Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including but not limited to those described in the "Risk Factors" section of this Annual Report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements. You should read "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" contained in this Annual Report on Form 10-K.

Overview

Trulieve is a vertically integrated cannabis company and multi-state operator which currently holds licenses to operate in nine states. Headquartered in Quincy, Florida, we are the largest cannabis retailer in the United States with market leading retail operations in Arizona, Florida, Georgia, Pennsylvania, and West Virginia. We are committed to delivering exceptional customer experiences through elevated service and high-quality branded products. We aim to be the brand of choice for medical and adult-use customers in all of the markets that we serve. The Company operates in highly regulated markets that require expertise in cultivation, manufacturing, and retail. We have developed proficiencies in each of these functional areas and are passionate about expanding access to regulated cannabis products through advocacy, education, and expansion of our distribution network.

All of the states in which we operate have developed programs to permit the use of cannabis products for medicinal purposes to treat specific conditions and diseases, which we refer to as medical cannabis. Recreational cannabis, or adult-use cannabis, is legal cannabis sold in licensed dispensaries to adults ages 21 and older. Thus far, of the states in which we operate, Arizona, Colorado, Connecticut, Maryland, and Ohio have already or are in the process of developing and launching programs permitting the commercialization of adult-use cannabis products. Trulieve operates its business through its directly and indirectly owned subsidiaries that hold licenses and have entered into managed service agreements in the states in which they operate.

As of December 31, 2023, we operated the following:

State	Number of Dispensaries	Number of Cultivation and Processing Facilities
Florida	131	6
Arizona	21	3
Pennsylvania	20	3
West Virginia	10	1
Georgia	5	1
Maryland	3	1
Ohio	1	—
Connecticut	1	—
Colorado	—	1
Total	192	16

Components of Results of Continuing Operations

Revenue

Revenue is primarily derived from cannabis and cannabis related products we cultivate, process, distribute, and sell to our customers and through our wholesale distribution channels.

Gross Profit

Gross profit includes revenue less the costs directly attributable to the cultivation and production of cannabis and from wholesale purchases made from other licensed producers within the markets in which the Company operates. Costs of goods sold include the costs directly attributable to the production of inventory and amounts incurred in the cultivation and manufacturing process of finished goods, such as flower, concentrates, and edibles, as well as packaging and other supplies, fees for services and processing, and allocated overhead which includes depreciation and amortization of property and equipment associated with cultivation and production, allocations of rent, administrative salaries, utilities, and related costs. Cannabis costs are affected by various state regulations that limit the sourcing and procurement of cannabis product, which may create fluctuations in margins over comparative periods as the regulatory environment changes.

Sales and Marketing

Sales and marketing expenses primarily consist of expenses related to advertising costs and marketing programs for our products and personnel related costs to manage and staff our dispensaries. As we continue to expand and open additional dispensaries, and gain additional customers, we expect our sales and marketing expenses to continue to increase.

General and Administrative

General and administrative expenses are primarily related to personnel costs, including salaries, incentive compensation, benefits, and other professional service costs, including legal, accounting and acquisition related costs. We expect to continue to invest in this area to support our expansion plans, as we are able to access additional medical and adult-use markets, to further support the growth of the cannabis industry. Other general and administrative expenses consist of travel, general office supplies and monthly services, facilities and occupancy, insurance, and director fees.

Depreciation and Amortization

Depreciation and amortization consists of depreciation of property and equipment and right-of-use assets, and amortization of intangible assets, including cannabis licenses and internally developed software.

Other Income (Expense)

Other income (expense) consists primarily of interest expense, interest income on money market accounts and notes receivable, gain on debt extinguishment, and the impact of the revaluation of the liability classified warrants and our interest rate swap.

Provision for Income Taxes

Provision for income taxes is calculated using the asset and liability method. Deferred income tax assets and liabilities are determined based on enacted tax rates and laws for the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The IRS has taken the position that cannabis companies are subject to the limits of IRC Section 280E under which they are only allowed to deduct expenses directly related to costs of goods sold. The Company has taken a position that it does not owe taxes attributable to the application of Section 280E of the Internal Revenue Code.

Results of Continuing Operations

This section of this Form 10-K generally discusses 2023 and 2022 items and year-to-year comparisons between 2023 and 2022 and 2021 for continuing operations, except as noted. Refer to *Note 19. Discontinued Operations* to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for additional financial information related to our discontinued operations.

