UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended September 30, 2023

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________________ to __________________

Commission File number 0-54433

MARIMED INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**27-4672745**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

10 Oceana Way
Norwood, MA 02062
(Address of Principal Executive Offices)

781-277-0007
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None.

Title of each class	Ticker symbol(s)	Name of each exchange on which registered
Not Applicable	Not Applicable	Not Applicable

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of November 6, 2023, 376,121,958 shares of the registrant's common stock were outstanding.

MariMed Inc.
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain forward-looking statements and information relating to MariMed Inc. that is based on the beliefs of MariMed Inc.'s management, as well as assumptions made by and information currently available to the Company. In some cases, you can identify these statements by forward-looking words such as "anticipates," "believes," "could," "should," "estimates," "expects," "intends," "may," "plans," "predicts," "projects," "will," or other similar or comparable words. Any statements contained in this Quarterly Report on Form 10-Q that are not statements of historical facts may be deemed to be forward-looking statements. Such statements reflect the current views of the Company with respect to future events, including consummation of pending transactions, launch of new products, expanded distribution of existing products, obtainment of new licenses, estimates and projections of revenue, EBITDA and Adjusted EBITDA and other information about the Company's business, business prospects and strategic growth plan, which are based on certain assumptions of its management, including those described in this Quarterly Report on Form 10-Q. These statements are not a guarantee of future performance and involve risk and uncertainties that are difficult to predict, including, among other factors, changes in demand for the Company's services and products, changes in the law and its enforcement, timing and outcome of regulatory processes and changes in the economic environment.

Additional important factors that could cause actual results to differ materially from those in these forward-looking statements are also discussed in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Quarterly Report on Form 10-Q and Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2022. Any forward-looking statement made by the Company in this Quarterly Report on Form 10-Q speaks only as of the date on which this Quarterly Report on Form 10-Q was first filed. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MariMed Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)
(unaudited)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 13,259	$ 9,737
Accounts receivable, net of allowances of $564 and $4,603 at September 30, 2023 and December 31, 2022, respectively	6,352	4,157
Inventory	24,206	19,477
Deferred rents receivable	649	704
Notes receivable, current portion	52	2,637
Investments, current portion	161	123
Due from related parties	87	29
Other current assets	6,026	7,282
Total current assets	50,792	44,146
Property and equipment, net	85,195	71,641
Intangible assets, net	17,856	14,201
Goodwill	11,993	8,079
Notes receivable, net of current portion	814	7,467
Investments, net of current portion	164	—
Operating lease right-of-use assets	9,679	4,931
Finance lease right-of-use assets	2,717	713
Other assets	11,607	1,024
Total assets	$ 190,817	$ 152,202
Liabilities, mezzanine equity and stockholders’ equity		
Current liabilities:		
Term loan	$ 3,600	$ —
Mortgages and notes payable, current portion	1,009	3,774
Accounts payable	8,494	6,626
Accrued expenses and other	5,347	3,091
Income taxes payable	14,014	11,489
Operating lease liabilities, current portion	1,865	1,273
Finance lease liabilities, current portion	963	237
Total current liabilities	35,292	26,490
Term loan, net of current portion	18,895	—
Mortgages and notes payable, net of current portion	27,444	25,943
Operating lease liabilities, net of current portion	8,449	4,173

MariMed Inc.
Condensed Consolidated Balance Sheets (continued)
(in thousands, except share and per share amounts)
(unaudited)

	September 30, 2023	December 31, 2022
Finance lease liabilities, net of current portion	1,775	461
Other liabilities	100	100
Total liabilities	91,955	57,167
Commitments and contingencies		
Mezzanine equity		
Series B convertible preferred stock, $0.001 par value; 4,908,333 shares authorized, issued and outstanding at September 30, 2023 and December 31, 2022	14,725	14,725
Series C convertible preferred stock $0.001 par value; 12,432,432 shares authorized; 1,155,274 and 6,216,216 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	4,275	23,000
Total mezzanine equity	19,000	37,725
Stockholders' equity		
Undesignated preferred stock, $0.001 par value; 32,659,235 shares authorized; zero shares issued and outstanding at September 30, 2023 and December 31, 2022	—	—
Common stock, $0.001 par value; 700,000,000 shares authorized; 375,871,958 and 341,474,728 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	376	341
Common stock subscribed but not issued	—	39
Additional paid-in capital	170,922	142,365
Accumulated deficit	(89,786)	(83,924)
Noncontrolling interests	(1,650)	(1,511)
Total stockholders' equity	79,862	57,310
Total liabilities, mezzanine equity and stockholders' equity	$ 190,817	$ 152,202

