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 have been 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. We recently received Good Manufacturing Practices ("GMP") certification of our production kitchen, as well as approval to produce and sell high-dose edibles, which we have commenced. We also commenced adult-use wholesale and retail sales in Maryland. 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, and in October 2023, we announced the opening of Thrive Dispensary in Casey. In response to the state's request to open as soon as possible, we are currently operating Thrive Dispensary from a temporary mobile facility while construction on a permanent building is completed at the same site. Under Illinois cannabis laws, we have the potential to add five additional dispensaries, for a total of ten.
- In November 2023, we were granted a certificate of occupancy for our processing kitchen in Mt. Vernon, Illinois, and we have begun manufacturing our branded products for sale through retail and wholesale channels. We expect our products to available for sale in time for the holidays. Additionally, we continue construction of the cultivation facility in Mt Vernon, and expect this facility to be completed in early 2024.
- In Ohio, in June 2023, we opened our first medical dispensary in the state, and we intend to explore additional opportunities to grow our operations in Ohio to the maximum allowable by state regulations.

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 and nine months ended September 30, 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 and nine months ended September 30, 2023 and 2022 was comprised of the following (in thousands):

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Product revenue:				
Product revenue - retail	$ 24,121	$ 23,593	$ 71,640	$ 68,121
Product revenue - wholesale	13,643	9,009	35,050	23,029
Total product revenue	37,764	32,602	106,690	91,150
Other revenue:				
Real estate rentals	631	434	1,570	2,867
Supply procurement	321	815	1,125	2,825
Management fees	37	9	91	843
Licensing fees	47	52	223	495
Total other revenue	1,036	1,310	3,009	7,030
Total revenue	$ 38,800	$ 33,912	$ 109,699	$ 98,180

Our total revenue increased $4.9 million in the three months ended September 30, 2023 compared to the three months ended September 30, 2022, and $11.5 million in the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. Our total product revenue increased $5.2 million, or 15.8%, in the three months ended September 30, 2023 and $15.5 million, or 17.0%, in the nine months ended September 30, 2023, compared to the same prior year periods. These increases in both the quarter and year-to-date 2023 periods were primarily attributable to both wholesale and retail revenue arising from the Kind Acquisition, and higher retail revenue in our Massachusetts dispensaries, primarily attributable to our recent acquisitions there. These increases were partially offset by decreases in our other revenue, primarily attributable to rent, supply procurement and 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 and nine months ended September 30, 2023 and 2022 were as follows (in thousands, except percentages):

			Increase from prior year	
	2023	2022	$	%
Three months ended September 30,				
Cost of revenue	$ 21,962	$ 17,748	$ 4,214	23.7 %
Gross profit	$ 16,838	$ 16,164	$ 674	4.2 %
Gross margin	43.4 %	47.7 %		
Nine months ended September 30,				
Cost of revenue	$ 61,097	$ 50,035	$ 11,062	22.1 %
Gross profit	$ 48,602	$ 48,145	$ 457	0.9 %
Gross margin	44.3 %	49.0 %		

Our cost of revenue increased in both the three and nine months ended September 30, 2023 compared to the same prior year periods. These increases were primarily attributable to increases materials and employee-related expenses aggregating $4.4 million and $12.8 million in the three and nine months ended September 30, 2023, respectively. Our higher personnel costs were primarily due to our increased headcount in connection with our recent acquisitions and expanded footprint. The increases in both current year periods were partially offset primarily by lower supply procurement and certain inventory-related expenses. The increase in the three months ended September 30, 2023 was also partially offset by lower facility-related expense.