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

	2023		2022		2023 vs. 2022
	(in thousands)				
Statement of operations data:	**Amount**	**Percentage of Revenue**	**Amount**	**Percentage of Revenue**	**Amount Change**
Revenue	$1,129,193	100.0%	$1,218,229	100.0%	$ (89,036)
Cost of goods sold	540,565	47.9%	529,102	43.4%	11,463
Gross profit	588,628	52.1%	689,127	56.6%	(100,499)
Expenses:					
Sales and marketing	240,165	21.3%	277,563	22.8%	(37,398)
General and administrative	145,997	12.9%	169,471	13.9%	(23,474)
Depreciation and amortization	109,825	9.7%	116,381	9.6%	(6,556)
Impairments and disposals of long-lived assets, net	6,664	0.6%	75,547	6.2%	(68,883)
Impairment of goodwill	307,590	27.2%	—	0.0%	307,590
Total expenses	810,241	71.8%	638,962	52.5%	171,279
(Loss) income from operations	(221,613)	(19.6%)	50,165	4.1%	(271,778)
Other income (expense):					
Interest expense, net	(81,569)	(7.2%)	(73,422)	(6.0%)	(8,147)
Interest income	6,164	0.5%	1,631	0.1%	4,533
Gain on debt extinguishment, net	5,937	0.5%	—	—%	5,937
Other income, net	6,544	0.6%	2,388	0.2%	4,156
Total other expense, net	(62,924)	(5.6%)	(69,403)	(5.7%)	6,479
Loss before provision for income taxes	(284,537)	(25.2%)	(19,238)	(1.6%)	(265,299)
Provision for income taxes	151,358	13.4%	163,380	13.4%	(12,022)
Net loss from continuing operations	(435,895)	(38.6%)	(182,618)	(15.0%)	(253,277)
Net loss from discontinued operations, net of tax benefit of $4,101 and $12,223, respectively	(97,241)	(8.6%)	(70,109)	(5.8%)	(27,132)
Net loss	(533,136)	(47.2%)	(252,727)	(20.7%)	(280,409)
Less: net loss attributable to non-controlling interest from continuing operations	(5,147)	(0.5%)	(3,994)	(0.3%)	(1,153)
Less: net loss attributable to non-controlling interest from discontinued operations	(1,193)	(0.1%)	(2,669)	-0.2%	1,476
Net loss attributable to common shareholders	$ (526,796)	(46.7%)	$ (246,064)	(20.2%)	$ (280,732)

Revenue

Revenue for the year ended December 31, 2023 was $1.13 billion, a decrease of $89.0 million or 7.3%, from $1.22 billion for the year ended December 31, 2022. The decrease in revenue is due to a $74.9 million decrease in retail revenue and a $11.7 million decrease in wholesale revenue. The Company operated 192 and 178 dispensaries as of December 31, 2023 and December 31, 2022, respectively. We experienced increased competition and promotional activity in certain retail markets and also shed underperforming retail assets. The reduction in wholesale revenues is primarily due to a focus on higher margin retail sales in certain markets.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2023 was $540.6 million, an increase of $11.5 million or 2.2%, from $529.1 million for the year ended December 31, 2022. Cost of goods sold as a percentage of revenue was 47.9% for the year ended December 31, 2023 as compared to 43.4% for the year ended December 31, 2022. The increase was primarily due to increased depreciation related to capital expenditures to support business growth totaling $10.3 million. Additional factors impacting the change include inventory reduction efforts to right-size inventory levels, the continued ramping of new production facilities in existing markets where additional economies of scale are anticipated in the future, and expansion into new markets which are not fully vertical, resulting in the sale of third-party products, which yield lower margin than our vertical markets. The Company also incurred additional costs related to excess capacity in certain temporarily idled facilities.

Gross Profit

Gross profit for the year ended December 31, 2023 was $588.6 million, a decrease of $100.5 million or 14.6%, from $689.1 million for the year ended December 31, 2022. Gross profit as a percentage of revenue was 52.1% for the year ended December 31, 2023 as compared to 56.6% for the year ended December 31, 2022, resulting from increased promotional activity in certain retail markets, price compression in certain markets, a change in product mix to value tier brands driven by customer demand, initiatives to reduce inventory levels and costs related to excess capacity in certain temporarily idled facilities.

Sales and Marketing Expense

Sales and marketing expense for the year ended December 31, 2023 was $240.2 million, a decrease of $37.4 million, or 13.5%, from $277.6 million for the year ended December 31, 2022. Sales and marketing expense as a percentage of revenue decreased 21.3% for the year ended December 31, 2023 as compared to 22.8% for the year ended December 31, 2022. The decrease is primarily due to approximately $36.3 million in savings from reduced headcount and redundant positions and reduced costs related to integration and share-based compensation, which was partially offset by increased advertising costs of $3.9 million due to adding additional marketing platforms and an increase in costs driven by the increased retail store count.

General and Administrative Expense

General and administrative expense for the year ended December 31, 2023 was $146.0 million, a decrease of $23.5 million or 13.9% from $169.5 million for the year ended December 31, 2022. General and administrative expense as a percentage of revenue decreased from 13.9% to 12.9%. The decrease is primarily due to the absence of the $18.5 million expense recognized last year related to the Watkins earnout.

Depreciation and Amortization Expense

Depreciation and amortization expense for the year ended December 31, 2023 was $109.8 million, a decrease of $6.6 million, or 5.6%, from $116.4 million for the year ended December 31, 2022. The decrease in depreciation and amortization expense was attributable to certain intangible assets becoming fully amortized in the prior year.

Impairment and Disposal of Long-lived Assets, Net

Loss on impairment and disposal of long-lived assets for the year ended December 31, 2023 was $6.7 million, a decrease of $68.9 million as compared to $75.5 million for the year ended December 31, 2022. The decrease is primarily due to the non-recurrence of 2022 impairment activities in which we exited facilities related to a legacy acquisition. Our current year activity is primarily related to asset disposals in California and Connecticut, which was partially offset with a gain on lease termination in the California market.

Impairment of Goodwill

Impairment of goodwill for the year ended December 31, 2023 was $307.6 million compared to zero for the year ended December 31, 2022. Based on the results of the Company's goodwill impairment procedures in the second quarter of 2023, the Company recorded $307.6 million in goodwill impairment.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2023 was $81.6 million, an increase of $8.1 million, or 11.1%, from $73.4 million for the year ended December 31, 2022. The increase is primarily the result of a full year of interest expense associated with the mortgage notes which closed in December 2022, which was partially offset by a reduction in capitalized interest of $4.9 million.

Interest Income

Interest income for the year ended December 31, 2023 was $6.2 million, an increase of $4.5 million, or 277.9%, from $1.6 million for the year ended December 31, 2022. The increase is due to an increase in overnight cash sweeps into high-yield money market fund accounts.

