
Stated interest rate	5.0%	5.0%
Adjusted interest rate	1.5%	1.5%
Implied debt yield	9.6%	9.9%
Federal regulation probability	Various	various
Year of event	Various	various

Debt Conversion Option

Per the debenture, the Lender has the option, at any time before the Maturity Date at no additional consideration, for all or any part of the principal amount to be converted into fully paid and non-assessable common shares. The Company assessed this conversion feature and determined that the debt conversion option is an embedded derivative that requires bifurcation and is classified as a financial liability within the condensed consolidated balance sheet. The debt conversion option is initially measured at fair value and is revalued at each reporting period using the Black-Scholes option pricing model based on Level 2 observable inputs. The assumptions used by the Company are the quoted price of the Company's common shares in an active market, risk-free interest rate, volatility and expected life, and assumes no dividends. Volatility is based on the actual historical market activity of the Company's shares. The expected life is based on the remaining contractual term of the debenture and the risk-free interest rate is based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the expected maturity of the debenture.

(In thousands, except share, per share, per unit, and number of years)

For the three months ended March 31, 2025 and March 31, 2024, a gain of $78 and a loss of $56, respectively, related to the debt conversion option was recognized as a change in fair value of financial instruments in the condensed consolidated statements of operations. As of March 31, 2025 and December 31, 2024, the debt conversion option represents a financial liability of $709 and $786, respectively, within derivative and other long-term liabilities in the condensed consolidated balance sheets.

The following table provides the assumptions regarding Level 2 fair value measurements inputs at their measurement dates:

	March 31, 2025	December 31, 2024
Expected volatility	87.9%	87.9%
Expected term (years)	4.6	4.9
Risk-free interest rate	4.1%	4.5%
Expected dividend yield	—%	—%
Value of underlying share	C$0.13	C$0.13
Exercise price	C$2.00	C$2.00

Stanley Brothers USA Holdings Purchase Option

In 2021, the Company entered into an option purchase agreement (the "SBH Purchase Option") with Stanley Brothers USA Holdings, Inc ("Stanley Brothers USA") . The SBH Purchase Option was purchased for total consideration of $8,000 and has a term of five years (extendable for an additional two years upon payment of additional consideration). The SBH Purchase Option provides the Company the option to acquire all or substantially all the shares of Stanley Brothers USA, at a purchase price to be determined at the time of exercise of the SBH Purchase Option. The Company is not obligated to exercise the SBH Purchase Option. As part of the SBH Purchase Option agreement, Stanley Brothers USA issued the Company a warrant exercisable to purchase 10% of the outstanding Stanley Brothers USA shares and convertible securities that are considered in-the-money, subject to certain conditions and exclusions. The warrant is exercisable at the Company's election for a nominal exercise price in the event the Company elects not to acquire all or substantially all shares of Stanley Brothers USA and expires 60 days after the expiration of the option.

The Company elected the fair value option in accordance with ASC 825-10 guidance to record its SBH Purchase Option. The SBH Purchase Option is classified as a financial asset and is remeasured at fair value at each reporting date, with changes to fair value recognized in the condensed consolidated statements of operations for the period. The use of assumptions for the fair value determination includes a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. Changes in assumptions that reasonably could have been different at the reporting date may result in a higher or lower determination of fair value. For the three months ended March 31, 2025, the Company determined that there is a highly unlikely probability that the Company will exercise the SBH Purchase Option. As such, the Company recognized a loss of $52 within change in fair value of financial instruments in the condensed consolidated statements of operations, and the SBH Purchase Option represents a financial asset of nil within SBH purchase option and other derivative assets in the condensed consolidated balance sheets. For the three months ended March 31, 2024, the Company recognized a loss of $951 related to the SBH Purchase Option within change in fair value of financial instruments in the condensed consolidated statements of operations. As of December 31, 2024, the SBH Purchase Option represents a financial asset of $52 within SBH purchase option and other derivative assets in the condensed consolidated balance sheets.

The Monte Carlo valuation model considers multiple revenue and EBITDA outcomes for Stanley Brothers USA and other probabilities in assigning a fair value. Primary assumptions utilized include financial projections of Stanley Brothers USA and the probability and timing of exercise. As of March 31, 2025, the value of the SBH Purchase Option was nil as the exercising of the option is considered unlikely.

(In thousands, except share, per share, per unit, and number of years)

The following additional assumptions are used in the fair value model of the SBH Purchase Option as of December 31, 2024:

	December 31, 2024
Expected volatility	112.0%
Expected term (years)	1.2
Risk-free interest rate	4.9%
Weighted average cost of capital	52.9%

4. INVENTORIES

Inventories consist of the following:

	March 31, 2025	December 31, 2024
Harvested Hemp and seeds	$ 1,998	$ 2,312
Raw materials	11,530	11,903
Finished goods	6,371	6,268
	19,899	20,483
Less: inventory provision	(983)	(1,576)
Total	$ 18,916	$ 18,907

5. LICENSE AND MEDIA RIGHTS

MLB Promotion Rights Agreement

On October 11, 2022, the Company entered into a Promotional Rights Agreement (the "MLB Promotional Rights Agreement") with MLB Advanced Media L.P., on its own behalf and on behalf of Major League Baseball Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC and the Major League Baseball Clubs (collectively, the "MLB"), pursuant to which the Company entered into a strategic partnership with MLB to promote the Company's new NSF-Certified for Sport® product line. On May 13, 2025, the Company and MLB entered into a letter agreement ("PRA Letter Agreement") terminating the MLB Promotional Rights Agreement as of May 13, 2025 and waives the Company's obligation to pay the current and remaining aggregate rights fee of $18 million for the remainder of the term of the MLB Promotional Rights Agreement.

As consideration under the MLB promotional rights agreement, the Company has paid a combination of cash over the license period, along with upfront non-cash consideration in the form of equity, as well as contingent consideration in the form of contingent payments based on revenue.

As of March 31, 2025 and December 31, 2024, the carrying value of the licensed properties was $10,717 and $11,691, respectively, recorded as a license and media rights asset within the condensed consolidated balance sheets. As of March 31, 2025 and December 31, 2024, the carrying value of the media rights was $3,000, respectively, recorded as a prepaid asset and a license and media rights asset within the condensed consolidated balance sheets. For the three months ended March 31, 2025 and March 31, 2024, the Company paid the MLB $0 and $2,500, respectively, as part of the committed cash payments, and recognized $974, respectively, in amortization expense related to the license and media right assets. Licensed properties are amortized straight line and media rights are amortized as incurred.