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 and nine months ended September 30, 2023 and 2022 were as follows (in thousands, except percentages):

	2023	2022	Increase (decrease) from prior year $	Increase (decrease) from prior year %
Three months ended September 30,				
Personnel	$ 5,916	$ 3,746	$ 2,170	57.9 %
Marketing and promotion	1,585	1,402	183	13.1 %
General and administrative	6,135	5,097	1,038	20.4 %
Acquisition-related and other	32	143	(111)	(77.6)%
Bad debt	(122)	40	(162)	(405.0%)
	$ 13,546	$ 10,428	$ 3,118	29.9 %
Nine months ended September 30,				
Personnel	$ 16,191	$ 10,170	$ 6,021	59.2 %
Marketing and promotion	4,397	2,854	1,543	54.1 %
General and administrative	15,520	16,890	(1,370)	(8.1)%
Acquisition-related and other	647	897	(250)	(27.9)%
Bad debt	(127)	54	(181)	(335.2%)
	$ 36,628	$ 30,865	$ 5,763	18.7 %

The increase in our personnel expenses in both the three and nine months ended September 30, 2023 compared to the same prior year periods was primarily due to the hiring of additional staff to support higher levels of projected revenue from existing operations, the Kind Acquisition and, to a lesser extent, our other recent acquisitions. Personnel costs increased to approximately 15% of revenue in the three and nine months ended September 30, 2023, compared to approximately 11% and 10% of revenue in the three and nine months ended September 30, 2022, respectively.

The increase in our marketing and promotion expenses in both the three and nine months ended September 30, 2023 compared to the same prior year periods was primarily attributable to our focused efforts to upgrade our marketing initiatives in order to expand branding and distribution of our licensed products.

The increase in our general and administrative expenses in the three months ended September 30, 2023 compared to the three months ended September 30, 2022 was primarily attributable to facility-related expense, depreciation and amortization of fixed assets, and amortization of acquired intangible assets, partially offset by lower expense related to our employee equity program. The decrease in the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 was primarily attributable to lower expenses in connection with our equity programs and professional fees, partially offset by higher facility-related expense, depreciation and amortization of property and equipment, and insurance.

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. Our acquisition-related and other expense in the three and nine months ended September 30, 2023 primarily related to our acquisitions and professional fees incurred to obtain the Credit Agreement (as described below). Our acquisition-related and other expenses in the three and nine months ended September 30, 2022 primarily related to the Kind Acquisition and the listing of our common stock on the Canadian Securities Exchange.

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 $2.2 million and $6.8 million in the three and nine months ended September 30, 2023, respectively, compared to the same prior year periods, primarily due to interest for the Credit Agreement (as described below) and expense related to the fair value adjustment to notes payable in connection with our early repayment of the notes payable for the Kind Acquisition.

We reported net other expense of $0.6 million and $1.6 million in the three and nine months ended September 30, 2023. The expense for the three months ended September 30, 2023 primarily relates to a $0.7 million term loan payment that we initiated to an account provided in a forged email we received. We were initially advised by the recipient's bank (Chase Bank) that we had identified the problem before the payment was delivered to the account identified by the email, and that the funds were being held by the bank pending its completion of an internal investigation. That investigation is still ongoing, and the bank has since indicated that the funds were delivered to the fraudulent recipient's account. We are awaiting receipt of a formal response from the bank with the results of its investigation and continue to pursue all channels through our bank to recover these funds. In addition, we initiated, and are pursuing, a claim under our cybersecurity insurance coverage to recover this amount. We reduced our cash balance and included this amount as a component of Other (expense), net, in our condensed consolidated financial statements as of and for the three and nine months ended September 30, 2023. If these funds are recovered, either as a result of the bank returning them or recovery under our insurance claim, we will reverse the expense. We have implemented additional safeguards to protect ourselves from future fraudulent activity; please see Part II, Item 1A. Risk Factors for further information. In addition to the aforementioned payment, the amount for the nine months ended September 30, 2023 also includes the write-off of assets in the first quarter of 2023 in connection with our decision to cancel our plans to expand into Nevada. We reported net other expense of $0.3 million in the three months ended September 30, 2022, primarily comprised of losses from the change in the fair value of our investments. We recorded nominal net other income in the nine months ended September 30, 2022, comprised of $1.0 million of non-cash income from the sale of an investment, virtually offset by a $0.9 million loss from the change in fair value of other investments.