Gain on Extinguishment of Debt, net

Gain on extinguishment of debt, net was $5.9 million for the year ended December 31, 2023, compared to zero for the year ended December 31, 2022. The gain on debt extinguishment, net was from an open market purchase of our private placement notes, "2026 Notes - Tranche One", that resulted in the extinguishment of $57.0 million in principal at a discount of 16.5% with a recognized gain of $8.2 million on the extinguishment. This was partially offset by a $2.4 million loss on extinguishment in the fourth quarter of 2023 when we completed the early redemption of both of the "June Notes" and the "November Notes", with a principle of $130.0 million, which represented a redemption price of 100% of the principal amounts outstanding.

Other Income, Net

Other income, net was $6.5 million for the year ended December 31, 2023, an increase of $4.2 million, or 174.0%, from $2.4 million for the year ended December 31, 2022. The increase is primarily related to insignificant non-recurring settlements.

Provision for Income Taxes

The provision for income taxes for the year ended December 31, 2023 was $151.4 million, a decrease of $12.0 million from $163.4 million for the year ended December 31, 2022. Provision for income taxes as a percentage of revenue was consistent with the prior year at 13.4%.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

	Year Ended December 31,				
	2022		2021		2022 vs. 2021
	(in thousands)				
Statement of operations data:	**Amount**	**Percentage of revenue**	**Amount**	**Percentage of revenue**	**Amount Change**
Revenue	$1,218,229	100.0 %	$ 931,934	100.0 %	286,295
Cost of goods sold	529,102	43.4 %	365,360	39.2 %	163,742
Gross profit	689,127	56.6 %	566,574	60.8 %	122,553
Expenses:					
Sales and marketing	277,563	22.8 %	211,905	22.7 %	65,658
General and administrative	169,471	13.9 %	99,456	10.7 %	70,015
Depreciation and amortization	116,381	9.6 %	45,791	4.9 %	70,590
Impairment and disposal of long-lived assets, net	75,547	6.2 %	5,371	0.6 %	70,176
Total expenses	638,962	52.5 %	362,523	38.9 %	276,439
Income from operations	50,165	4.1 %	204,051	21.9 %	(153,886)
Other income (expense):					
Interest expense, net	(73,422)	(6.0)%	(29,121)	(3.1 %)	(44,301)
Interest income	1,631	0.1 %	205	— %	1,426
Other income, net	2,388	0.2 %	1,112	0.1 %	1,276
Total other expense, net	(69,403)	(5.7)%	(27,804)	(3.0 %)	(41,599)
(Loss) income before provision for income taxes	(19,238)	(1.6)%	176,247	18.9 %	(195,485)
Provision for income taxes	163,380	13.4 %	145,722	15.6 %	17,658
Net (loss) income from continuing operations	(182,618)	(15.0)%	30,525	3.3 %	(213,143)
Net loss from discontinued operations, net of tax benefit (provision) of $12,223 and $(339), respectively	(70,109)	(5.8)%	(13,080)	(1.4 %)	(57,029)
Net (loss) income	(252,727)	(20.7)%	17,445	1.9 %	(270,172)
Less: net loss attributable to non-controlling interest from continuing operations	(3,994)	(0.3)%	(587)	(0.1 %)	(3,407)
Less: net loss attributable to non-controlling interest from discontinued operations	(2,669)	(0.2)%	—	— %	(2,669)
Net (loss) income attributable to common shareholders	$ (246,064)	(20.2)%	$ 18,032	1.9 %	$ (264,096)

Revenue

Revenue for the year ended December 31, 2022, was $1.22 billion, an increase of $286.3 million or 30.7% from $931.9 million for the year ended December 31, 2021. The increase in revenue is due to contributions from acquisitions, most notably, Harvest Health & Recreation, Inc. ("Harvest") in October 2021 and Anna Holdings, LLC ("Keystone Shops") in July 2021, continued expansion into new states such as Massachusetts and West Virginia, and additional dispensaries opened in existing markets.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2022, was $529.1 million, an increase of $163.7 million, or 44.8%, from $365.4 million for the year ended December 31, 2021, primarily in correlation with the increase in revenues. Cost of goods sold as a percentage of revenue was 43.4% for the year ended December 31, 2022 as compared to 39.2% for the year ended December 31, 2021, primarily due to increased depreciation related to capital expenditures to support business growth, new production facilities in existing markets where economies of scale are anticipated in the future, and expansion into new markets which are not fully vertical, resulting in sale of third-party products, and therefore yield lower margin than our vertical markets.

Gross Profit

Gross profit for the year ended December 31, 2022, was $689.1 million, an increase of $122.6 million, or 21.6%, from $566.6 million for the year ended December 31, 2021. Gross profit as a percentage of revenue was 56.6% for the year ended December 31, 2022 as compared to 60.8% for the year ended December 31, 2021, due to higher revenue offset by many factors including, increased wholesale business, which is generally lower margin than retail sales, increased depreciation related to capital expenditures to support business growth, new production facilities where economies of scale are anticipated in the future, and expansion into new markets which are not fully vertical, resulting in the sale of third-party products, and therefore yield lower margin than our vertical markets.

Sales and Marketing Expense

Sales and marketing expense for the year ended December 31, 2022, was $277.6 million, an increase of $65.7 million, or 31.0%, from $211.9 million for the year ended December 31, 2021, but remained consistent as a percentage of revenue. The increase in sales and marketing is the result of a higher headcount for the year, as we continue to add additional dispensaries in efforts to maintain and further drive higher growth in sales and market share as well as expanding into new markets.