(In thousands, except share, per share, per unit, and number of years)

The PRA Letter Agreement terminates the MLB Promotional Rights Agreement and waives the Company's obligation to pay the current and remaining aggregate rights fee of $18 million for the remainder of the term. Maturities of the MLB license and media rights payable as of March 31, 2025 are as follows:

2025 (9 months remaining)	$	5,500
2026		6,000
2027		6,500
Total payments	$	18,000
Less: Imputed interest		(836)
Total license and media rights payable	$	17,164
Less: Current license liabilities		(7,937)
Total non-current license and media rights payable	$	9,227

As of March 31, 2025, expected amortization of licensed properties are as follows:

2025 (9 months remaining)	$	2,923
2026		3,897
2027		3,897
Total future amortization	$	10,717

6. DEBT

Convertible Debenture

On November 14, 2022, the Company entered into the Subscription Agreement with BT DE Investments, Inc., providing for the issuance of a $56.8 million (C$75.3 million) convertible debenture. The debenture is denominated in Canadian Dollars ("CAD" or "C$"). The debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company. The debenture will accrue interest at a stated annualized rate of 5% until such time that there is federal regulation permitting the use of CBD as an ingredient in food products and dietary supplements in the United States. Following federal regulation of CBD, the stated annualized rate of interest shall reduce to 1.5%. Interest is accrued annually and payable on the maturity date or date of earlier conversion. The maturity date for the debenture is November 14, 2029.

The following is a summary of the Company's convertible debenture as of March 31, 2025:

	As of March 31, 2025		
Convertible Debenture	Principal Amount	Unamortized Debt Discount and Costs	Net Carrying Amount
Convertible debenture due November 2029	$ 58,812	$ (14,059)	$ 44,753

The following is a summary of the Company's convertible debenture as of December 31, 2024:

	As of December 31, 2024		
Convertible Debenture	Principal Amount	Unamortized Debt Discount and Costs	Net Carrying Amount
Convertible debenture due November 2029	$ 58,172	$ (14,541)	$ 43,631

(In thousands, except share, per share, per unit, and number of years)

The debenture was C$75.3 million per the subscription agreement and translated to USD on the transaction date. For the three months ended March 31, 2025 and March 31, 2024, the Company recognized a foreign currency gain of $62 and $925, respectively, related to the net carrying value of the debenture within the condensed consolidated statements of operations.

Interest is accrued annually and payable on the maturity date or date of earlier conversion. On conversion, accrued interest will either be converted into common shares equal to the amount of accrued interest or will be paid in cash if agreed with the Lender. As of March 31, 2025 and December 31, 2024, the principal amount of the debenture includes $6,800 and $6,078, respectively, of accrued interest expense. The following is a summary of the interest expense and amortization expense, recorded within the condensed consolidated statements of operations, of the Company's convertible debenture for the three months ended March 31, 2025 and 2024:

	Three Months Ended March 31,	
	2025	2024
Interest expense	$ 722	$ 733
Amortization of debt discounts and costs	463	401
Total interest and amortization expense	$ 1,185	$ 1,134

7. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. Although the ultimate aggregate amount of monetary liability or financial impact with respect to these matters is subject to many uncertainties and is therefore not predictable with assurance, management believes that as of March 31, 2025 there is no litigation pending that could have, individually and in the aggregate, a material adverse effect on the Company's financial position, results of operations or cash flows.

8. LEASES

The Company has lease arrangements related to office space, warehouse and production space, and land to facilitate agricultural operations. The leases have remaining lease terms of less than 0.4 to 9.9 years, some of which include options to extend the leases for up to five years. Generally, the lease agreements do not include options to terminate the lease.

Maturities of operating lease liabilities as of March 31, 2025 are as follows:

	Operating Leases
2025 (9 months remaining)	$ 2,114
2026	2,176
2027	1,844
2028	1,762
2029	1,806
Thereafter	10,078
Total lease obligation	19,780
Less: Imputed interest	(4,679)
Total lease liabilities	15,101
Less: Current lease liabilities	1,844
Total non-current lease liabilities	$ 13,257

(In thousands, except share, per share, per unit, and number of years)

9. SHAREHOLDERS' EQUITY

As of March 31, 2025 and December 31, 2024, the Company's share capital consists of one class of issued and outstanding shares: common shares. The Company is also authorized to issue preferred shares issuable in series. To date, no shares of preferred shares have been issued or are outstanding.

Common Shares

As of March 31, 2025 and December 31, 2024, the Company was authorized to issue an unlimited number of common shares, which have no par value.

10. LOSS PER SHARE

The Company computes loss per share of common shares. Basic net loss per common share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted loss per common share is computed by dividing the net loss by the weighted-average number of common shares together with the number of additional common shares that would have been outstanding if all potentially dilutive common shares had been issued, unless anti-dilutive.

The following table sets forth the computation of basic and dilutive net loss per share attributable to common shareholders:

	Three Months Ended March 31,	
	2025	2024
Net loss	$ (6,212)	$ (9,634)
Weighted-average number of common shares - basic	158,009,541	156,036,670
Dilutive effect of stock options and awards	—	—
Weighted-average number of common shares - diluted	158,009,541	156,036,670
Loss per common share – basic and diluted	$ (0.04)	$ (0.06)

As of March 31, 2025 and March 31, 2024, potentially dilutive securities include stock options, restricted share units, common share warrants, and convertible debenture conversion. When the Company recognizes a net loss from continuing operations, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per share. The potentially dilutive awards outstanding for each period are presented in the table below:

	March 31,	
	2025	2024
Outstanding options	3,351,687	5,522,942
Outstanding restricted share units	4,409,234	3,750,000
Total	7,760,921	9,272,942

The Company's debenture is convertible into 19.9% ownership of the Company's common shares at a conversion price of C$2.00 per common share of the Company. The Company can settle the convertible debenture in shares. If the convertible debenture in diluted EPS is anti-dilutive, or if the conversion value of the debenture does not exceed their conversion price for a reporting period, then the shares underlying the notes will not be reflected in the Company's calculation of diluted EPS. For the three months ended March 31, 2025, the price of the Company's shares did not exceed the conversion price and therefore there was no impact to potential common share diluted EPS during those periods.

(In thousands, except share, per share, per unit, and number of years)

11. SHARE-BASED COMPENSATION

Stock options

Stock options vest over a prescribed service period and are approved by the Company's board of directors on an award-by-award basis. Options have a prescribed service period generally lasting up to four years, with certain options vesting immediately upon issuance. Upon the exercise of any stock options, the Company issues shares to the award holder from the pool of authorized but unissued common shares.

There were no options granted for the three months ended March 31, 2025 and March 31, 2024. Detail of the number of stock options outstanding for the three months ended March 31, 2025 under the Company's 2015 legacy option plan and the Company's amended 2018 long term incentive plan (collectively, the "Plans") is as follows:

	Number of Options	Weighted-Average Exercise Price per Option	Weighted-Average Remaining Contract Term (in years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2024	3,513,079	$ 0.88	7.30	$ —
Granted	—	—		
Exercised	—	—		
Forfeited (and expired)	(161,392)	0.50		
Outstanding as of March 31, 2025	3,351,687	$ 0.90	7.08	$ —
Exercisable/vested as of March 31, 2025	2,813,055	$ 1.01	6.78	$ —

There were no options granted or exercised during the three months ended March 31, 2025 and March 31, 2024, respectively.

