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

The following discussion of the financial condition and results of operations of MariMed Inc. should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the U.S. Securities and Exchange Commission ("SEC") on March 3, 2023.

Forward Looking Statements

When used in this Quarterly Report on Form 10-Q and in future filings by the Company with the SEC, words or phrases such as "anticipate," "believe," "could," "would," "should," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on any such forward looking statements, each of which speak only as of the date made. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company has no obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different. These factors include, but are not limited to, changes that may occur to general economic and business conditions; changes in current pricing levels that the Company can charge for its services and products or which it pays to its suppliers and business partners; changes in political, social and economic conditions in the jurisdictions in which the Company operates; changes to regulations that pertain to its operations; changes in technology that render the Company's technology relatively inferior, obsolete or more expensive compared to others; changes in the business prospects of the Company's business partners and customers; increased competition, including from the Company's business partners; and enforcement of U.S. federal cannabis-related laws.

The following discussion should be read in conjunction with the financial statements and related notes which are included in this Quarterly Report on Form 10-Q.

The Company does not undertake to update its forward-looking statements or risk factors to reflect future events or circumstances, unless required by law.

Overview

We are a multi-state operator in the United States cannabis industry. We develop, operate, manage, and optimize state-of-the-art, regulatory-compliant facilities for the cultivation, production and dispensing of medicinal and adult use cannabis. We also license our proprietary brands of cannabis and hemp-infused products, along with other top brands, in several domestic markets.

On April 27, 2022 (the "Kind Acquisition Date"), we acquired Kind Therapeutics USA ("Kind"), our former client in Maryland that holds licenses for the cultivation, production, and dispensing of medical cannabis (the "Kind Acquisition"). The financial results of Kind are included in our condensed consolidated financial statements for the periods subsequent to the Kind Acquisition Date.

On March 9, 2023 (the "Ermont Acquisition Date"), we acquired the operating assets of Ermont, Inc. ("Ermont"), a medical-licensed vertical cannabis operator located in Quincy, Massachusetts (the "Ermont Acquisition"). The financial results of Ermont are included in our condensed consolidated financial statements for the period subsequent to the Ermont Acquisition Date.

We completed two acquisitions during the year ended December 31, 2022 that we recorded as asset purchases. On May 5, 2022 (the "Green Growth Acquisition Date"), we completed the acquisition of 100% of the equity ownership of Green Growth Group Inc. ("Green Growth"), an entity that holds a craft cultivation and production cannabis license in the state of Illinois (the "Green Growth Acquisition"). On December 30, 2022 (the "Greenhouse Naturals Acquisition Date"), we completed an asset purchase under which we acquired a cannabis license and assumed a property lease for a dispensary in Beverly, Massachusetts that had never been operational.

During 2023, we are focused on continuing to execute our strategic growth plan, with priority on activities described below:

- Continuing to consolidate the cannabis businesses that we have developed and managed.
- Expanding revenues, assets, and our footprint in the states in which we operate.
- Expanding into other legal states through mergers and acquisitions and by filing new applications in states where new licensing opportunities become available.
- Increasing revenues by producing and distributing our award-winning brands to qualified strategic partners or by acquiring production and distribution licenses.
- In Massachusetts, we recently opened two additional dispensaries, and intend to significantly expand the capacity and capability of our manufacturing facility in New Bedford, Massachusetts.
- In Maryland, we opened a dispensary in Annapolis in October 2022, and we intend to expand our manufacturing facility by 40,000 square feet. Under current Maryland cannabis laws, we have the potential to add three additional medical dispensaries, for a total of four.
- In Illinois, in May 2022, we closed on the acquisition of a craft cannabis license, which will enable us to be vertically integrated and add cultivation, manufacturing, and distribution to our four existing retail cannabis operations in Illinois. Under Illinois cannabis laws, we have the potential to add five additional dispensaries, for a total of ten.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. If actual results differ significantly from management's estimates and projections, there could be a material effect on our condensed consolidated financial statements. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment: accounts receivable; valuation of inventory; estimated useful lives and depreciation and amortization of property and equipment and intangible assets; accounting for acquisitions and business combinations; loss contingencies and reserves; stock-based compensation; and accounting for income taxes.