General and Administrative Expense

General and administrative expense for the year ended December 31, 2022, was $169.5 million, an increase of $70.0 million, or 70.4%, from $99.5 million for the year ended December 31, 2021. General and administrative expense as a percentage of revenue increased from 10.7% to 13.9%. The increase in general and administrative expense is the result of entering new markets, ramping our infrastructure to support growth initiatives, repositioning of facilities which have been temporarily idled, and amounts related to specific non-recurring items such as legal settlements. We also contributed $20.0 million to the Smart and Safe Florida campaign in 2022.

Depreciation and Amortization Expense

Depreciation and amortization expense for the year ended December 31, 2022, was $116.4 million, an increase of $70.6 million, or 154.2%, from $45.8 million for the year ended December 31, 2021. The overall increase in depreciation and amortization expense is due to increased depreciation from acquired facilities, and increased amortization related to acquired licenses and other intangibles, from the investment in infrastructure for additional dispensaries and cultivation facilities.

Impairment and Disposal of Long-lived Assets, Net

Loss on impairment and disposal of long-lived assets for the year ended December 31, 2022, was $75.5 million, an increase of $70.2 million as compared to $5.4 million for the year ended December 31, 2021. The increase is primarily due to exited facilities and the repositioning of assets, primarily in our Southeast hub. The activity in 2021 primarily consisted of the write-off of certain licenses in our Southwest hub due to market changes and the disposal of certain long-lived assets.

Interest Expense, net

Interest expense, net for the year ended December 31, 2022 was $73.4 million, an increase of $44.3 million from $29.1 million for the year ended December 31, 2021. The increase is related to additional interest on private placement notes of $31.5 million, construction finance liabilities of $8.1 million, and finance leases of $2.2 million, to support business growth.

Interest Income

Interest income for the year ended December 31, 2022 was $1.6 million, an increase of $1.4 million from $0.2 million for the year ended December 31, 2021. The increase was primarily due to additional interest earned on notes receivable acquired and entered into during the fourth quarter of 2021.

Other Income, Net

Other income, net for the year ended December 31, 2022 was $2.4 million, an increase of $1.3 million from $1.1 million for the year ended December 31, 2021. The increase is primarily due to a $2.6 million revaluation of warrants partially offset by a one time sales tax contingency.

Provision for Income Taxes

The provision for income taxes for the year ended December 31, 2022 was $163.4 million, an increase of $17.7 million from $145.7 million for the year ended December 31, 2021. Provision for income taxes as a percentage of revenue decreased from 15.6% to 13.4%. The increase in income tax expense is primarily due to the increase in gross profit as a result of increased revenue, partially offset by a more favorable tax position on intercompany management fees. In the third quarter of 2022, the Company adopted a more favorable tax position with respect to intercompany management fees based on an IRS position taken in audit of similar businesses.

Management's Use of Non-GAAP Measures

Our management uses a financial measure that is not in accordance with generally accepted accounting principles in the U.S., or GAAP, in addition to financial measures in accordance with GAAP to evaluate our operating results. This non-GAAP financial measure should be considered supplemental to, and not a substitute for, our reported financial results prepared in accordance with GAAP. Adjusted EBITDA is a financial measure that is not defined under GAAP. Our management uses this non-GAAP financial measure and believes it enhances an investor's understanding of our financial and operating performance from period to period because it excludes certain material non-cash items and certain other adjustments management believes are not reflective of our ongoing operations and performance. Adjusted EBITDA adjusts the following items from net income: interest expense, provision for income taxes, and depreciation and amortization to arrive at EBITDA. This is then adjusted for items that do not represent the operations of the core business such as inventory step-up for fair value adjustments in purchase accounting, integration and transition costs, acquisition and transaction costs, other non-recurring costs such as contributions to specific initiative campaigns (such as Smart and Safe Florida), expenses related to the COVID-19 pandemic, impairments and disposals of long-lived assets including goodwill, the results of entities consolidated as variable interest entities ("VIEs") but not legally controlled and operated by the Company, discontinued operations, share-based compensation, and other income and expense items. Integration and transition costs include those costs related to integration of acquired entities and to transition major systems or processes. Acquisition and transaction costs relate to specific transactions such as acquisitions whether contemplated or completed and regulatory filings and costs related to equity and debt issuances. Other non-recurring costs include miscellaneous items which are not expected to recur frequently such as inventory adjustments related to specific issues and unusual litigation.

We report Adjusted EBITDA to help investors assess the operating performance of the Company's business. The financial measures noted above are metrics that have been adjusted from the GAAP net income measure in an effort to provide readers with a normalized metric in making comparisons more meaningful across the cannabis industry, as well as to remove non-recurring, irregular and one-time items that may otherwise distort the GAAP net income measure.

As noted above, our Adjusted EBITDA is not prepared in accordance with GAAP, and should not be considered in isolation of, or as an alternative to, measures prepared in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA rather than net income, which is the most directly comparable financial measure calculated and presented in accordance with GAAP. Because of these limitations, we consider, and you should consider, Adjusted EBITDA together with other operating and financial performance measures presented in accordance with GAAP. A reconciliation of net income, the most directly comparable financial measure calculated in accordance with GAAP, to Adjusted EBITDA, has been included herein immediately following our discussion of "Adjusted EBITDA".

Adjusted EBITDA

Adjusted EBITDA was $322.3 million for the year ended December 31, 2023, a decrease of $75.9 million, or 19%, from $398.2 million for the year ended December 31, 2022. The decrease in Adjusted EBITDA in 2023 was primarily due to increased competition and margin pressure which was partially offset by efficiencies in payroll costs primarily in our retail locations and streamlining efforts.