Restricted share units

The Company has issued time-based restricted share units to certain employees as permitted under the amended 2018 long term incentive plan ("the 2018 Plan"). The restricted share units granted vest in accordance with the board-approved agreement, typically over equal installments up to four years. Upon vesting, one common share of the Company is issued for each restricted share unit awarded. The fair value of each restricted share unit granted is equal to the market price of the Company's shares at the date of the grant. There were no shares vested during the three months ended March 31, 2025. The fair value of shares vested during the three months ended March 31, 2024 was $869.

(In thousands, except share, per share, per unit, and number of years)

Details of the number of restricted share units outstanding under the 2018 Plan is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2024	4,485,077	$ 0.26
Granted	—	$ —
Forfeited	(75,843)	$ 0.21
Vested	—	$ —
Shares withheld upon vesting	—	$ —
Outstanding as of March 31, 2025	4,409,234	$ 0.26

Share-based Compensation Expense

Share-based compensation expense for all equity arrangements for the three months ended March 31, 2025 and March 31, 2024 was $187 and $842, respectively, included in selling, general and administrative expense in the condensed consolidated statements of operations. As of March 31, 2025, $1,121 of total unrecognized share-based compensation expense related to unvested options granted to employees is expected to be recognized over a weighted-average period of 1.33 years.

12. INCOME TAXES

The Company reported income tax expense of $0 and $16 for the three months ended March 31, 2025 and 2024, respectively. The Company's effective tax rate in the three months ended March 31, 2025 and 2024 was 0.0% and (0.2)%, respectively. The Company's effective tax rates differ from the U.S. federal statutory rate of 21.0% for the three months end March 31, 2025 and 2024, respectively, primarily due to the valuation allowance. The effective tax rate for the three months ended March 31, 2025 is consistent with the three months ended March 31, 2024, as the Company has been in a full valuation allowance for both periods.

13. OPERATING SEGMENT

Segment information

The Company has determined that it operates in a single operating and reportable segment, which is the production and sale of hemp-based CBD wellness products, which makes up substantially all of the revenue at this time. This is consistent with how the chief operating decision maker (the "CODM") allocates resources and assesses performance. The Company’s CODM is the executive operations committee that includes the chief executive officer, the chief financial officer, the chief operations officer and the chief people officer. The majority of Company’s products have similar characteristics due to the same raw material ingredient (CBD and derivatives), similar nature of cultivation process, the type of customer and the regulatory nature of the industry.

The CODM assesses performance for this segment and decides how to allocate resources based on pre-tax net income/(loss) that is reported on the consolidated statement of operations. The measure of segment assets is reported on the consolidated balance sheets as total assets. For the three months ended March 31, 2025 and 2024, the segment's revenues and pre-tax net loss were $12,262 and $12,124; and $(6,212) and $(9,618), respectively. There are no differences between segment revenues, pre-tax net income/(loss) and the Company's consolidated revenues and pre-tax net income/(loss).

General Information

Factors used to Identify Reportable Segments: The Company operates as a single reportable segment, focusing primarily on the production and sale of hemp-based CBD wellness products.

Products and Services: The Company's revenue is primarily derived from the production and sale of hemp-based CBD wellness products.

(In thousands, except share, per share, per unit, and number of years)

Chief Operating Decision Maker (CODM): The Company's Chief Executive Officer, the Chief Financial Officer, the Chief Operations Officer, and the Chief People Officer.

Measure of Segment Profit or Loss and Total Assets: The CODM evaluates performance and allocates resources based on pre-tax net income/(loss), as presented in the accompanying financial statements. The measure of segment assets is reported on the balance sheet as total consolidated assets.

Significant Segment Expenses

The following significant expenses are regularly reviewed by the CODM for the three months ended March 31, 2025 and 2024: Cost of goods sold $6,032 and $5,213, respectively; Selling, general, and administrative expenses $11,578 and $15,280, respectively; Change in fair value of financial instruments $(126) and $(1,860), respectively; and Depreciation and Amortization $2,449 and $2,493, respectively.

Reconciliation to Consolidated Financial Statements

As the Company operates as a single reportable segment, the amounts presented above align directly with the consolidated totals in the financial statements.

	For the Three Months Ended March 31,	
	2025	2024
Product Revenue	$ 12,187	$ 11,813
Service Revenue	75	311
Total Revenue	$ 12,262	$ 12,124
Cost of goods sold	6,032	5,213
Gross profit	$ 6,230	$ 6,911
Gross profit %	50.8 %	57.0 %
Selling, general, and administrative expenses	11,578	15,280
Operating loss	$ (5,348)	$ (8,369)
Change in fair value of financial instruments	(126)	(1,860)
Other income (expense), net	(738)	611
Loss before provision for income taxes	$ (6,212)	$ (9,618)
Other segment information		
Depreciation/Amortization	2,449	2,493
Total assets	108,023	141,778
Long-term liabilities	68,473	75,478

14. RELATED PARTY TRANSACTIONS

Effective November 2020, the Company issued a secured promissory note, where $1,000 was loaned to one of the Stanley Brothers. The note receivable was secured by equity instruments with certain of the Stanley Brothers, bore interest at 3.25% per annum, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021, which date was subsequently extended. Effective November 13, 2024, the Company entered into a third amendment of the promissory note to extend the maturity date until November 13, 2029. According to the terms of the agreement, no additional interest will accrue through the payment date. The note has been fully reserved for as of December 31, 2024.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA as discussed above (Note 3 "Fair Value Measurement"). The SBH Purchase Option was purchased for total consideration of $8,000. Certain members of the Stanley Brothers, who are or were employees of the Company at the time, are the majority shareholders of Stanley Brothers USA.

Effective January 5, 2023, the Company entered into a Brand License and Option Agreement with JMS Brands LLC, an entity owned by one of the Stanley Brothers. Pursuant to the Brand License and Option Agreement, the Company licensed certain intellectual property from JMS Brands LLC, for an annual license fee of $500. As of January 5, 2024, the Brand License and Option Agreement has expired.

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA and BAT. AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by a member of the Stanley Brothers. BAT holds an equity interest in the entity in the form of 2,000,000 preferred units following its $10 million investment and has the right to participate in future equity issuances to maintain its pro rata equity position. The Company and AJNA each hold 4,000,000 of the entity's voting common units (Note 3). Effective May 1, 2023, the Company entered into an 8% interest bearing note receivable with DeFloria for the sale of lab equipment in the amount of $170. The principal and interest of the note receivable will be paid in 36 monthly installments. As of March 31, 2025 and December 31, 2024, the remaining note receivable of $51 and $71, respectively, is presented in other assets in the condensed consolidated balance sheets. Additionally on February 12, 2024, the Company and DeFloria entered into a separate master services agreement pursuant to which the Company will be compensated for the provision of certain services to DeFloria. For the three months ended March 31, 2025 and March 31, 2024, the Company recognized $75 and $311 in revenue and cost of goods sold, respectively, related to the service agreement with DeFloria. Additionally, the Company has an accounts receivable balance due from DeFloria of $342 and $648 as of March 31, 2025 and December 31, 2024, respectively.

