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, 2023 (the "2023 10-K"), which was filed with the U.S. Securities and Exchange Commission ("SEC") on March 7, 2024.

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 products, along with other top brands, in several domestic markets.

We completed two acquisitions during the nine months ended September 30, 2024, which we accounted for as asset purchase. On April 9, 2024, we acquired 100% of the membership interests of Allgreens Dispensary, LLC ("Allgreens"), which held a conditional adult-use cannabis dispensary license in Illinois. On April 5, 2024, we acquired 100% of the membership interests of Our Community Wellness & Compassionate Care Center, Inc. ("MedLeaf"), which held a retail dispensary license in Maryland. The MedLeaf dispensary had ceased operations since July 1, 2023, but we reopened it on August 19, 2024, upon receiving regulatory approval to commence adult use retail sales.

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.

During 2024, we continue to focus on executing our strategic growth plan, with priority on activities that include the following:

- Completing the acquisition and consolidation of the client cannabis businesses we developed, managed and advised prior to becoming a seed to sale multi-state operator. There is one remaining business that we continue to manage and intend to acquire - Delaware operator First State Compassion Center ("FSCC"). Delaware's current cannabis regulations prevent such an acquisition.

- Increasing revenue organically in states where we currently do business by developing additional assets and increasing our product distribution within those states.

- Expanding our footprint into high-growth legal cannabis states through new license applications and/or acquisitions of existing cannabis businesses.

- Increasing product brand revenue by introducing new, innovative products that consumers want, expanding our award-winning brands to include new effects or to fill additional customer needs, and by identifying qualified licensing partners that will expand our distribution into new markets.

In November 2023, we announced the closing of a $58.7 million secured credit facility with a Needham Bank at a lower rate relative to both our previous outstanding debt with Chicago Atlantic Admin, LLC ("Chicago Atlantic") and recent transactions announced by other cannabis companies. This debt refinancing enabled us to pay off our term loan with Chicago Atlantic, pay off the mortgage on our New Bedford and Middleborough, Massachusetts facilities with Bank of New England, and reduce the principal outstanding on the note we issued to the sellers in connection with our acquisition of the operating assets of Ermont, Inc. Our new credit facility has allowed us to unencumber our operating assets in Illinois, Ohio, and Delaware, as well as our branded products, providing additional levers for future loans at attractive rates if we choose to increase our borrowings. Additionally, the credit facility bolsters our ability to continue to execute our strategic plan, particularly as it relates to growing the Company through mergers and acquisitions.

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 a business 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, 2024 and 2023

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 multiple states. We recognize this revenue when products are delivered or at retail points-of-sale.

- Supply procurement fees – fees from facilitating purchases of cultivation and production resources, supplies and equipment for our cannabis-licensed clients and third parties. We recognize this revenue after the delivery and acceptance of goods by a purchaser.

- 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.

- Management fees - fees for providing our cannabis clients with comprehensive oversight of their cannabis cultivation, production and dispensary operations.

- Licensing fees - revenue from the licensing of our branded products, including *Betty's Eddies*, *Bubby's Baked*, *Vibations* and *Kalm Fusion*, to wholesalers and 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, 2024 and 2023 was comprised of the following (in thousands):

	2024	2023	Increase (decrease) from prior year $	Increase (decrease) from prior year %
Three months ended September 30,				
Product revenue:				
Product sales - retail	$ 23,384	$ 24,121	$ (737)	(3.1)%
Product sales - wholesale	16,310	13,643	2,667	19.5 %
Total product revenue	39,694	37,764	1,930	5.1 %
Other revenue:				
Real estate rentals	319	631	(312)	(49.4)%
Supply procurement	323	321	2	0.6 %
Management fees	189	37	152	410.8 %
Licensing fees	66	47	19	40.4 %
Total other revenue	897	1,036	(139)	(13.4)%
Total revenue	$ 40,591	$ 38,800	$ 1,791	4.6 %
Nine months ended September 30,				
Product revenue:				
Product sales - retail	$ 69,353	$ 71,640	$ (2,287)	(3.2)%
Product sales - wholesale	46,683	35,050	11,633	33.2 %
Total product revenue	116,036	106,690	9,346	8.8 %
Other revenue:				
Real estate rentals	976	1,570	(594)	(37.8)%
Supply procurement	1,020	1,125	(105)	(9.3)%
Management fees	787	91	696	764.8 %
Licensing fees	143	223	(80)	(35.9)%
Total other revenue	2,926	3,009	(83)	(2.8)%
Total revenue	$ 118,962	$ 109,699	$ 9,263	8.4 %