Accounts Receivable

We provide credit to our clients in the form of payment terms. We limit our credit risk by performing credit evaluations of our clients and maintaining a reserve, as applicable, for potential credit losses. Such evaluations are judgmental in nature and include a review of each client's outstanding balances with consideration toward such client's historical collection experience, as well as prevailing economic and market conditions and other factors. Accordingly, the actual amounts collected could differ from expected amounts and require that we record additional reserves.

Inventory

Our inventory is valued at the lower of cost or market, 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. These 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 any changes in inventory reserves is reflected in cost of goods sold.

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

Depreciation and amortization of property, 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.

Business Combinations and Asset Purchases

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 how we record the transaction.

We allocate the purchase price of acquired assets and companies to identifiable assets acquired and liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net amount of the acquisition date fair values of the assets acquired and the liabilities assumed and represents the expected future economic benefits from other assets acquired in the acquisition or business combination that are not individually identified and separately recognized. Significant judgments and assumptions are required in determining the fair value of assets acquired and liabilities assumed, particularly acquired intangible assets, which are principally based upon estimates of the future performance and cash flows expected from the acquired asset or business and applied discount rates. While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates and assumptions are inherently uncertain and subject to refinement. If different assumptions are used, it could materially impact the purchase price allocation and our financial position and results of operations. Any adjustments to assets acquired or liabilities assumed subsequent to the purchase price allocation period are included in operating results in the period in which the adjustments are determined. Intangible assets typically are comprised of trademarks and trade names, licenses and customer relationships, and non-compete agreements.

Loss Contingencies and Reserves

We are subject to ongoing business risks arising in the ordinary course of business that affect the estimation process of the carrying value of assets, the recording of liabilities, and the possibility of various loss contingencies. An estimated loss contingency is accrued when it is probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. We regularly evaluate current information available to determine whether such amounts should be adjusted and record changes in estimates in the period they become known. We are subject to legal claims from time to time. We reserve for legal contingencies and legal fees when the amounts are probable and estimable.

Stock-Based Compensation

Our stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized over the requisite service period, which is generally the vesting period. We use the Black-Scholes valuation model for estimating the fair value of stock options as of the date of grant. Determining the fair value of stock option awards at the grant date requires judgment regarding certain valuation assumptions, including the volatility of our stock price, expected term of the stock option, risk-free interest rate and expected dividends. Changes in such assumptions and estimates could result in different fair values and could therefore impact our earnings. Such changes, however, would not impact our cash flows.

Income Taxes

We use the asset and liability method to account for income taxes. Under this method, deferred income tax assets and liabilities are recorded for the future tax consequences of differences between the tax basis and financial reporting basis of assets and liabilities, measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent our management concludes that it is more likely than not that the assets will not be realized. To assess the recoverability of any tax assets recorded on the balance sheet, we consider all available positive and negative evidence, including our past operating results, the existence of cumulative income in the most recent years, changes in the business in which we operate and our forecast of future taxable income. In determining future taxable income, we make assumptions, including the amount of state and federal pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage our businesses.

Results of Operations

Three months ended March 31, 2023 and 2022

Revenue

Our main sources of revenue are comprised of the following:

- Product sales (retail and wholesale) - direct sales of cannabis and cannabis-infused products primarily by our retail dispensaries and wholesale operations in Massachusetts, Illinois, and, as of the Kind Acquisition Date, Maryland. We recognize this revenue when products are delivered or at retail points-of-sale.
- Real estate rentals - rental income generated from leasing of our state-of-the-art, regulatory compliant cannabis facilities to our cannabis-licensed clients. Rental income is generally a fixed amount per month that escalates over the respective lease terms. Prior to the third quarter of 2022, we charged additional rental fees based on a percentage of tenant revenues that exceeded specified amounts; these incremental rental fees were eliminated in connection with new contract terms with our client.
- Supply procurement - resale of cultivation and production resources, supplies and equipment that we have acquired from top national vendors at discounted prices to our clients and third parties within the cannabis industry. We recognize this revenue after the delivery and acceptance of goods by the purchaser.
- Management fees - fees for providing our cannabis clients with comprehensive oversight of their cannabis cultivation, production and dispensary operations. Prior to the third quarter of 2022, these fees were based on a percentage of such client's revenue and were recognized after services have been performed; these fees were eliminated in connection with new contract terms with our client.
- Licensing fees - revenue from the licensing of our branded products, including *Betty's Eddies*, *Bubby's Baked*, *Vibations*, and *Kalm Fusion*, to wholesalers and to regulated dispensaries throughout the United States and Puerto Rico. We recognize this revenue when the products are delivered.