On June 21, 2024, the Company entered into a consulting agreement with Jared Stanley, former executive of the Company, and current member of the Board of Directors. In consideration for Mr. Stanley's services, he receives a bi-weekly fee of $6.

15. SUBSEQUENT EVENTS

The Company and MLB entered into the PRA Letter Agreement terminating the MLB Promotional Rights Agreement as of May 13, 2025 and waives the Company's obligation to pay the remaining aggregate rights fee of $18 million for the current and remainder of the term of the MLB Promotional Rights Agreement.

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

Cautionary Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q ("Form 10-Q") contains statements that are, or may be considered to be, "forward-looking statements" under Canadian securities laws and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be subject to the "safe harbor" created by those sections and other applicable laws. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on current beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions. All statements other than statements of historical fact included in this Form 10-Q regarding the prospects of Charlotte's Web Holdings, Inc. ("Charlotte's Web", the "Company" or "we"), the industry or its prospects, plans, financial position or business strategy may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking words such as "plans," "expects" or "does not expect," "is expected," "look forward to," "budget," "scheduled," "estimates," "forecasts," "will continue," "intends," "the intent of," "have the potential," "anticipates," "does not anticipate," "believes," "should," "should not," or variations of such words and phrases that indicate that certain actions, events or results "may," "could," "would," "might," or "will," "be taken," "occur," or "be achieved," or the negative of these terms or variations of them or similar terms. Furthermore, forward-looking statements may be included in various filings that the Company makes with the SEC, on SEDAR+, or in press releases or oral statements made by or with the approval of one of the Company's authorized executive officers. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it cannot assure you that these expectations will prove to be correct. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. All capitalized and undefined terms used in this section shall have the same meanings hereafter defined in this Quarterly Report on Form 10-Q.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the unaudited condensed consolidated financial statements and the accompanying notes in this Form 10-Q and the sections entitled "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2024. Except for historical information, the discussion in this section contains forward-looking statements that involve risks and uncertainties, as discussed in the "Cautionary Note Regarding Forward Looking Statements." Future results could differ materially from those discussed below for many reasons, including the risks described in Item 1A—"Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2024 and in Part II, Item 1A—"Risk Factors" of this Form 10-Q.

Management's Discussion & Analysis of Charlotte's Web Holdings, Inc.

For purposes of this discussion, "Charlotte's Web," "CW," "we," "our", "us", or the "Company" refers to Charlotte's Web Holdings, Inc. and its subsidiaries: Charlotte's Web, Inc. and Abacus Products, Inc., and its wholly-owned subsidiaries: Abacus Health Products, Inc., Abacus Wellness, Inc. and CBD Pharmaceuticals Ltd. The results herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Amounts are presented in thousands of United States dollars, unless otherwise indicated.

BUSINESS OVERVIEW

Charlotte's Web Holdings, Inc. is a Certified B Corp headquartered in Louisville, Colorado, which conducts the majority of its business in the United States. The Company is a market leader in innovative hemp extract wellness products under a family of brands which includes Charlotte's Web™, CBD Medic™, and CBD Clinic™. Charlotte's Web premium quality products start with proprietary hemp genetics that are 100% North American farm grown and are then manufactured into hemp extracts containing naturally occurring phytocannabinoids including cannabidiol "CBD", cannabichromene ("CBC"), cannabigerol ("CBG"), terpenes, flavonoids and other cannabinoids and beneficial hemp compounds. The Company is headquartered in a cGMP compliant facility in Louisville, Colorado, where the Company conducts its production of tinctures, distribution, and quality control activities as well as research and development ("R&D"). Charlotte's Web product categories include full spectrum hemp extract oil tinctures (liquid products), gummies, capsules, CBD topical creams and lotions, broad-spectrum botanical CBD, functional mushrooms,and pet products. The Company also offers NSF Certified for Sport® broad spectrum tincture and gummy products. Charlotte's Web products are distributed to retailers and health care practitioners, and online through the Company's website at www.CharlottesWeb.com. The information provided on the website is not part of this MD&A.

The Company's business consists of the farming, manufacturing, marketing, and sales of hemp-derived CBD and botanical-based wellness products. As of March 31, 2025, the Company operated in a single operating and reportable segment, hemp-derived CBD wellness products, making up the majority of the revenue of the Company. The executive officers reviewed overall operating results in order to assess financial performance and to make resource allocation decisions, rather than assessing any lower-level unit of operations in isolation.

The Company's primary products are made from proprietary strains of whole-plant hemp extracts containing a full spectrum of phytocannabinoids, terpenes, flavonoids, and other hemp compounds. The Company believes the presence of these various compounds work synergistically to heighten the effects of the products, making them superior to single-compound isolates.

Hemp extracts are produced from cannabis and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a THC concentration of not more than 0.3% on a dry weight basis. The Company is engaged in research involving a broad variety of compounds derived from hemp. Where research provides evidence that a greater than 0.3% THC level may have a potential therapeutic use, the Company may consider pursuing development of that use in jurisdictions where it is legal to do so in accordance with applicable regulations and if consistent with the Company's strategic vision. The Company does not currently have any plans to expand into high THC products in the near future.

The Company grows its proprietary hemp domestically in the United States on farms leased in northeastern Colorado and sources hemp through contract farming operations in Arizona, Colorado, Kentucky, New Mexico, and Canada. The hemp grown in Canada is utilized exclusively in the Canadian markets or for research purposes and not in the Company's products sold within the United States.

Recent Developments

With an increased commitment to innovation, Charlotte's Web has refreshed its mission to "Unearth the Science of Nature to Revolutionize Wellness," and is evolving its wellness offerings both to strengthen the Company's core leadership in CBD, and extend beyond CBD to include a broader range of botanical-based wellness solutions, including minor cannabinoids. A testament to this expansion is the launch of Charlotte's Web Stay Asleep Cannabidiol ("CBN") gummies. Similar to CBD, CBN is a non-intoxicating cannabinoid found in the hemp plant. At the cutting edge of innovative natural sleep solutions, these new melatonin free gummies could offer distinct benefits for the approximately 67% of adults who report waking up during the night (Phillips Global Sleep Survey, 2019). This is the first CBN sleep product supported by placebo-controlled peer-reviewed research study, offering a 20 mg dose of CBN. The Stay Asleep gummy demonstrates Charlotte's Web's commitment to science-backed products, providing an effective alternative to more traditional sleep supplements and medications. Charlotte's Web believes expanding beyond CBD leverages the Company's brand recognition, intellectual property, and partnerships, including an ongoing collaboration with DeFloria, Inc. ("DeFloria") for botanical drug development.