See accompanying notes to the unaudited condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue	$ 38,800	$ 33,912	$ 109,699	$ 98,180
Cost of revenue	21,962	17,748	61,097	50,035
Gross profit	16,838	16,164	48,602	48,145
Operating expenses:				
Personnel	5,916	3,746	16,191	10,170
Marketing and promotion	1,585	1,402	4,397	2,854
General and administrative	6,135	5,097	15,520	16,890
Acquisition-related and other	32	143	647	897
Bad debt	(122)	40	(127)	54
Total operating expenses	13,546	10,428	36,628	30,865
Income from operations	3,292	5,736	11,974	17,280
Interest and other (expense) income:				
Interest expense	(2,482)	(518)	(7,627)	(1,271)
Interest income	29	239	243	720
Other (expense) income, net	(646)	(251)	(1,556)	24
Total interest and other expense, net	(3,099)	(530)	(8,940)	(527)
Income before income taxes	193	5,206	3,034	16,753
Provision for income taxes	4,462	2,484	8,902	7,894
Net (loss) income	(4,269)	2,722	(5,868)	8,859
Less: Net (loss) income attributable to noncontrolling interests	(10)	16	(6)	142
Net (loss) income attributable to common stockholders	$ (4,259)	$ 2,706	$ (5,862)	$ 8,717
Net (loss) earnings per share attributable to common stockholders:				
Basic	$ (0.01)	$ 0.01	$ (0.02)	$ 0.03
Diluted	$ (0.01)	$ 0.01	$ (0.02)	$ 0.02
Weighted average common shares outstanding:				
Basic	373,081	339,025	359,156	337,111
Diluted	373,081	381,071	359,156	379,868

See accompanying notes to the unaudited condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share amounts)
(unaudited)

	Nine months ended September 30, 2023							
	Common stock		Common stock subscribed but not issued		Additional paid-in capital	Accumulated deficit	Non-controlling interests	Total stockholders' equity
	Shares	Par value	Shares	Amount				
Balances at January 1, 2023	**341,474,728**	**$ 341**	**70,000 39**	**$ 39**	**$ 142,365**	**$ (83,924)**	**$ (1,511)**	**$ 57,310**
Issuance of subscribed shares	70,000	—	(70,000)	(39)	39	—	—	—
Common stock subscribed but not issued	—	—	5,025	2	—	—	—	—
Warrants issued in connection with debt	—	—	—	—	5,454	—	—	5,454
Shares issued as purchase consideration - business acquisition	6,580,390	7	—	—	2,987	—	—	2,994
Common stock issued under licensing agreement	1,793	—	—	—	1	—	—	1
Distributions to non-controlling interests	—	—	—	—	—	—	(34)	(34)
Stock-based compensation	—	—	—	—	206	—	—	206
Net loss	—	—	—	—	—	(645)	(19)	(664)
Balances at March 31, 2023	**348,126,911**	**348**	**5,025**	**2**	**151,052**	**(84,569)**	**(1,564)**	**65,269**
Issuance of subscribed shares	5,025	—	(5,025)	(2)	2	—	—	—
Exercise of stock options	157,752	—	—	—	35	—	—	35
Release of shares under stock grants	349,999	1	—	—	(1)	—	—	—
Conversion of preferred stock to common stock	21,383,040	21	—	—	15,802	—	—	15,823
Purchase of minority interests in certain of the Company's subsidiaries	450,000	1	—	—	4	—	(5)	—
Common stock issued to settle obligations	400,000	—	—	—	160	—	—	160
Common stock issued under licensing agreement	1,290	—	—	—	—	—	—	—
Common stock issued to purchase property and equipment	740,741	1	—	—	299	—	—	300
Distributions to non-controlling interests	—	—	—	—	—	—	(47)	(47)
Stock-based compensation	—	—	—	—	299	—	—	299
Net (loss) income	—	—	—	—	—	(958)	23	(935)
Balances at June 30, 2023	**371,614,758**	**372**	**—**	**—**	**167,652**	**(85,527)**	**(1,593)**	**80,904**
Exercise of stock options	330,000	—	—	—	74	—	—	74
Conversion of preferred stock to common stock	3,921,670	4	—	—	2,898	—	—	2,902
Common stock issued under licensing agreement	5,530	—	—	—	2	—	—	2
Distributions to non-controlling interests	—	—	—	—	—	—	(47)	(47)
Stock-based compensation	—	—	—	—	296	—	—	296
Net loss	—	—	—	—	—	(4,259)	(10)	(4,269)
Balances at September 30, 2023	**375,871,958**	**$ 376**	**—**	**$ —**	**$ 170,922**	**$ (89,786)**	**$ (1,650)**	**$ 79,862**