Our revenue for the three months ended March 31, 2023 and 2022 was comprised of the following (in thousands):

	Three months ended March 31, 2023	Three months ended March 31, 2022
Product revenue:		
Product revenue - retail	$ 23,183	$ 21,441
Product revenue - wholesale	10,376	6,062
Total product revenue	33,559	27,503
Other revenue:		
Real estate rentals	420	1,587
Supply procurement	308	1,190
Management fees	19	753
Licensing fees	74	249
Total other revenue	821	3,779
Total revenue	$ 34,380	$ 31,282

Our total revenue increased $3.1 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. Our total product revenue increased $6.1 million, or 22.0%, primarily attributable to wholesale revenue arising from the Kind Acquisition, coupled with higher retail sales in Illinois. These increases were partially offset by decreases in our other revenue, primarily attributable to rent and management fee reductions in connection with one of our clients and the Kind Acquisition.

Cost of Revenue, Gross Profit and Gross Margin

Our cost of revenue represents the direct costs associated with the generation of our revenue, including licensing, packaging, supply procurement, manufacturing, supplies, depreciation, amortization of acquired intangible assets, and other product-related costs.

Our cost of revenue, gross profit and gross margin for the three months ended March 31, 2023 and 2022 were as follows (in thousands, except percentages):

			Increase (decrease) from prior year	
	2023	2022	$	%
Three months ended March 31,				
Cost of revenue	$ 18,992	$ 14,306	$ 4,686	32.8 %
Gross profit	$ 15,388	$ 16,976	$ (1,588)	(9.4)%
Gross margin	44.8 %	54.3 %		

Our cost of revenue increased in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. Our higher cost of revenue in the current year quarter was primarily attributable to an aggregate of $5.7 million of higher manufacturing, employee-related and facility expenses. These higher costs were primarily due to our increased headcount and new facilities in connection with our recent acquisitions and in-process expansions. These increases were partially offset by lower supply procurement and certain inventory-related expenses. The net increase in cost and resulting decreases in gross profit resulted in lower gross margins in the current year quarter compared to the same prior year period.

Operating Expenses

Our operating expenses are comprised of personnel, marketing and promotion, general and administrative, acquisition-related and other, and bad debt expenses. Our operating expenses for the three months ended March 31, 2023 and 2022 were as follows (in thousands, except percentages):

			Increase (decrease) from prior year	
	2023	2022	$	%
Three months ended March 31,				
Personnel	$ 4,656	$ 3,042	$ 1,614	53.1 %
Marketing and promotion	1,146	643	503	78.2 %
General and administrative	4,305	6,228	(1,923)	(30.9)%
Acquisition-related and other	190	—	190	100.0 %
Bad debt	(44)	14	(58)	(414.3%)
	$ 10,253	$ 9,927	$ 326	3.3 %

The increase in our personnel expenses in the three months ended March 31, 2023 compared to the three months ended March 31, 2022 was primarily due to the hiring of additional staff to support higher levels of projected revenue from existing operations, as well as from the Kind Acquisition and, to a lesser extent, our other recent acquisitions. Personnel costs increased to approximately 14% of revenue in the three months ended March 31, 2023, compared to approximately 10% of revenue in the three months ended March 31, 2022.

The increase in our marketing and promotion expenses in the three months ended March 31, 2023 compared to the three months ended March 31, 2022 was primarily attributable to our focused efforts to upgrade our marketing initiatives in order to expand branding and distribution of our licensed products.

Our general and administrative expenses decreased by approximately $2 million in the three months ended March 31, 2023 compared to the same prior year period. This decrease was primarily attributable to lower costs in connection with our equity programs and professional fees, partially offset by higher facility and travel and transport expenses in the current year quarter.