As of March 31, 2025, several states have adopted new regulations that will impact the Company's ability to sell certain products as currently formulated or packaged in these states. Many of these states have also implemented new THC/CBD limits, age verification, testing, labeling and packaging requirements. The Company continues to assess the business and financial impacts of the new regulations, including steps that can be taken to address the new product formulation, and labeling requirements, as well as costs and potential revenue impacts and anticipated timing for such impacts to the Company in these states.

The Company continues to invest in R&D efforts to identify new product opportunities. The Company is working to capitalize on the rapidly emerging botanical-based wellness products industry by driving customer acquisition and retention, as well as accelerating retail expansion. In addition, the Company is expanding its product line beyond hemp-based products should the science and the Company's strategic vision support such expansion.

On February 24, 2025, the Company announced that the U.S. Food and Drug Administration ("FDA") has completed its review of the Phase 1 data and Investigational New Drug ("IND") application submitted by DeFloria. The FDA has concluded that DeFloria may now proceed with its planned FDA Phase 2 clinical trial for its botanical pharmaceutical candidate, AJA001 Oral Solution, a treatment for symptoms of autism spectrum disorder ("ASD"). DeFloria is a collaboration including the Company and AJNA to develop AJA001 as a treatment for irritability associated with ASD. AJA001 employs the Company's proprietary full-spectrum cannabidiol hemp extract derived from one of its patented cultivars.

The Company and MLB entered into a letter agreement ("PRA Letter Agreement") terminating the MLB Promotional Rights Agreement as of May 13, 2025 and waives the Company's obligation to pay the remaining aggregate rights fee of $18 million for the current and remainder of the term of the MLB Promotional Rights Agreement.

Selected Financial Information

	For the Three Months Ended March 31,	
	2025	2024
Total revenues	$ 12,262	$ 12,124
Cost of goods sold	6,032	5,213
Gross profit	$ 6,230	$ 6,911
Selling, general, and administrative expenses	11,578	15,280
Operating loss	$ (5,348)	$ (8,369)
Change in fair value of financial instruments	(126)	(1,860)
Other income (expense), net	(738)	611
Net loss	$ (6,212)	$ (9,634)
Total assets	$ 108,023	$ 141,778
Total liabilities	$ 86,961	$ 95,110

Revenue

The majority of the Company's revenue is derived from sales of branded products to consumers via the Company's DTC e-commerce website, distributors, and retail B2B customers. Service revenue is attributable to the Company and DeFloria entering into a Master Services Agreement ("Services Agreement") pursuant to which the Company is compensated for the provision of certain services to DeFloria.

	Three Months Ended March 31,		
	2025	2024	% Change
Product revenue	$ 12,187	$ 11,813	3.2 %
Service revenue	75	311	(75.9)%
Total revenue	$ 12,262	$ 12,124	1.1 %

Total revenue for the three months ended March 31, 2025 was $12,262, an increase of 1.1% compared to the three months ended March 31, 2024. Total product revenue was $12,187, representing a 3.2% increase, propelled by the Company's upgraded e-commerce platform. Introduced in mid-2024, the new platform has delivered measurable improvements in marketing effectiveness, customer engagement, and sales volumes. The Company also continues to generally outperform retail category benchmarks, reflecting the strength of its recent product innovations and the effectiveness of its strategic retail partnerships. This is the first period of year-over-year growth reported since the second quarter of 2021 and follows a consecutive quarterly growth trend in 2024.

Cost of Goods Sold

Cost of goods sold includes the cost of inventory sold, changes in inventory provisions, and other production costs expensed. Other production costs include direct and indirect production costs including direct labor, processing, testing, packaging, quality assurance, security, shipping, depreciation of production equipment, indirect labor, including production management, and other related expenses. The primary factors that can impact cost of goods sold on a period-to-period basis include the volume of products sold, mix of products sold, third-party quality costs, transportation, overhead allocations and changes in inventory provisions.

The components of cost of goods sold are as follows:

	Three Months Ended March 31,		
	2025	2024	% Change
Inventory expensed to cost of goods sold	3,731	3,382	10.3 %
Inventory provision, net	13	96	(86.5)%
Other production costs	1,391	568	144.9 %
Service costs	75	311	100.0 %
Depreciation and amortization	822	856	(4.0)%
Cost of goods sold	$ 6,032	$ 5,213	15.7 %

Cost of goods sold increased 15.7% for the three months ended March 31, 2025 compared to the three months ended March 31, 2024, primarily due to higher unit sales volume and an increase in variable operating costs. The increase was partially offset by a decrease in services costs related to the DeFloria service agreement.

Depreciation and amortization expense for the three months ended March 31, 2025 and March 31, 2024 was $2,449 and $2,493, respectively, of which $822 and $856, respectively, was expensed to cost of goods sold. The remaining depreciation and amortization expenses of $1,627 and $1,637, respectively, was expensed to Selling, general, and administrative expenses.

Gross Profit

The primary factors that can impact gross profit margins include the volume of products sold, revenue mix between DTC e-commerce and B2B, product sales mix, promotional and sales discount rate, manufacturing spend, transportation costs, and changes in inventory provisions.

Gross profit and gross profit margin are as follows:

	Three Months Ended March 31,		
	2025	2024	% Change
Gross profit	$ 6,230	$ 6,911	(9.9)%
Gross margin	50.8 %	57.0 %	-10.9 %

Gross profit decreased 9.9% for the three months ended March 31, 2025 compared to the three months ended March 31, 2024. For the three months ended March 31, 2025, additional costs of goods sold related to materials and shipping costs.

Selling, General, and Administrative Expenses

Total Selling, general, and administrative expenses are as follows:

	Three Months Ended March 31,		
	2025	2024	% Change
Selling, general, and administrative expenses	$ 11,578	$ 15,280	(24.2)%

Total Selling, general, and administrative expenses for the three months ended March 31, 2025 and March 31, 2024 were $11,578 and $15,280, respectively. The 24.2% decrease was primarily attributable to a decrease in personal costs due to the cost cutting measures undertaken by the company between the comparable periods. These measures included adjusting the size of the workforce to properly align with the revenue scope, as well as improving the Company's insurance program and aligning with more cost-efficient software options and improved operating efficiencies.

Depreciation and amortization expensed to Selling, general, and administrative expenses for the three months ended March 31, 2025 and March 31, 2024 were $1,627 and $1,637, respectively.

Total research and development expenses expensed to Selling, general, and administrative expense for the three months ended March 31, 2025 and March 31, 2024 were $503 and $751, respectively. Research and development expenses primarily include personnel costs related to our R&D science division as well as R&D related projects advancing Hemp cannabinoid science through research programs that provide a better understanding of the therapeutic uses of cannabinoids.