MariMed Inc.
Condensed Consolidated Statements of Stockholders' Equity (continued)
(in thousands, except share amounts)
(unaudited)

	Nine months ended September 30, 2022							
	Common stock		Common stock subscribed but not issued		Additional paid-in capital	Accumulated deficit	Non-controlling interests	Total stockholders' equity
	Shares	Par value	Shares	Amount				
Balances at January 1, 2022	**334,030,348**	**$ 334**	**—**	**$ —**	**$ 134,920**	**$ (97,392)**	**$ (1,563)**	**$ 36,299**
Common stock subscribed but not issued	—	—	2,717	2	—	—	—	2
Exercise of stock options	10,000	—	—	—	3	—	—	3
Conversion of promissory notes to equity	1,142,858	1	—	—	399	—	—	400
Common stock issued to settle obligations	375,000	1	—	—	273	—	—	274
Distributions to non-controlling interests	—	—	—	—	—	—	(101)	(101)
Stock-based compensation	—	—	—	—	2,469	—	—	2,469
Net income	—	—	—	—	—	4,188	53	4,241
Balances at March 31, 2022	**335,558,206**	**336**	**2,717**	**2**	**138,064**	**(93,204)**	**(1,611)**	**43,587**
Issuance of subscribed shares	2,717	—	(2,717)	(2)	2	—	—	—
Cashless exercise of stock options	200,000	—	—	—	—	—	—	—
Cashless exercise of warrants	234,961	—	—	—	—	—	—	—
Release of shares under stock grants	354,221	—	—	—	—	—	—	—
Shares as purchase consideration - business combination	2,343,750	3	—	—	1,497	—	—	1,500
Purchase of minority interests in certain of the Company's subsidiaries	—	—	—	—	(2,165)	—	165	(2,000)
Distributions to non-controlling interests	—	—	—	—	—	—	(83)	(83)
Stock-based compensation	—	—	—	—	2,553	—	—	2,553
Net income	—	—	—	—	—	1,823	73	1,896
Balances at June 30, 2022	**338,693,855**	**339**	**—**	**—**	**139,951**	**(91,381)**	**(1,456)**	**47,453**
Common stock subscribed but not issued	—	—	74,581	41	—	—	—	41
Exercise of stock options	45,000	—	—	—	7	—	—	7
Common stock issued to settle obligations	531,532	—	—	—	363	—	—	363
Distributions to non-controlling interests	—	—	—	—	—	—	(40)	(40)
Stock-based compensation	—	—	—	—	1,331	—	—	1,331
Net income	—	—	—	—	—	2,706	16	2,722
Balances at September 30, 2022	**339,270,387**	**$ 339**	**74,581**	**$ 41**	**$ 141,652**	**$ (88,675)**	**$ (1,480)**	**$ 51,877**

See accompanying notes to the unaudited condensed consolidated financial statements.