Our total revenue increased $1.8 million, or 4.6%, in the three months ended September 30, 2024 compared to the three months ended September 30, 2023. Our total product revenue increased $1.9 million, or 5.1%, in the three months ended September 30, 2024, compared to the same prior year period. The $2.7 million increase in revenue from our wholesale operations was partially offset by a $0.7 million decrease in retail sales. The increase in wholesale revenue was attributable to the inclusion of wholesale revenue in Illinois in the current year, coupled with higher revenue in our other wholesale locations. Our retail operations in Massachusetts reported higher retail revenue in the three months ended September 30, 2024, partially offset by lower retail revenue in our other locations, primarily certain of our Illinois dispensaries. The decrease in other revenue in the three months ended September 30, 2024 compared to the three months ended September 30, 2023 was primarily attributable to lower real estate rentals, partially offset by management fees.

Our total revenue increased $9.3 million, or 8.4%, in the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023, primarily attributable to wholesale revenue, partially offset by lower retail sales and other revenue. The increase in wholesale revenue was attributable to the inclusion of wholesale revenue in Illinois in the current year, coupled with higher revenue in our other wholesale locations, particularly in Maryland. Our retail operations in Illinois reported lower revenue in the aggregate; however, this decrease was partially offset by higher net sales in our Massachusetts dispensaries and in Maryland. Our other revenue was relatively unchanged in the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. The increase in management fees principally related to Allgreens prior to the Allgreens Acquisition Date. This increase was offset by reductions to our remaining other revenue sources.

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, 2024 and 2023 were as follows (in thousands, except percentages):

			Increase (decrease) from prior year	
	2024	2023	$	%
Three months ended September 30,				
Cost of revenue	$ 23,813	$ 21,962	$ 1,851	8.4 %
Gross profit	$ 16,778	$ 16,838	$ (60)	(0.4)%
Gross margin	41.3 %	43.4 %		
Nine months ended September 30,				
Cost of revenue	$ 68,803	$ 61,097	$ 7,706	12.6 %
Gross profit	$ 50,159	$ 48,602	$ 1,557	3.2 %
Gross margin	42.2 %	44.3 %		

Our cost of revenue increased in both the three- and nine-month periods ended September 30, 2024 compared to the same periods in the prior year. These increases were primarily attributable to increases in employee-related expenses and materials costs aggregating approximately $2 million and $6 million in the three and nine months ended September 30, 2024, respectively. Our higher personnel costs were primarily due to our increased headcount in connection with our recent acquisitions and expanded footprint. These increases were partially offset by decreases in certain inventory-related expenses.

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, 2024 and 2023 were as follows (in thousands, except percentages):

			Increase (decrease) from prior year	
	2024	2023	$	%
Three months ended September 30,				
Personnel	$ 7,255	$ 5,916	$ 1,339	22.6 %
Marketing and promotion	1,828	1,585	243	15.3 %
General and administrative	6,100	6,135	(35)	(0.6)%
Acquisition-related and other	371	32	339	1059.4 %
Bad debt	(116)	(122)	6	(4.9%)
	$ 15,438	$ 13,546	$ 1,892	14.0 %
Nine months ended September 30,				
Personnel	$ 20,678	$ 16,191	$ 4,487	27.7 %
Marketing and promotion	5,446	4,397	1,049	23.9 %
General and administrative	19,044	15,520	3,524	22.7 %
Acquisition-related and other	805	647	158	24.4 %
Bad debt	(131)	(127)	(4)	3.1%
	$ 45,842	$ 36,628	$ 9,214	25.2 %

The increase in our personnel expenses in both the three and nine months ended September 30, 2024 compared to the three and nine months ended September 30, 2023 was primarily due to the hiring of additional staff to support higher levels of projected revenue from existing operations and our recent acquisitions. Personnel costs increased to approximately 18%

and 17% of revenue in the three and nine months ended September 30, 2024, respectively, compared to approximately 15% of revenue in both the three and nine months ended September 30, 2023.