Total Change in Fair Value of Financial Instruments

Total change in fair value of financial instruments is as follows:

	Three Months Ended March 31,		% Change
	2025	2024	
Change in fair value of financial instruments	$ (126)	$ (1,860)	(93.2)%

Total change in fair value of financial instruments for the three months ended March 31, 2025 and March 31, 2024 was loss of $126 and $1,860, respectively. For the three months ending March 31, 2025, the change in fair value of financial instruments was primarily due to a loss of $100 in the investment of DeFloria. The decrease was primarily due to the financial projections extended for an additional year based on timing of completing clinical trials. For the three months ending March 31, 2024, the change in fair value of financial instruments was due to a loss of $951 in the fair value of the SBH Purchase Option as well as a loss of $800 in the investment of DeFloria. The fair value of the SBH Purchase Option and the investment in DeFloria are revalued at each reporting date with changes primarily based on financial projections.

Liquidity and Capital Resources

The Company's objective when managing its liquidity and capital resources is to provide sufficient short and long-term liquidity to fund net operating losses and capital expenditures while executing strategic growth plans. In the near to mid-term, it is focused on reducing negative cash flows from operations.

As of March 31, 2025 and December 31, 2024, the Company had total current liabilities of $18,488 and $15,936, respectively, and cash and cash equivalents of $19,357 and $22,618, respectively, to meet its current obligations.

The Company expects a reduction in overall selling, general, and administrative expenses in 2025 as a result of several actions taken in the second half of 2024. This includes improvements in operating efficiency throughout the business, cost savings from a more efficient e-commerce platform and associated information technology upgrades, and a data-driven reorganization of its B2B business and retail partnering strategies.

Management believes that the Company's existing cash and cash equivalents, and short-term investments will provide sufficient liquidity to fund operations and planned capital expenditures for the next 12 months. The Company's ability to fund its operations for the longer term will depend on the future operating performance, particularly revenue growth, which can be affected by general economic conditions, industry regulatory changes, and other factors beyond the Company's control.

In addition to cash provided by operations, the Company may fund long-term liquidity requirements through various sources of capital. The Company regularly considers fundraising opportunities and may decide, from time to time, to raise capital through borrowings or issuances of additional equity and/or debt securities. The Company's ability to raise funds through the issuance of additional equity and/or debt securities is dependent on a number of factors, including the current state of the capital markets, investor sentiment, and intended use of proceeds.

Cash Flows

Cash from Operating Activities

Net cash used in operating activities for the three months ended March 31, 2025 and March 31, 2024 were as follows:

	Three Months Ended March 31,	
	2025	2024
Net cash used in operating activities	$ (2,768)	$ (7,179)

For the three months ended March 31, 2025, the decrease in cash used in operations is primarily due to operating cost saving measures, as well as, a reduction in payments associated with the MLB Promotional Rights Agreement, compared to $2,500 for the three months ended March 31, 2024.

Cash from Investing Activities

Net cash used in investing activities for the three months ended March 31, 2025 and March 31, 2024 were as follows:

	Three Months Ended March 31,	
	2025	2024
Net cash used in investing activities	$ (493)	$ (2,033)

For the three months ended March 31, 2025, the project to in-source topical and gummy production is substantially complete resulting in a decrease in cash used in investing activities compared to the the three months ended March 31, 2024.

Net cash provided by financing activities for the three months ended March 31, 2025 and March 31, 2024 were as follows:

	Three Months Ended March 31,	
	2025	2024
Net cash used in financing activities	$ —	$ (98)

For the three months ended March 31, 2024, the change was primarily due to the vesting of restricted stock units. There were no vesting of restricted stock units for the three months ended March 31, 2025.

Off-Balance Sheet Arrangements

As of March 31, 2025 and December 31, 2024, we do not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on our results of operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

Related party transactions

Effective November 2020, the Company issued a secured promissory note, where $1,000 was loaned to one of the Stanley Brothers. The note receivable was secured by equity instruments with certain of the Stanley Brothers, bore interest at 3.25% per annum, and required the unpaid principal and unpaid interest balances to be paid on or before the maturity date of November 13, 2021, which date was subsequently extended. Effective November 13, 2024, the Company entered into a third amendment of the promissory note to extend the maturity date until November 13, 2029. According to the terms of the agreement, no additional interest will accrue through the payment date. The note has been fully reserved for as of December 31, 2024.

On March 2, 2021, the Company entered into the SBH Purchase Option with Stanley Brothers USA as discussed above (Note 3 "Fair Value Measurement"). The SBH Purchase Option was purchased for total consideration of $8,000. Certain members of the Stanley Brothers, who are or were employees of the Company at the time, are the majority shareholders of Stanley Brothers USA.

Effective January 5, 2023, the Company entered into a Brand License and Option Agreement with JMS Brands LLC, an entity owned by one of the Stanley Brothers. Pursuant to the Brand License and Option Agreement, the Company licensed certain intellectual property from JMS Brands LLC, for an annual license fee of $500. As of January 5, 2024, the Brand License and Option Agreement has expired.

On April 6, 2023, the Company jointly formed an entity, DeFloria, with AJNA and BAT. AJNA is a botanical drug development company. AJNA is partially owned and was co-founded by a member of the Stanley Brothers. BAT holds an equity interest in the entity in the form of 2,000,000 preferred units following its $10 million investment and has the right to participate in future equity issuances to maintain its pro rata equity position. The Company and AJNA each hold 4,000,000 of the entity's voting common units (Note 3). Effective May 1, 2023, the Company entered into an 8% interest bearing note receivable with DeFloria for the sale of lab equipment in the amount of $170. The principal and interest of the note receivable will be paid in 36 monthly installments. As of March 31, 2025 and December 31, 2024, the remaining note receivable of $51 and $71, respectively, is presented in other assets in the condensed consolidated balance sheets. Additionally on February 12, 2024, the Company and DeFloria entered into a separate master services agreement pursuant to which the Company will be compensated for the provision of certain services to DeFloria. For the three months ended March 31, 2025 and March 31, 2024, the Company recognized $75 and $311 in revenue and cost of goods sold, respectively, related to the service agreement with DeFloria. Additionally, the Company has an accounts receivable balance due from DeFloria of $342 and $648 as of March 31, 2025 and December 31, 2024, respectively.

On June 21, 2024, the Company entered into a consulting agreement with Jared Stanley, former executive of the Company, and current member of the Board of Directors. In consideration for Mr. Stanley's services, he will receive a bi-weekly fee of $6.

Recently Adopted Accounting Principles

In November 2023 the FASB issued *ASU 2023-07—Segment Reporting*. The guidance was issued to provide financial statement users with more disaggregated expense information about a public entity's reportable segments. The guidance is effective for the year ended December 31, 2024, and the expanded interim disclosures are effective in entities in 2025 and will be applied retrospectively to all prior periods presented.