Adjusted EBITDA was $398.2 million for the year ended December 31, 2022, an increase of $13.5 million, or 3%, from $384.8 million for the year ended December 31, 2021. The increase in Adjusted EBITDA in 2022 was primarily due to the acquisition of Harvest Health and Recreation in the fourth quarter of 2021 and the resulting growth in sales and synergies.

The following table presents a reconciliation of GAAP net (loss) income to non-GAAP Adjusted EBITDA, for each of the periods presented:

	Year Ended December 31,		
	2023	**2022**	**2021**
		(in thousands)	
Net (loss) income attributable to common shareholders	$ (526,796)	$ (246,064)	$ 18,032
Add (deduct) impact of:			
Interest expense, net	81,569	73,422	29,121
Interest income [(1)]	(6,164)	(1,631)	(205)
Provision for income taxes	151,358	163,380	145,722
Depreciation and amortization	109,825	116,381	45,791
Depreciation included in cost of goods sold	57,195	46,933	21,232
EBITDA (Non-GAAP)	$ (133,013)	$ 152,421	$ 259,693
Impairment of goodwill	$ 307,590	$ —	$ —
Impairments and disposals of long-lived assets, net	6,664	75,547	5,371
Legislative campaign contributions	20,062	20,000	—
Integration and transition costs	26,889	21,042	25,601
Share-based compensation	10,575	18,124	13,444
Gain on debt extinguishment, net	(5,937)	—	—
Other income, net	(6,544)	(2,388)	(1,112)
Discontinued operations, net of tax, attributable to common shareholders	96,048	67,440	13,080
Acquisition and transaction costs	—	24,757	15,831
Other non-recurring costs	—	19,494	5,053
Inventory step up, fair value	—	1,048	41,189
COVID related expenses	—	783	6,188
Results of entities not legally controlled	—	(19)	458
Total adjustments	455,347	245,828	125,103
Adjusted EBITDA (Non-GAAP)	$ 322,334	$ 398,249	$ 384,796

(1) Interest Income for the year ended December 31, 2022 and 2021, of $(1.6) million and $(0.2) million, respectively, was reclassified from other income, net to interest income in the presentation above.

Liquidity and Capital Resources

Sources of Liquidity

Since our inception, we have funded our operations and capital spending through cash flows from product sales, third-party debt, proceeds from the sale of our capital stock and loans from affiliates and entities controlled by our affiliates. We are generating cash from operations and are deploying our capital reserves to acquire and develop assets capable of producing additional revenues and earnings over both the immediate and near term to support our business growth and expansion. Our current principal sources of liquidity are our cash and cash equivalents provided by our operations and debt and equity offerings. The Company has and expects to retain additional cash from operations, starting in the second half of 2023, due in part to the Company's position that it does not owe taxes attributable to the application of Section 280E of the Internal Revenue Code. Cash and cash equivalents consist primarily of cash on deposit with banks and money market funds.

Our primary uses of cash are for working capital requirements, capital expenditures, debt service payments, income tax payments, and acquisitions. Working capital is used principally to run the business including our personnel and related investments, as well as costs related to the growth, manufacture, production, and distribution of our products. Our capital expenditures consist primarily of additional facilities and dispensaries, and improvements to existing facilities. Our debt service payments consist primarily of interest payments. Acquisitions consist of expanding the cultivation and dispensary footprint.

Cash and cash equivalents were $201.4 million as of December 31, 2023. We believe our existing cash balances will be sufficient to meet our anticipated cash requirements from the date of this Annual Report on Form 10-K through at least the next 12 months. Any additional future requirements will be funded through the following sources of capital:

- Cash from ongoing operations
- Debt - the Company has the ability to obtain additional debt from additional creditors
- Market offerings - the Company has the ability to offer equity to obtain additional funding

In September 2023, we completed the open market repurchase of $57.0 million of our senior secured notes, due October 6, 2026, for a purchase price of $47.6 million, excluding fees and accrued interest. In December 2023, we completed the early redemption of our 9.75% senior secured notes due June 11, 2024 for a purchase price of $130.0 million, excluding accrued interest. These are collectively referred to as the private placement notes. In December 2023, we also completed a $25.0 million mortgage note with an interest rate of 8.31%. We expect to realize net interest savings of approximately $10.0 million as a result of these three transactions.

Cash Flows

The consolidated statements of cash flows include continuing operations and discontinued operations. The table below highlights our cash flows for the periods ended December 31:

	2023	2022	2021
		(in thousands)	
Net cash provided by operating activities	$ 201,841	$ 23,096	$ 12,898
Net cash used in investing activities	(37,470)	(215,057)	(215,184)
Net cash (used in) provided by financing activities	(175,585)	177,796	289,232
Net (decrease) increase in cash and cash equivalents	$ (11,214)	$ (14,165)	$ 86,946

Cash Flow from Operating Activities

Net cash provided by operating activities was $201.8 million for the year ended December 31, 2023, an increase of $178.7 million, compared to $23.1 million in net cash provided by operating activities during the year ended December 31, 2022. The improvement is due to the execution of the Company's inventory wind-down strategy, as well as the impacts of income tax accruals and the impact of lower sales & marketing and general & administrative expenses in 2023 compared to 2022. This was offset by reduced gross margins for 2023 as compared to 2022.