The increase in our marketing and promotion expenses in both the three and nine months ended September 30, 2024, compared to the three and nine months ended September 30, 2023 was primarily attributable to our continued focus on upgrading our marketing initiatives in order to expand branding and distribution of our licensed products.

Our general and administrative expenses in the three months ended September 30, 2024 were essentially flat compared to the three months ended September 30, 2023. The moderate increases in our deal costs and facility and related expenses were virtually offset by lower professional fees (i.e., legal, accounting and consulting), depreciation and amortization, and other general and administrative expenses. The increase in our general and administrative expenses in the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 was primarily attributable to higher facility and related expenses, depreciation and amortization of fixed assets, and professional fees. These increases were primarily attributable to the addition of new facilities and related fixed assets, coupled with higher professional fees, primarily legal fees in connection with our acquisitive and financing activities.

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 both the three and nine months ended September 30, 2024 primarily related to the acquisitions of MedLeaf and Allgreens, which were both consummated in April 2024, and non-cash expense for warrants to purchase our common stock issued to an entity in consideration for introductory and other services rendered in connection with certain funding and acquisitive transactions. 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 CA Credit Agreement (described below).

Interest

Interest expense primarily relates to interest on mortgages and notes payable, as well as the CREM Loan (described below) in 2024 and the CA Term Loan (described below) in 2023. Interest income primarily relates to our notes receivable.

Our net interest expense decreased $0.8 million in the three months ended September 30, 2024 compared to the three months ended September 30, 2023, and $2.4 million in the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. These decreases were primarily due to lower non-cash interest expense in the current year periods, coupled with lower interest rates on our CREM Loan compared to our previous financing facility.

Other Expense, Net

We reported net other expense of approximately $50,000 in the nine months ended September 30, 2024. We did not record other income or expense in the three months ended September 30, 2024.

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 in error to an account provided in a fraudulent email we received. We were initially advised by JPM Chase, the recipient's bank ("Chase") 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 Chase pending its completion of an internal investigation. Chase has subsequently advised us that the funds were delivered to the fraudulent recipient's account. We continue to pursue all channels through our bank to recover these funds. In addition, we initiated, and are pursuing, a claim under our insurance coverage to recover this amount. There is no assurance that we will successfully recover all or any portion of this amount, including under our insurance claim. We reduced our cash balance and included this amount as a component of Other expense, net, in our condensed consolidated statement of operations for the three and nine months ended September 30, 2023. If these funds, or any portion of these funds, are recovered, we will reverse the expense accordingly. We have implemented additional safeguards to protect ourselves from future fraudulent activity; please see Part I, Item 1A. Risk Factors and Item 1C. Cybersecurity of our 2023 10-K. 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 abandon a project to expand into Nevada.

Income Tax Provision

We recorded income tax provisions of $3.2 million and $8.9 million in the nine months ended September 30, 2024 and 2023, respectively. Our income tax provisions are impacted by Section 280E of the Internal Revenue Code, which prohibits the deduction of certain ordinary business expenses.

Liquidity and Capital Resources

We had cash and cash equivalents of $9.8 million and $14.6 million at September 30, 2024 and December 31, 2023, 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.

CA 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 "CA Borrowers"), lenders from time-to-time party thereto (the "CA Lenders"), and Chicago Atlantic Admin, LLC ("Chicago Atlantic"), as administrative agent for the Lenders (the "CA Credit Agreement").

Proceeds from the CA 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.

The CA Credit Agreement provided for $35.0 million in principal borrowings at our option in the aggregate and further provided the CA 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 CA Lenders elect to fund such incremental term loan. $30.0 million of loan principal was funded at the initial closing (the "CA Term Loan") 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 required scheduled amortization payments of 1.0% of the principal amount outstanding under the CA Credit Agreement per month commencing in May 2023, and the remaining principal balance was due in full on January 24, 2026, subject to extension to January 24, 2028 under certain circumstances.