MariMed Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash flows from operating activities:		
Net (loss) income attributable to common stockholders	$ (5,862)	$ 8,717
Net (loss) income attributable to noncontrolling interests	(6)	142
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation and amortization of property and equipment	3,838	2,469
Amortization of intangible assets	2,181	854
Stock-based compensation	801	6,396
Amortization of original debt issuance discount	206	—
Amortization of debt discount	1,840	—
Payment-in-kind interest	301	—
Present value adjustment of notes payable	719	—
Bad debt (income) expense	(127)	54
Obligations settled with common stock	463	637
Write-off of disposed assets	906	—
Gain on finance lease adjustment	(31)	—
(Gain) loss on changes in fair value of investments	(16)	930
Write-down of prepaid purchase consideration	200	—
Other investment income	—	(954)
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,065)	(4,856)
Deferred rents receivable	55	111
Inventory	(4,728)	(4,215)
Other current assets	2,040	(1,973)
Other assets	(300)	(113)
Accounts payable	1,868	2,372
Accrued expenses and other	(132)	(193)
Income taxes payable	2,525	(4,804)
Net cash provided by operating activities	4,676	5,574
Cash flows from investing activities:		
Purchases of property and equipment	(14,749)	(9,985)
Business acquisitions, net of cash acquired	(2,987)	(12,746)
Advances toward future business acquisitions	(250)	(800)
Purchases of investments	(187)	—
Purchases of cannabis licenses	(626)	(330)

MariMed Inc.
Condensed Consolidated Statements of Cash Flows (continued)
(in thousands)
(unaudited)

	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Issuance of notes receivable	(879)	—
Proceeds from notes receivable	99	130
Due from related party	(58)	—
Net cash used in investing activities	(19,637)	(23,731)
Cash flows from financing activities:		
Proceeds from term loan	29,100	—
Payment of third-party debt issuance costs in connection with term loan	(1,798)	—
Principal payments of term loan	(1,500)	—
Principal payments of mortgages and promissory notes	(519)	(1,033)
Repayment and retirement of mortgage	(778)	—
Repayment and retirement of promissory notes	(5,503)	—
Proceeds from mortgages	—	3,000
Proceeds from exercise of stock options	109	10
Principal payments of finance leases	(500)	(166)
Redemption of minority interests	—	(2,000)
Distributions	(128)	(224)
Net cash provided by (used in) financing activities	18,483	(413)
Net increase (decrease) in cash and cash equivalents	3,522	(18,570)
Cash and equivalents, beginning of year	9,737	29,683
Cash and cash equivalents, end of period	$ 13,259	$ 11,113
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,766	$ 1,120
Cash paid for income taxes	$ 6,904	$ 12,582
Non-cash activities:		
Common stock issued as purchase consideration	$ 2,994	$ 1,500
Common stock issued to purchase minority interests in certain of the Company's subsidiaries	$ 5	$ —
Conversion of promissory notes to equity	$ —	$ 400
Present value of promissory note issued as purchase consideration	$ 4,569	$ —
Warrants to purchase common stock issued with debt	$ 5,454	$ —
Liability recorded for building improvements	$ 1,997	$ —
Notes payable issued to purchase motor vehicles	$ 158	$ —
Entry into new operating leases	$ 5,366	$ 378
Entry into new finance leases	$ 2,309	$ 781
Issuance of common stock associated with subscriptions	$ 41	$ —
Conversion of preferred stock to common stock	$ 18,725	$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

MariMed Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

(1) BASIS OF PRESENTATION

Business

MariMed Inc. (“MariMed” or the “Company”) is a multi-state operator in the United States cannabis industry. MariMed develops, operates, manages and optimizes state-of-the-art, regulatory-compliant facilities for the cultivation, production, and dispensing of medical and adult use cannabis. MariMed also licenses its proprietary brands of cannabis, along with other top brands, in domestic markets.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

On March 9, 2023 (the "Ermont Acquisition Date"), the Company 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 the Company's condensed consolidated financial statements since the Ermont Acquisition Date.