Net cash provided by operating activities was $23.1 million for the year ended December 31, 2022, an increase of $10.2 million, compared to $12.9 million in net cash provided by operating activities for the year ended December 31, 2021. This is primarily due the timing of income tax payments that were offset by increases in inventory.

Cash Flow from Investing Activities

Net cash used in investing activities was $37.5 million for the year ended December 31, 2023, a decrease of $177.6 million, compared to $215.1 million in net cash used in investing activities for the year ended December 31, 2022. The primary use of cash in both periods was the purchase of property and equipment, with the prior period having significantly more purchases of property and equipment due to the Company's build out of facilities primarily at our cultivation sites in Florida and other markets including Pennsylvania and West Virginia. Additionally, the prior period included the cash payment of $27.8 million related to the acquisition of the Watkins Cultivation Operation.

Net cash used in investing activities was $215.1 million for the year ended December 31, 2022, a decrease of $0.1 million, compared to $215.2 million in net cash used in investing activities for the year ended December 31, 2021. The decrease is mainly due to the decrease of property and equipment purchases offset by cash provided by the Harvest acquisition.

Cash Flow from Financing Activities

Net cash used in financing activities was $175.6 million for the year ended December 31, 2023, an increase of $353.4 million, compared to $177.8 million in net cash provided by financing activities for the year ended December 31, 2022. This change is primarily related to $177.6 million in payments on our senior secured notes, due October 6, 2026 and senior secured notes due June 11, 2024, collectively referred to as the private placement notes. These notes were extinguished early in an effort to save on interest and take advantage of favorable market conditions. Additionally, a decrease in proceeds from borrowings of approximately $141.5 million further contributed to the increase in cash used in financing activities in 2023 relative to 2022.

Net cash provided by financing activities was $177.8 million for the year ended December 31, 2022, a decrease of $111.4 million, compared to $289.2 million in net cash provided by financing activities for the year ended December 31, 2021. The decrease is primarily related to a decrease in proceeds from borrowings compared to the prior year.

Balance Sheet Exposure

As of December 31, 2023 and 2022, 100% of our balance sheet is exposed to U.S. cannabis-related activities, and substantially all our revenue is derived from U.S. cannabis operations. We believe our operations are in material compliance with all applicable state and local laws, regulations and licensing requirements in the states in which we operate. However, cannabis remains illegal under U.S. federal law. For information about risks related to U.S. cannabis operations, please refer to the “Risk Factors” section of this Annual Report on Form 10-K.

Contractual Obligations

As of December 31, 2023, we had the following contractual obligations to make future payments, representing material contracts and other commitments that are known and committed:

	<1 Year	1 to 3 Years	3 to 5 Years	>5 Years	Total
			(in thousands)		
Notes payable	$ 3,751	$ 8,986	$ 93,233	$ 15,783	$ 121,753
Private placement notes	—	368,000	—	—	368,000
Operating lease liabilities	21,452	42,180	39,532	81,820	184,984
Finance lease liabilities	14,129	27,392	24,252	34,247	100,020
Construction finance liabilities	22,498	46,941	49,659	295,672	414,770
Lease settlements	1,008	864	857	2,226	4,955
Total (1)	$ 62,838	$ 494,363	$ 207,533	$ 429,748	$ 1,194,482

(1) Includes liabilities due in relation to our discontinued operations and excludes $180.4 million of uncertain tax position liabilities as we cannot make a reasonably reliable estimate of the period of potential cash settlement with the respective taxing authorities.

For additional information on our commitments for financing arrangements, future lease payments, lease guarantees, uncertain tax position, and other obligations, see Item 8, *Note 11. Notes Payable*, *Note 12. Private Placement Notes, Note 13. Leases*, *Note 14. Construction Finance Liabilities, Note 18. Income Taxes, Note 19. Discontinued Operations,* and *Note 23. Commitments And Contingencies.*

As of the date of this Annual Report on Form 10-K, we do not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of, including, and without limitation, such considerations as liquidity and capital resources.

Critical accounting policies and estimates

Critical accounting estimates

The preparation of the consolidated financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates, and revisions to accounting estimates are recognized in the period in which the estimate is revised.

Significant judgments, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described below. See *Note 3. Summary Of Significant Accounting Policies* to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for further information.

Inventory

The net realizable value of inventories represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. The determination of net realizable value requires significant judgment, including consideration of factors such as shrinkage, the aging of and future demand for inventory, expected future selling price, what we expect to realize by selling the inventory and the contractual arrangements with customers. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecasts and net realizable value. The estimates are judgmental in nature and are made at a point in time, using available information, expected business plans and expected market conditions. As a result, the actual amount received on sale could differ from the estimated value of inventory. Periodic reviews are performed on the inventory balance. The impact of changes in inventory reserves is reflected in cost of goods sold.

Estimated Useful Lives and Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization of property and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Accounting for Acquisitions and Business Combinations

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition.

In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows.

Cannabis licenses are the primary intangible asset acquired in business combinations as they provide the Company the ability to operate in each market. However, some cannabis licenses are subject to renewal and therefore there is some risk of non-renewal for several reasons, including operational, regulatory, legal or economic. To appropriately consider the risk of non-renewal, the Company applies probability weighting to the expected future net cash flows in calculating the fair value of these intangible assets. The key assumptions used in these cash flow projections include discount rates and terminal growth rates. Of the key assumptions used, the impact of the estimated fair value of the intangible assets has the greatest sensitivity to the estimated discount rate used in the valuation. The terminal growth rate represents the rate at which these businesses will continue to grow into perpetuity. Other significant assumptions include revenue, gross profit, operating expenses and anticipated capital expenditures which are based upon the Corporation’s historical operations along with management projections. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are determined based on enacted tax rates and laws for the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The IRS has taken the position that cannabis companies are subject to the limits of IRC Section 280E under which they are only allowed to deduct expenses directly related to the cost of producing the products or cost of production. The Company has taken a position that it does not owe taxes attributable to the application of Section 280E of the Internal Revenue Code.