Acquisition-related and other expenses include those expenses related to acquisitions and other significant transactions that we would otherwise not have incurred, and include professional and services fees, such as legal, audit, consulting, paying agent and other fees. We incurred $0.2 million of acquisition-related and other expenses in the three months ended March 31, 2023, primarily related to our acquisitions in the first quarter of 2023 and professional fees related to obtaining the Credit Agreement (as described below). We did not record any acquisition-related and other expenses in the three months ended March 31, 2022.

Interest and Other (Expense) Income, Net

Interest expense primarily relates to interest on mortgages and notes payable, and, effective in 2023, the Credit Agreement (as described below). Interest income primarily relates to interest receivable in connection with our notes receivable. Other (expense) income, net, includes gains (losses) on changes in the fair value of our investments and other investment-related income (expense).

Our net interest expense increased $2.3 million in the three months ended March 31, 2023, compared to the same prior year period, primarily due to interest related to the Credit Agreement (as described below), coupled with expense for a fair value adjustment to notes payable in connection with our early repayment of the notes payable for the Kind Acquisition.

We reported $0.9 million of net other expense in the three months ended March 31 2023, primarily due to the write-off of assets in connection with our decision to cancel our plans to expand into Nevada. We reported net other income of $1.0 million in the three months ended March 31 2022, primarily related to non-cash income from a non-consolidated investment.

Income Tax Provision

We recorded income tax provisions of $2.5 million and $3.7 million in the three months ended March 31, 2023 and 2022, respectively.

Liquidity and Capital Resources

We had cash and cash equivalents of $21.6 million and $9.7 million at March 31, 2023 and December 31, 2022, respectively. In addition to the discussions below of our cash flows from operating, investing, and financing activities, please also see our discussion of non-GAAP Adjusted EBITDA in the section “Non-GAAP Measurement” below, which discusses an additional financial measure not defined by GAAP which our management also uses to measure our liquidity.

Credit Agreement

On January 24, 2023,we entered into a Loan and Security Agreement, by and among the Company, subsidiaries of the Company from time-to-time party thereto (collectively with the Company, the “Borrowers”), lenders from time-to-time party thereto (the “Lenders”), and Chicago Atlantic Admin, LLC (“Chicago Atlantic”), as administrative agent for the Lenders (the "Credit Agreement").

Proceeds from the Credit Agreement are designated to complete the build-out of a new cultivation and processing facility in Illinois, complete the build-out of a new processing kitchen in Missouri, expand existing cultivation and processing facilities in Massachusetts and Maryland, fund certain capital expenditures, and repay in full the Kind Therapeutics seller notes incurred in connection with the Kind Acquisition, which repayment occurred on January 24, 2023. The remaining balance, if any, is expected to be used to fund acquisitions.

Principal, Security, Interest and Prepayments

The Credit Agreement provides for $35.0 million in principal borrowings at our option in the aggregate and further provides the Borrowers with the right, subject to customary conditions, to request an additional incremental term loan in the aggregate principal amount of up to $30.0 million; provided that the Lenders elect to fund such incremental term loan. $30.0 million of loan principal was funded at the initial closing and we have the option, during a six-month period following the initial closing, to draw down an additional $5.0 million. The loans require scheduled amortization payments of 1.0% of the principal amount outstanding under the Credit Agreement per month commencing in May 2023, and the remaining principal balance is due in full on January 24, 2026, subject to extension to January 24, 2028 under certain circumstances.

The Credit Agreement provides the Borrowers with the right, subject to specified limitations, to (a) incur seller provided debt in connection with future acquisitions, (b) incur additional mortgage financing from third-party lenders secured by real estate currently owned and acquired after the closing date, and (c) incur additional debt in connection with equipment leasing transactions.

The obligations under the Credit Agreement are secured by substantially all of the assets of the Borrowers, excluding specified parcels of real estate and other customary exclusions.

The Credit Agreement provides for a floating annual interest rate equal to the prime rate then in effect plus 5.75%, which rate may be increased by 3.00% upon an event of default or 7.50% upon a material event of default as provided in the Credit Agreement.