On April 27, 2022 (the “Kind Acquisition Date”), the Company acquired Kind Therapeutics USA (“Kind”), the Company's 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 the Company’s condensed consolidated financial statements for the periods subsequent to the Kind Acquisition Date.

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

Interim results are not necessarily indicative of results for the full fiscal year or any future interim period. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (the “Annual Report”), which was filed with the U.S. Securities and Exchange Commission (“SEC”) on March 3, 2023.

Significant Accounting Policies

The Company’s significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements in the Annual Report. There were no material changes to the Company's significant accounting policies during the nine-month period ended September 30, 2023.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of MariMed and its wholly- and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Noncontrolling interests represent third-party minority ownership interests in the Company’s majority-owned consolidated subsidiaries. Net income attributable to noncontrolling interests is reported in the condensed consolidated statements of operations, and the value of minority-owned interests is presented as a component of equity within the condensed consolidated balance sheets.

Use of Estimates and Judgments

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenue and expenses during the reporting periods. Significant estimates and judgments relied upon in preparing these condensed consolidated financial statements include accounting for business combinations and asset purchases, inventory valuations, assumptions used to determine the fair value of stock-based compensation, and intangible assets and goodwill. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity date of three months or less to be cash equivalents. The fair values of these investments approximate their carrying values.

At September 30, 2023 and December 31, 2022, the Company had $0.2 million and $0.1 million, respectively, of cash held in escrow.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments approximate their fair values and include cash equivalents, accounts receivable, deferred rents receivable, notes receivable, term loans, mortgages and notes payable, and accounts payable.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The three-tier fair value hierarchy is based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

- *Level 1*. Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- *Level 2*. Level 2 applies to assets or liabilities for which there are inputs that are directly or indirectly observable in the marketplace, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets).
- *Level 3*. Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Recent Accounting Pronouncements

The Company has reviewed all recently issued, but not yet effective, Accounting Standards Updates ("ASUs") and does not believe that the future adoption of any such ASUs will have a material impact on its financial condition or results of operations.

(2) BUSINESS COMBINATIONS AND ASSET PURCHASES

Business Combinations

Ermont

On February 21, 2023, the Company announced its intention to acquire the operating assets of Ermont, a medical licensed vertical cannabis operator, located in Quincy, Massachusetts, subject to approval by the Massachusetts Cannabis Control Commission (the "CCC"). In March 2023, the CCC approved the Company's acquisition of Ermont, and the Ermont Acquisition was completed on March 9, 2023. The Ermont Acquisition provided the Company with its third dispensary in

Massachusetts, substantially completing its build-out to the maximum allowable by state regulations.

As consideration for the Ermont Acquisition, which totaled $13.0 million, the Company paid $3.0 million of cash, issued 6,580,390 shares of the Company's common stock, and issued a $7.0 million promissory note (the "Ermont Note" and collectively, the "Ermont Consideration"). The Ermont Note has a six-year term and bears interest at 6.0% per annum, with payments of interest-only for two years and thereafter, quarterly payments of principal and interest in arrears. The outstanding balance on the Ermont Note is due and payable in full if and when the Company raises $75.0 million of equity capital.

The Company rebranded the dispensary as *Panacea Wellness Dispensary* and commenced medical sales immediately after the Ermont Acquisition Date. The Ermont Acquisition also includes a Host Community Agreement with the city of Quincy to conduct adult-use cannabis sales. The Company expects to commence adult-use sales upon approval by the CCC. The Company also plans to expand the existing medical dispensary to accommodate expected increased traffic associated with adult-use sales and to repurpose Ermont's existing cultivation facility for its pheno-hunting activities. The Company has moved its pheno-hunting out of the New Bedford facility to use the freed space to cultivate its *Nature's Heritage* flower.