The Company recognizes uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon examination by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Recognition or measurement is reflected in the period in which the likelihood changes.

Long-lived Asset Impairment Assessment

The Company reviews long-lived assets, including property and equipment, definite life intangible assets, and right-of-use assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Factors which could trigger an impairment review include significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the assets or the strategy of the business, a significant decrease in the market value of the assets or significant negative industry or economic trends. In accordance with ASC 360-10, when evaluating long-lived assets with impairment indicators for potential impairment, we first compare the carrying value of the asset to its estimated undiscounted cash flows. If the sum of the estimated undiscounted cash flows is less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to its estimated fair value, which is typically based on estimated discounted future cash flows. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value.

Goodwill Impairment Assessment

Goodwill is allocated at the date the goodwill is initially recorded. We conclude we operate one operating segment and reporting unit evaluating goodwill for impairment as one singular reporting unit. We evaluate our goodwill for impairment annually at the beginning of the fourth quarter or earlier upon the occurrence of substantive unfavorable changes in economic conditions, industry trends, costs, cash flows, or ongoing declines in market capitalization. The Company applies the guidance in Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2011-08 "Intangibles-Goodwill and Other-Testing Goodwill for Impairment," which provides entities with an option to perform a qualitative assessment (commonly referred to as "Step Zero") to determine whether further quantitative analysis for impairment of goodwill is necessary. In performing Step Zero for the Company's goodwill impairment test, the Company is required to make assumptions and judgments including but not limited to the following: the evaluation of macroeconomic conditions as related to the Company's business, industry and market trends, and the overall future financial performance of its reporting units and future opportunities in the markets in which they operate. If impairment indicators are present after performing Step Zero, the Company would perform a quantitative impairment analysis to estimate the fair value of goodwill.

The quantitative impairment test requires judgment, including the identification of reporting units, the assignment of assets, liabilities, and goodwill to reporting units, and the determination of fair value of each reporting unit. The impairment test requires the comparison of the fair value of a reporting unit with the carrying amount, including goodwill. If the Company would conclude a quantitative impairment test is required, the Company would review fair value techniques for the most appropriate technique generally applying the income approach by using discounted cash flow ("DCF") analyses. Determining fair value requires the Company to make judgments about appropriate forecasted revenue and related revenue growth rate, the earnings before interest, taxes, depreciation, and amortization ("EBITDA") margins rate and the weighted average cost of capital. The cash flows employed in the DCF analysis are based on the forecast of the reporting unit, long-term business plan and recent operating performance. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the reporting unit and market conditions. Given the inherent uncertainty in determining the assumptions underlying a DCF analysis, actual results may differ from those used in our valuations. The reporting unit may be at risk of failing the quantitative impairment test if it has a fair value that is not substantially in excess of the carrying amount at the assessment date.

During the three months ended June 30, 2023, the Company identified one event as a risk indicator for goodwill impairment, which was a decline in the Company's share price negatively affecting the Company's market capitalization. The Company concluded the decline in stock price was a triggering event to perform an interim quantitative goodwill impairment test, as of June 30, 2023, specific to the stock price decline and resulting market capitalization of the Company. As the sole risk to the value of goodwill was the stock price, the Company concluded it most appropriate to apply a market approach. The results of the Company's interim test for impairment as of June 30, 2023, utilizing a market approach, indicated that the reporting unit's fair value fell below the carrying value. Based on the results of the goodwill impairment procedures, the Company recorded a $307.6 million goodwill impairment for the single reporting unit in the second quarter of 2023.

For the Company's 2023 annual impairment test, the Company performed a Step Zero assessment. Other than the event that existed and was isolated to the three months ending June 30, 2023, as outlined above, as of December 31, 2023, the Company did not identify any events or changes in circumstances that would indicate the carrying amount of goodwill may be impaired. The Company did not identify any impairment of its goodwill during the years ended December 31, 2022 or 2021.

Fair Value of Financial Instruments

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

Share-Based Payment Arrangements

We use the Black-Scholes pricing model to determine the fair value of options and warrants granted to employees and directors under share-based payment arrangements, where appropriate. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of units, volatility of future share price, risk free rates, and future dividend yields at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

Commitments and Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. Periodically, the Company reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable, and the amount can be reliably estimated, such amount is recognized in contingencies. Contingent liabilities are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records contingent liabilities for such contracts.

Critical accounting policies

Inventory

Our inventories primarily consist of raw materials, work in process, and finished goods. Costs incurred during the growing and production process are capitalized as incurred to the extent that cost is less than net realizable value. The costs include materials, labor and manufacturing overhead used in the growing and production processes. Pre-harvest costs are capitalized. Our inventory of purchased finished goods and packing materials are initially valued at cost and subsequently at the lower of cost and net realizable value.

Leases

ASC Topic 842 is a standard that requires lessees to increase transparency and comparability among organizations by requiring the recognition of Right of Use Assets “ROU” assets and lease liabilities on the balance sheet. The requirements of this standard include a significant increase in required disclosures to meet the objectives of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Revenue Recognition

We recognize revenue in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* Through our application of the standard, we recognize revenue to depict the transfer of promised goods to our customers in an amount that reflects the consideration of which we expect to be entitled to in exchange for those goods. Revenues consist of retail and wholesale sales of cannabis and cannabis related products, which are recognized when control of the goods has transferred to the customer and collectability is reasonably assured. This is generally when goods have been delivered, which is also when the performance obligation has been fulfilled under the terms of the related sales contract.