Income Tax Provision

We recorded income tax provisions of $8.9 million and $7.9 million in the nine months ended September 30, 2023 and 2022, respectively.

Liquidity and Capital Resources

We had cash and cash equivalents of $13.3 million and $9.7 million at September 30, 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 were 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, was 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 had the option, during the six-month period

following the initial closing, to draw down an additional $5.0 million, which we did not elect to do. 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 incur (a) seller provided debt in connection with future acquisitions, (b) additional mortgage financing from third-party lenders secured by real estate currently owned and acquired after the closing date, and (c) 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 September 30, 2023, we were in compliance with the covenants of the Credit Agreement.

Warrant Issuance

The Credit Agreement provided 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 warrants to purchase an aggregate of 19,148,936 shares of our common stock at $0.47 per share, exercisable for a five-year period following issuance.

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 provided $4.7 million and $5.6 million of cash in the nine months ended September 30, 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 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 $19.6 million and $23.7 million of cash in the nine months ended September 30, 2023 and 2022, respectively. During the nine months ended September 30, 2023, we used $14.7 million of cash for capital expenditures, $3.0 million as part of the purchase consideration for the Ermont Acquisition, $0.6 million for purchases of cannabis licenses, $0.3 million for advances toward future business acquisitions, and $0.2 million for the purchases of certain investments. We also issued $0.9 million of notes receivable to a cannabis-licensed client. During the nine months

ended September 30, 2022, we used $12.7 million of cash in the aggregate for purchase consideration in connection with the Kind Acquisition and the Green Growth Acquisition, $10.0 million for capital expenditures, $0.8 million for advances toward future business acquisitions and $0.3 million for purchases of cannabis licenses. These payments were partially offset by $0.1 million of proceeds from notes receivable.

Cash Flows from Financing Activities

Our financing activities provided $18.5 million of cash in the nine months ended September 30, 2023 and used $0.4 million of cash in the nine months ended September 30, 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 Kind Acquisition in April 2022. Excluding the aforementioned repayment of the notes in connection with the Kind Acquisition, we made $1.3 million of aggregate principal payments on our outstanding mortgages and promissory notes, including the repayment in full in May 2023 of our mortgage with South Porte Bank. We also paid $1.8 million for third-party debt issuance costs in connection with the Credit Agreement, and made $1.5 million of payments toward the outstanding balance of the Credit Agreement, $0.5 million of principal payments of finance leases, and $0.1 million of distribution payments. During the nine months ended September 30, 2022, we paid $2.0 million to redeem the outstanding minority interests in one of our majority-owned subsidiaries in June 2022, made $1.0 million of aggregate principal payments on our outstanding mortgages and notes payable, made $0.2 million of distribution payments and made $0.2 million of finance lease principal payments. These amounts were partially offset by $3.0 million of proceeds from a mortgage.

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 September 30, 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 income from operations, determined in accordance with GAAP, excluding the following:

- depreciation and amortization of property and equipment;
- amortization of acquired intangible assets;
- impairments or write-downs of acquired intangible assets;
- stock-based compensation;
- legal settlements; and
- acquisition-related and other.

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 Income from Operations to Adjusted EBITDA (a Non-GAAP Measurement)

The table below reconciles income from operations to Adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
GAAP Income from operations	$ 3,292	$ 5,736	$ 11,974	$ 17,280
Depreciation and amortization of property and equipment	1,591	917	3,838	2,469
Amortization of acquired intangible assets	844	429	2,181	854
Stock-based compensation	296	1,372	801	6,396
Acquisition-related and other	32	143	647	897
Adjusted EBITDA	$ 6,055	$ 8,597	$ 19,441	$ 27,896

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 September 30, 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

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 September 30, 2023 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.