At any time, we may voluntarily prepay amounts due under the facility in $5.0 million increments, subject to a three-percent prepayment premium and, during the first 20-months of the term, a "make-whole" payment.

Representations, Warranties, Events of Default and Certain Covenants

The Credit Agreement includes customary representations and warranties and customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to material indebtedness, and events of bankruptcy and insolvency.

The Credit Agreement also includes customary negative covenants limiting our ability to incur additional indebtedness and grant liens that are otherwise not permitted, among others. Additionally, the Credit Agreement requires us to meet certain financial tests. At March 31, 2023, we were in compliance with the covenants of the Credit Agreement.

Warrant Issuance

The Credit Agreement provides for 30% warrant coverage against amounts funded under the facility, priced at a 20% premium to the trailing 20-day average price on the closing date of each such funding. At the initial closing, upon funding of the initial $30.0 million under the facility, we issued to the Lenders an aggregate of 19,148,936 warrants to purchase shares of our common stock at $0.47 per share, exercisable for a five-year period following issuance. Incremental warrants are issuable upon further draw-downs under the facility.

Cash Flows from Operating Activities

Our primary sources of cash from operating activities are from sales to customers in our dispensaries and to our wholesale customers. We expect cash flows from operating activities to be affected by increases and decreases in sales volumes and timing of collections, and by purchases of inventory and shipment of our products. Our primary uses of cash for operating activities are for personnel costs, purchases of packaging and other materials required for the production and sale of our products, and income taxes.

Our operating activities used $4.5 million and provided $8.5 million of cash in the three months ended March 31, 2023 and 2022, respectively. The change in cash from operating activities in the current year period compared to the prior year was primarily attributable to $5.3 million of cash utilized to pay income taxes in the current year period, compared to $0.1 million in the same prior year period, coupled with higher costs and operating expenses driven by our continued focus on increasing and expanding our sales activities, facilities and footprint both in the states where we currently operate and into other states. These higher costs primarily relate to personnel, cultivation/manufacturing and facility expenses.

Cash Flows from Investing Activities

Our investing activities used $6.9 million and $4.4 million of cash in the three months ended March 31, 2023 and 2022, respectively. During the three months ended March 31, 2023, we used cash of $3.1 million for capital expenditures, $3.0 million part of the purchase consideration for the Ermont Acquisition, $0.6 million for cannabis licenses and $0.3 million for advances toward future business acquisitions. During the three months ended March 31, 2022, we used cash of $4.0 million for capital expenditures, $0.3 million for cannabis licenses and $0.1 million for advances toward future business acquisitions.

Cash Flows from Financing Activities

Our financing activities provided $23.3 million of cash in the three months ended March 31, 2023 and used $0.3 million of cash in the three months ended March 31, 2022. We received proceeds of $29.1 million from the Credit Agreement, of which we used $5.5 million to repay in full the notes previously issued to the sellers of Kind as part of the purchase consideration for the April 2022 Kind Acquisition. We made $0.3 million of aggregate principal payments on our outstanding mortgages and finance lease and approximately $34,000 of distribution payments. During the three months ended March 31, 2022, we made $0.2 million of aggregate principal payments on our outstanding mortgages and finance leases and $0.1 million of distribution payments.

Based on our current expectations, we believe our current cash and future funding opportunities will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. The rate at which we consume cash is dependent on the cash needs of our future operations, including our contractual obligations at March 31, 2023, and our ability to raise additional cash through financing activities. We anticipate devoting substantial capital resources to continue our efforts to execute our strategic growth plan as described above.

Non-GAAP Measurement

In addition to the financial information reflected in this report, which is prepared in accordance with GAAP, we are providing a non-GAAP financial measurement of profitability – *Adjusted EBITDA* – as a supplement to the preceding discussion of our financial results.

Management defines Adjusted EBITDA as net income, determined in accordance with GAAP, excluding the following:

- interest income and interest expense;
- income tax provision;
- depreciation and amortization of property and equipment;
- amortization of acquired intangible assets;
- impairments or write-downs of acquired intangible assets;
- stock-based compensation;
- acquisition-related and other;
- legal settlements;
- other income (expense), net; and
- discontinued operations.