Share Based Compensation

We account for share-based compensation expense in accordance with FASB ASC 718, *Compensation – Stock Compensation*, which requires the measurement and recognition of share-based compensation expense based on estimated fair values, for all stock-based payment awards made to employees. We measure the share-based payment awards based on its estimated fair value of the awards using the Black-Scholes option pricing model for warrants and options, and the fair value of the Company’s common stock on the date of grant for restricted stock units ("RSUs").

Acquisitions

We account for business combinations using the acquisition method in accordance with Accounting Standards Codification ASC 805, *Business Combinations*, which requires recognition of assets acquired and liabilities assumed, including contingent assets and liabilities, at their respective fair values on the date of acquisition.

Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates, with the corresponding gain or loss recognized within the consolidated statements of operations.

Non-controlling interests in the acquiree are measured at fair value on acquisition date. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received.

Loans acquired in business combinations are initially recorded at fair value, which includes an estimate of credit losses expected to be realized over the remaining lives of the loans and, therefore, no corresponding allowance for loan losses is recorded for such loans at acquisition.

Purchase price allocations may be preliminary and, during the measurement period not to exceed one year from the date of acquisition, changes in assumptions and estimates that result in adjustments to the fair value of assets acquired and liabilities assumed are recorded in the period the adjustments are determined.

Financial Instruments

We apply fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities that are required to be recorded at fair value, we consider all related factors of the asset by market participants in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

Recent Accounting Pronouncements

A discussion of recently issued accounting standards applicable to the Company is described in *Note 3. Summary Of Significant Accounting Policies,* in the notes to the consolidated financial statements contained elsewhere in this Report, and we incorporate such discussion by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Banking Risk

Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in U.S. Federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that U.S. Federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the U.S. banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate our Company, its subsidiaries and investee companies, and leaves their cash holdings vulnerable. We have banking relationships in all jurisdictions in which we operate. Concentrations of credit risk with respect to our cash and cash equivalents are limited primarily to amounts held with financial institutions in excess of federally insured limits. Adverse developments affecting financial institutions, including bank failures, could adversely affect our liquidity and financial position.

Market Risk

Strategic and operational risks arise if we fail to carry out business operations and/or to raise sufficient equity and/or debt financing. These strategic opportunities or threats arise from a range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. The risk is mitigated by consideration of other potential development opportunities and challenges which management may undertake.

Credit Risk

Management does not believe that the Company has significant credit risk related to its customers, as the Company's revenue is generated primarily through cash transactions. The Company deals almost entirely with on demand sales and does not have any material wholesale agreements as of December 31, 2023. The Company reviews its trade receivable accounts and notes receivable regularly and reduces amounts to their expected realizable values by adjusting the allowance credit losses when management determines that the account may not be fully collectable. The Company applies *ASC 326 Financial Instruments – Credit Losse*s for the measurement of expected credit losses, which uses an expected loss allowance model for all trade and notes receivables. The Company has adopted standardized credit policies and performs assessments in an effort to minimize those risks.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations associated with financial liabilities. We manage liquidity risk through the management of our capital structure. Our approach to managing liquidity is to ensure that we will have sufficient liquidity to settle obligations and liabilities when due.

Asset forfeiture risk

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Our debt exposes us to risk of fluctuations in interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at higher rates. Floating rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. We manage our debt portfolio to achieve an overall desired proportion of fixed and floating rate debts and may employ interest rate swaps ("Swaps") as a tool from time to time to achieve that position. To manage our interest rate risk exposure, we entered into one Swap contract during the year ended December 31, 2022, to hedge the floating rate term loans. Changes in market interest rates impact the fair value of our Swap contract, which was a liability of $2.3 million as of December 31, 2023. In addition to our private placement notes payable and long-term debt, we also have lease obligations and construction finance liabilities that bare interest. Interest rates on existing leases and construction finance liabilities typically do not change unless there is a modification to an underlying agreement. See Item 7, *Liquidity and Capital Resources*, and Item 8 of this Annual Report on Form 10-K for additional information.

Concentration Risk

Our operations are substantially located in Florida and to a lesser extent Arizona and Pennsylvania. Should economic conditions deteriorate, or competitive pressure intensify within that region, our results of operations and financial position would be negatively impacted.

General Economic Risk

Our operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends and spending and, consequently, impact our sales and profitability.

Inflation Risk

Rising inflation could have an adverse impact on expenses, as these costs could increase at a higher rate than revenues. Our costs are subject to fluctuations, particularly due to changes in the prices of raw product and packaging materials and the costs of labor, transportation and energy. Inflation pressures could also result in increases in these input costs. Therefore, our business results depend, in part, on our continued ability to manage these fluctuations through pricing actions, cost saving projects and sourcing decisions, while maintaining and improving margins and market share. Failure to manage these fluctuations could adversely impact our results of operations or cash flows. In addition, unfavorable macroeconomic conditions, such as a recession or continued slowed economic growth, could negatively affect consumer demand for cannabis products, which consequently, may negatively affect the results of operations. Under difficult economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of cannabis products, negatively impacting our net sales and margins. Softer consumer demand for cannabis products could reduce our profitability and could negatively affect our overall financial performance.

Item 8. Financial Statements and Supplementary Data.

The financial information required by Item 8 is located beginning on page F-1 of this Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.