The CA Credit Agreement provided the CA 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 CA Credit Agreement were secured by substantially all of the assets of the CA Borrowers, excluding specified parcels of real estate and other customary exclusions.

The CA Credit Agreement provided for a floating annual interest rate equal to the prime rate then in effect plus 5.75%, which rate could 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 could 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.

The CA Credit Agreement included 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 CA Credit Agreement also included customary negative covenants limiting our ability to incur additional indebtedness and grant liens that are otherwise not permitted, among others. Additionally, the CA Credit Agreement required us to meet certain financial tests. We were in compliance with the CA Credit Agreement covenants at all times while the Term Loan was outstanding.

The CA 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 CA 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.

On November 16, 2023 (the "Payoff Date"), we repaid and retired the CA Term Loan (the "Term Loan Payoff") using proceeds from a new $58.7 million loan entered into on the same date (see "CREM Loan" below). The Term Loan Payoff amount totaled $32.7 million, comprised of $28.5 million for the outstanding principal, $3.7 million for the make-whole payment, $0.2 million for accrued unpaid interest and $0.3 million for transaction-related fees. We recognized a loss of $10.2 million in connection with the Term Loan Payoff.

CREM Loan

On November 16, 2023, Mari Holdings MD LLC, Hartwell Realty Holdings LLC, Kind Therapeutics USA, LLC, ARL Healthcare Inc., and MariMed Advisors, Inc., each a wholly-owned direct or indirect subsidiary of the Company (collectively, the "CREM Borrowers") entered into a Loan Agreement (the "CREM Loan Agreement"), by and among the CREM Borrowers, and Needham Bank, a Massachusetts co-operative bank (the "CREM Lender") pursuant to which the CREM Lender loaned to the CREM Borrowers an aggregate principal amount of $58.7 million (the "CREM Loan Transaction"). The Company has fully guaranteed the obligations of the CREM Borrowers under the CREM Loan Transaction and pledged to the CREM Lender its equity ownership in each CREM Borrower. The CREM Lender has a first priority security interest in all of the CREM Borrowers' operating assets in Maryland and Massachusetts and first priority mortgages on the CREM Borrowers' properties owned in Maryland and Massachusetts.

The CREM Loan Transaction is for a term of ten years and has an interest rate for the initial five years of 8.43% per annum. The interest rate will reset after five years to the FHLB Rate (the Classic Advance Rate for Fixed Rate advances for a period of five years for an amount greater than or equal to the loan amount, as such rate is defined and published by the Federal Home Loan Bank of Boston), plus 3.50%. We will make interest-only payments for the first twelve months of the term of the loan, with payments thereafter based upon a twenty-year amortization schedule.

The CREM Lender initially released $52.8 million to the CREM Borrowers (the "Initial CREM Distribution"), with the remaining proceeds of $5.9 million placed into in escrow to complete the expansion of our Hagerstown, Maryland cultivation facility (the "Hagerstown Facility"). Any unused proceeds would be released to us after completion of the Hagerstown Facility expansion. We used $46.8 million of the Initial CREM Distribution to fully repay certain of our outstanding debt obligations. These payments were comprised of $32.7 million to repay the Term Loan, $11.9 million to repay the mortgage with Bank of New England for our New Bedford, MA and Middleborough, MA properties (the "BNE Mortgage"), and $2.2 million to reduce the outstanding balance of the note we issued in connection with the Ermont Acquisition. Concurrent with the repayment of the BNE Mortgage, we refinanced these properties through the CREM Loan and accordingly, effective November 16, 2023, the mortgage on these properties is held by Needham Bank, which mortgage matures in 2033 and which outstanding amount is included as a component of the CREM Loan amount in our consolidated balance sheet at December 31, 2023. During the nine months ended September 30, 2024, $5.1 million of the escrowed portion of the loan proceeds was released to us,

The CREM Loan 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 CREM Loan Agreement also includes customary negative covenants limiting the CREM Borrowers' (but not the Company's) ability to incur additional indebtedness and grant liens that are otherwise not permitted, among others. The CREM Loan Agreement also requires the CREM Borrowers to meet certain periodic financial tests.