Critical Accounting Policies and Estimates

Listed below are the accounting policies and estimates we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. Please also refer to Note 2 of our notes to condensed consolidated financial statements for a discussion on recently adopted and issued accounting pronouncements.

Investment in Unconsolidated Entities

The Company has a variable interest in the investment in DeFloria; however, the Company is not the primary beneficiary of DeFloria as it lacks the power to direct DeFloria's key activities. The Company concluded that the investment in DeFloria should not be consolidated. In accordance with ASC 825-10, equity method investments are eligible for the fair value option as they represent recognized financial assets. As the Company was not required to consolidate the investment and does not meet any of the other scope exceptions, the Company had the ability to adopt the fair value option for the investment at inception. The investment was remeasured at fair value after each reporting date, with changes recognized in condensed consolidated statements of operations, as changes in fair value of financial instruments for the period.

The use of assumptions for the fair value determination of the investment in Defloria included a high degree of subjectivity and judgment using unobservable inputs (level 3 on the fair value hierarchy), which results in estimation uncertainty. To determine the value of the investment, the Company utilizes an Option Pricing Model (OPM). The OPM considers the various terms of the stockholder agreements, including the level of seniority among the securities, dividend policy, conversion ratios, and cash allocations upon liquidation of the entity. The OPM is appropriate when the range of potential future outcomes is difficult to predict with any certainty.

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. Cost includes all expenses for direct raw materials inputs, as well as costs directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost is determined by use of the weighted average method. To determine if a provision for inventories is required, the Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions, including forecasted demand compared to quantities on hand, as well as other factors such as potential excess or aged inventories based on product shelf life, and other factors that affect inventory obsolescence. The Company's inventories of harvested hemp are recorded at cost to grow and harvest. Raw materials costs as well as production costs are included in the carrying value of the Company's finished goods inventory. The Company's inventory production process for cannabinoid products includes cultivating botanical raw material. Because of the duration of the cultivation process, a portion of the inventory will not be sold within one year. Consistent with the practice in other industries that cultivate botanical raw materials, all inventory is classified as a current asset.

Impairment of Long-Lived Assets

The Company reviews intangible assets with indefinite useful lives for impairment at least annually and reviews all intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Long-lived assets, such as property and equipment and intangible assets subject to depreciation and amortization, as well as indefinite lived intangibles and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than the Company had originally estimated. Recoverability of these assets is measured by comparison of the carrying amount of each asset or asset group to the future undiscounted cash flows the asset or asset group is expected to generate over their remaining lives. If the asset or asset group is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset or asset group. If the useful life is shorter than originally estimated, the Company amortizes the remaining carrying value over the new shorter useful life. Impairment losses are recorded in selling, general, and administrative expense in the condensed consolidated statements of operations. There were no impairment losses recognized for the three months ended March 31, 2025 and 2024, respectively.

Convertible Debenture

The Company determined that the debenture is a freestanding financial instrument, which includes embedded derivatives. The embedded derivatives have been bifurcated from the debenture and accounted for separately in accordance with the provisions of ASC 815, *Derivatives and Hedging*. The Company reviewed the terms of the debenture and identified two material embedded features which required bifurcation and separate accounting pursuant to the provisions of ASC 815: 1) the interest rate conversion feature based on changes in federal regulations, and 2) the debt conversion option to common shares. The debt interest rate conversion feature is classified as a derivative asset and measured at fair value using a probability weighted income approach. The debt conversion option is classified as a derivative liability and measured at fair value using a Black-Scholes option pricing model. The Company allocated proceeds first to the derivatives measured at fair value and the residual amount was allocated to the debenture. Debt issuance costs are allocated to the debenture. The debt issuance costs are presented as a direct reduction from the face value of the debenture and amortized over the stated term of the debenture.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets or liabilities are computed based on the temporary difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal income tax rate in effect for the year in which the differences are expected to reverse. Deferred income tax expense or benefit is based on the changes in the deferred income tax assets or liabilities from period to period. A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized.

Significant judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against net deferred tax assets. The Company assesses the likelihood that deferred tax assets will be recovered as deductions from future taxable income. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income for the foreseeable future, determination of cumulative pre-tax book income or loss, earnings history, and forecasting reliability. It is the Company's policy to offset indefinite lived deferred tax assets with indefinite lived deferred tax liabilities. The Company provided a full valuation allowance on deferred tax assets because it is more likely than not that deferred tax assets will not be realized.

The Company accounts for uncertainties in income taxes under ASC Topic 740, which prescribes a recognition threshold and measurement methodology to recognize and measure an income tax position taken, or expected to be taken, in a tax return. With respect to any tax positions that do not meet the recognition threshold, a corresponding liability, including interest and penalties, is recorded in the condensed consolidated financial statements. The Company may be subject to examination by tax authorities where the Company conducts operations. The earliest income tax year that may be subject to examination is 2019. The Company has recorded an uncertain tax position as of March 31, 2025 and December 31, 2024. The Company's policy is to recognize interest and penalties on taxes, if any, within the statement of operations as income tax expense.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customer ("ASC 606"). The Company elected to early adopt ASC 606 as of January 1, 2018, as permitted by the standard. The Company performs the following five steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under the standard, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of revenue accounting, the Company evaluates the goods or services promised within each contract related performance obligation and assesses whether each promised good or service is distinct. The Company recognizes as revenue, the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The Company recognizes revenue from customers when control of the goods or services is transferred to the customer, generally when products are shipped, at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. Freight revenue is included in revenue on the condensed consolidated statements of operations, and is generally exempt from state sales taxes. Sales tax collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the condensed consolidated statements of operations. Contracts are written to include standard discounts and allowances. Contracts are not written to include advertising allowances, tiered discounts or any other performance obligation. Since the Company's contracts involve the delivery of various tangible products, the arrangements are considered to contain only a single performance obligation, as such there is no allocation of the transaction price. The Company also offers e-commerce discounts and promotions through its online rewards program. The Charlotte's Web Loyalty Program offers customers rewards points for every dollar spent through the Company website to earn store credit for future purchases. The Company defers recognition of revenue for unredeemed awards until the following occurs: (1) rewards are redeemed by the consumer, (2) points or certificates expire, or (3) an estimate of the expected unused portion of points or certificates is applied, which is based on historical redemption patterns.

Any product that does not meet the customer's expectations can be returned within the first 30 days of delivery in exchange for another product or for a full refund. Generally, any product sold through a distributor or retailer must be returned to the original purchase location for any return or exchange. The Company accounts for customer returns utilizing the "expected value method". Expected amounts are excluded from revenue and recorded as a "refund liability" that represents the Company's obligation to return the customer's consideration. Estimates are based on actual historical and current specific data.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information under this item is not required to be provided by smaller reporting companies.