Management believes that Adjusted EBITDA is a useful measure to assess our performance and liquidity, as it provides meaningful operating results by excluding the effects of expenses that are not reflective of our operating business performance. In addition, our management uses Adjusted EBITDA to understand and compare operating results across accounting periods, and for financial and operational decision-making. The presentation of Adjusted EBITDA is not intended to be considered in isolation or as a substitute for the financial information prepared in accordance with GAAP.

Management believes that investors and analysts benefit from considering Adjusted EBITDA in assessing our financial results and our ongoing business, as it allows for meaningful comparisons and analysis of trends in the business. Adjusted EBITDA is used by many investors and analysts themselves, along with other metrics, to compare financial results across accounting periods and to those of peer companies.

As there are no standardized methods of calculating non-GAAP measurements, our calculations may differ from those used by analysts, investors, and other companies, even those within the cannabis industry, and therefore may not be directly comparable to similarly titled measures used by others.

Reconciliation of Net Income to Adjusted EBITDA (a Non-GAAP Measurement)

The table below reconciles Net income to Adjusted EBITDA for the three months ended March 31, 2023 and 2022 (in thousands):

	Three months ended	
	March 31, 2023	**March 31, 2022**
GAAP Income from operations	$ 5,135	$ 7,049
Depreciation and amortization of property and equipment	986	702
Amortization of acquired intangible assets	557	140
Stock-based compensation	208	2,471
Acquisition-related and other	190	—
Adjusted EBITDA	$ 7,076	$ 10,362

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue, expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Inflation

In the opinion of management, inflation has not had a material effect on our financial condition or results of operations.

Seasonality

In the opinion of management, our financial condition and results of its operations are not materially impacted by seasonal sales.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is a "smaller reporting company" as defined by Regulation S-K and, as such, is not required to provide the information contained in this item pursuant to Regulation S-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the Company's disclosure controls and procedures (defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the "Exchange Act")), as of March 31, 2023 (the "Evaluation Date"). Based upon that evaluation, the CEO and CFO concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act (i) are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) are accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Over the past several years, the Company implemented significant measures to remediate past instances of ineffectiveness of the Company's internal control over financial reporting. The remediation measures consisted of the hiring of a new CFO, the engagement of accounting consultants as needed to provide expertise on specific areas of the accounting guidance, the hiring of individuals with appropriate experience in internal controls over financial reporting, and the modification to the Company's accounting processes and enhancement to the Company's financial control. Further, the

Company expanded its board of directors to include a majority of independent disinterested directors; established an audit, compensation, and nominating and governance committee of the board of directors.

Other than as described above, there was no change to the Company's internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) under the Exchange Act that occurred during the fiscal quarter ended March 31, 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There has been no material change to the status of the Company's previously reported legal proceedings.

Item 1A. Risk Factors

As a smaller reporting company, the Company is not required to provide the information contained in this item pursuant to Regulation S-K. However, information regarding the Company's risk factors appears in Part I, Item 1A. of its Annual Report on Form 10-K for the year ended December 31, 2022 (the "Annual Report"). These risk factors describe some of the assumptions, risks, uncertainties, and other factors that could adversely affect the Company's business or that could otherwise result in changes that differ materially from management's expectations. There have been no material changes to the risk factors contained in the Annual Report.

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

On January 20, 2023, the Company issued 1,793 shares of restricted common stock, with an aggregate fair value of approximately $1,000, under a royalty agreement. On January 13, 2023, the Company issued 6,580,390 shares of restricted common stock, with a fair value of $3.0 million, as purchase consideration for the Ermont Acquisition. On March 29, 2023, the Company issued an aggregate of 70,000 shares of restricted common stock to two employees, with a fair value of approximately $39,000.

The issuance of the shares of common stock described above were deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") in reliance upon Sections 4(a)(2) and/or 4(a)(5) of the Securities Act. A legend restricting the sale, transfer, or other disposition of these securities other than in compliance with the Securities Act was placed on the securities issued in the foregoing transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10-12G, File No. 000-54433, filed on June 9, 2011 with the SEC).