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 $7.2 million and $4.7 million of cash in the nine months ended September 30, 2024 and 2023, 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 arising from expanding our sales activities, facilities and geographic footprint, both in the states where we currently operate and to expand into other states. These higher costs primarily relate to personnel, cultivation/manufacturing and facility expenses.

Cash Flows from Investing Activities

Our investing activities used $15.9 million and $19.6 million of cash in the nine months ended September 30, 2024 and 2023, respectively. During the nine months ended September 30, 2024, we used $10.9 million of cash for capital expenditures, $4.3 million for purchase consideration in connection with the MedLeaf Acquisition and Allgreens Acquisition, and $0.7 million for purchases of cannabis licenses. 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 cannabis licenses, $0.3 million for advances toward future acquisitions and $0.2 million for the purchase of certain investments. We also issued $0.9 million of notes receivable to a cannabis-licensed client.

Cash Flows from Financing Activities

Our financing activities provided $3.9 million of cash in the nine months ended September 30, 2024 and $18.5 million of cash in the nine months ended September 30, 2023. During the nine months ended September 30, 2024, we received $5.1 million of additional proceeds from the CREM Loan and $1.2 million of proceeds from the refinancing of our retail facility in Mt. Vernon, Illinois. We made $2.2 million of aggregate principal payments on our outstanding mortgages, promissory notes and finance leases, and approximately $120,000 of distribution payments.

During the nine months ended September 30, 2023, we received proceeds of $29.1 million from the CA Credit Agreement, of which we used $5.5 million to repay in full the notes issued in connection with our 2022 acquisition of Kind Therapeutics USA (the "Kind Acquisition"). 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 CA Credit Agreement, and made $1.5 million of payments toward the outstanding balance of the CA Credit Agreement, $0.5 million of principal payments of 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 September 30, 2024, 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 they 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, 2024 and 2023 (in thousands):

	Three months ended		Nine months ended	
	September 30, 2024	**September 30, 2023**	**September 30, 2024**	**September 30, 2023**
GAAP Income from operations	$ 1,340	$ 3,292	$ 4,317	$ 11,974
Depreciation and amortization of property and equipment	1,803	1,591	5,749	3,838
Amortization of acquired intangible assets	882	844	2,065	2,181
Stock-based compensation	280	296	772	801
Acquisition-related and other	371	32	805	647
Adjusted EBITDA	$ 4,676	$ 6,055	$ 13,708	$ 19,441

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 impacted the Company through increased costs of ingredients, nutrients and packaging. We recently negotiated with certain of our suppliers to reduce our costs for future purchases of ingredients, nutrients and packaging, all of which have increased significantly as a result of current economic conditions.

Seasonality

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

Recent Accounting Pronouncements

We have reviewed all recently issued, but not yet effective, accounting pronouncements, and we do not believe the future adoption of any such pronouncements will have a material impact on our financial condition or results of operations.

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, 2024 (the "Evaluation Date"). Based upon that evaluation, the Company's management 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, 2024 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, 2023 (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

During the three months ended September 30, 2024, the Company issued unregistered securities as described below:

- 19,205 shares of restricted common stock with an aggregate fair value of approximately $4,600 issued under a royalty agreement.

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 the shares of restricted common stock other than in compliance with the Securities Act was placed on the shares of restricted common stock issued in the foregoing transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Termination of Insider Trading Arrangements

Effective as of August 27, 2024, Jon Levine, our President and Chief Executive Officer, and Timothy Shaw, our Chief Operating Officer, terminated their respective Exchange Act Rule 10b5-1(c) trading plans (the "Trading Plans"). The Trading Plans authorized the sale of only such number of shares of the Company's common stock as were necessary to satisfy tax withholding obligations arising from the vesting of the compensatory restricted stock units awarded to Messrs. Levine and Shaw.