Item 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of March 31, 2025, our disclosure controls and procedures were effective to ensure the timely disclosure of required information in our SEC filings.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ending March 31, 2025 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

Item 1. Legal Proceedings

From time to time, the Company may be involved in various regulatory issues, claims and lawsuits arising in the ordinary course of business, none of which, in the opinion of management, is expected to have a material adverse effect on the Company's results of operations or financial condition.

At present, the Company is not a party to any material pending legal proceedings, other than ordinary routine litigation incidental to the business. Nor is the Company or its property the subject of any legal proceedings, known or contemplated, that involve a claim for damages exclusive of interest and costs that meet or exceed 10% of its current assets.

Item 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2024 includes a detailed discussion of our risk factors under the heading "Part I, Item 1A—Risk Factors". Except as set forth below, there have been no material changes from such risk factors during the quarter ended March 31, 2025. You should consider carefully the risk factors set forth in this Form 10-Q and discussed in our Annual Report on Form 10-K for the year ended December 31, 2024 and all other information contained in or incorporated by reference in this Form 10-Q before making an investment decision. If any of the risks discussed herein or in the Annual Report on Form 10-K for the year ended December 31, 2024 actually occur, they may materially harm our business, financial condition, operating results, cash flows or growth prospects. As a result, the market price of our common shares could decline, and you could lose all or part of your investment. Additional risks and uncertainties that are not yet identified or that we think are immaterial may also materially harm our business, financial condition, operating results, cash flows or growth prospects and could result in a complete loss of your investment.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended March 31, 2025, none of the Company's directors or officers adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

On October 11, 2022, the Company entered into a Promotional Rights Agreement (the "MLB Promotional Rights Agreement") with MLB Advanced Media L.P., on its own behalf and on behalf of Major League Baseball Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC and the Major League Baseball Clubs (collectively, the "MLB"), pursuant to which the Company entered into a strategic partnership with MLB to promote the Company's new NSF-Certified for Sport® product line. The Company and MLB entered into a letter agreement ("PRA Letter Agreement") terminating the MLB Promotional Rights Agreement as of May 13, 2025 (the "PRA Termination Date") and waives the Company's obligation to pay the current and remaining aggregate rights fee of $18 million for the remainder of the term of the MLB Promotional Rights Agreement. MLB and the Company entered into the PRA Letter Agreement as a negotiated resolution to certain of the Company's unmet payment obligations under MLB Promotional Rights Agreement. The Company will have a sell off period during which it may dispose of any MLB branded products of the Company.

Item 6. Exhibits

Documents filed as part of this report.

Exhibit No.	Description	Location
10.1+	Letter Agreement, dated May 13, 2025 by and among MLB Advanced Media L.P., on its own behalf and on behalf of Major League Baseball Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC and the Major League Baseball Clubs and Charlotte's Web Holdings, Inc	Filed herewith
31.1	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
31.2	Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	Filed herewith

+ Certain identified information has been excluded from the exhibit pursuant to Item 601(a)(6) and/or Item 601(b)(10)(iv) of Regulation S-K.

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.

CHARLOTTE'S WEB HOLDINGS, INC.

May 14, 2025	By:	/s/ Erika Lind
(Date)		**Erika Lind**
		(Chief Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signatures	**Title**	**Date**
/s/ William Morachnick William Morachnick	Chief Executive Officer (Principal Executive Officer)	May 14, 2025
/s/ Erika Lind Erika Lind	Chief Financial Officer (Principal Financial and Accounting Officer)	May 14, 2025

MAJOR LEAGUE BASEBALL
1271 AVENUE OF THE AMERICAS, NEW YORK, NY 10020

May 13, 2025

VIA E-MAIL:

Legal Department
Charlotte's Web, Inc.
700 Tech Court
Louisville, CO 80020
Attn: Stephen Rogers
stephen.rogers@charlottesweb.com

Dear Mr. Rogers:

Reference is made to the Promotional Rights Agreement, dated as of October 11, 2022 (the "**Agreement**"), between MLB Advanced Media, L.P. ("**MLBAM**" or "**Licensor**"), on its own behalf and on behalf of Major League Baseball Properties, Inc., the Office of the Commissioner of Baseball, The MLB Network, LLC, and the Major League Baseball, on one hand, and Charlotte's Web, Inc., on the other hand ("**Licensee**" and each of Licensee and Licensor, a "**Party**", and collectively, the "**Parties**"). Capitalized terms used and not defined shall have the meanings ascribed to them in the Agreement.

Licensee acknowledges that it has not met certain of its payment obligations as set forth in Section F.1 of the Agreement during calendar year 2025. As a negotiated resolution notwithstanding the termination rights of MLBAM pursuant to the Agreement, Licensor and Licensee agree to terminate the Agreement effective as of May 13, 2025 (the "**Termination**" and such date, the "**Termination Date**"). In connection with the Termination, Licensor hereby waives Licensee's obligation to pay any outstanding MLB Rights Fees owed to Licensor as of the Termination Date. Additionally, effective as of the Termination Date, Licensee shall be afforded the rights set forth in Section G.10 with respect to the Selloff Period for MLB Branded Licensee Products. Effective as of the Termination Date, Licensee shall cease use of any Licensed Properties and any other MLB intellectual property except as it appears on the MLB Branded Licensee Products solely during the Selloff Period.

Those sections detailed in Section XX.T in addition to any other provision of the Agreement that by its terms survives termination of the Agreement, shall survive Termination. For purposes of clarity, Licensor's equity interest in Licensee pursuant to the Subscription Agreement shall remain unchanged as a result of the Termination; the terms of the Subscription Agreement shall remain in full force and effect.

Please confirm your acknowledgment of and agreement to the terms set forth in this letter by signing below where indicated. The statements in this letter do not constitute a full and complete statement of the facts of, or MLBAM's rights with regard to, this matter. Nor do such statements constitute a waiver of any legal or equitable rights or remedies, all of which MLBAM expressly reserves.

Very truly yours,

/s/ Sarah Horvitz

Sarah Horvitz
Senior Vice President, Assistant Secretary
MLB Advanced Media, Inc. as general partner of MLB Advanced Media L.P.

ACKNOWLEDGED & AGREED BY:

CHARLOTTE'S WEB, INC.

By: /s/ William Morachnick

Name: William Morachnick

Title: Chief Executive Officer

EXHIBIT 31.1

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

I, William Morachnick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charlotte's Web Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2025

/s/ William Morachnick

William Morachnick
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Erika Lind, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charlotte's Web Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 14, 2025

/s/ Erika Lind

Erika Lind
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report of Charlotte's Web Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2025, as filed with the Securities and Exchange Commission (the "Report"), I, William Morachnick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Dated: May 14, 2025

/s/ William Morachnick

William Morachnick
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

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

In connection with the Quarterly Report of Charlotte's Web Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2025, as filed with the Securities and Exchange Commission (the "Report"), I, Erika Lind, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as added by §906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Dated: May 14, 2025

/s/ Erika Lind

Erika Lind
Chief Financial Officer
(Principal Financial Officer)