The Company's condensed consolidated statement of operations for the three months ended September 30, 2023 includes $1.2 million of revenue and $0.7 million of net loss attributable to Ermont. The Company's condensed consolidated statement of operations for the nine months ended September 30, 2023 includes $2.6 million of revenue and $1.9 million of net loss attributable to Ermont for the period since the Ermont Acquisition Date.

The Ermont Acquisition has been accounted for as a business combination. The Company did not assume any of Ermont's liabilities. A summary of the preliminary allocation of the Ermont Consideration to the acquired and identifiable intangible assets is as follows (in thousands):

Fair value of consideration transferred:		
Cash consideration:		
Cash paid	$	3,000
Less cash acquired		(13)
Net cash consideration		2,987
Common stock		2,994
Promissory note		4,569
Total fair value of consideration	$	10,550

Fair value of assets acquired and (liabilities assumed):		
Property and equipment	$	800
Intangible assets:		
Tradename and trademarks		1,063
Customer base		4,642
License		131
Goodwill		3,914
Fair value of net assets acquired	$	10,550

The Company is amortizing the identifiable intangible assets arising from the Ermont Acquisition in relation to the expected cash flows from the individual intangible assets over their respective useful lives, which have a weighted average life of 10.71 years (see Note 9). Goodwill results from assets not separately identifiable as part of the transaction, and is not deductible for tax purposes.

Kind

In December 2021, the Company entered into a membership interest purchase agreement with the members of Kind to acquire 100% of the equity ownership of Kind in exchange for $13.5 million payable in cash (subject to certain adjustments) and $6.5 million, payable by the issuance of four-year 6.0% promissory notes to the members of Kind, secured by a first priority lien on the Company's property in Hagerstown, Maryland (collectively, the "Kind Consideration"). Kind was the Company's client in Maryland that held licenses for the cultivation, production and dispensing of medical cannabis. Upon execution of the membership interest purchase agreement, the Company deposited $5.0 million into escrow as a contract down payment.

In April 2022, the Maryland Medical Cannabis Commission approved the Company's acquisition of Kind, and the Kind Acquisition was completed on April 27, 2022. Following the Kind Acquisition, litigation between the Company and the members of Kind was dismissed (see Note 18).

The Kind Acquisition has been accounted for as a business combination. A summary of the final allocation of the Kind Consideration to the acquired assets, identifiable intangible assets and certain assumed liabilities is as follows (in thousands):

Fair value of consideration transferred:		
Cash consideration:		
Cash paid at closing	$	10,128
Release of escrow		2,444
Severance paid from escrow		556
Less cash acquired		(2,310)
Net cash consideration		10,818
Note payable		5,634
Write-off accounts receivable		658
Write-off of deferred accounts receivable		842
Total fair value of consideration transferred	$	17,952

Fair value of assets acquired and (liabilities assumed):		
Current assets, net of cash acquired	$	5,047
Property and equipment		622
Intangible assets:		
Tradename and trademarks		2,041
Licenses and customer base		4,700
Non-compete agreements		42
Goodwill		6,011
Current liabilities		(511)
Fair value of net assets acquired	$	17,952

The Company is amortizing the identifiable intangible assets arising from the Kind Acquisition in relation to the expected cash flows from the individual intangible assets over their respective useful lives, which have a weighted average life of 5.77 years (see Note 9). Goodwill results from assets not separately identifiable as part of the transaction, and is not deductible for tax purposes.

Concurrent with entering into the Kind membership purchase agreement, the Company entered into a membership interest purchase agreement withone of the members of Kind to acquire such member's entire equity ownership interest in (i) Mari Holdings MD LLC ("Mari-MD"), the Company's majority-owned subsidiary that owns production and retail cannabis facilities in Hagerstown, Maryland and Annapolis, Maryland, and (ii) Mia Development LLC ("Mia"), the Company's majority-owned subsidiary that owns production and retail cannabis facilities in Wilmington, Delaware. Upon the dismissal in September 2022 of the derivative claims in the DiPietro lawsuit (see Note 18), the Company paid the aggregate purchase consideration of $2.0 million, and the transaction was completed, increasing the Company's then-current ownership of Mari-MD and Mia to 99.7% and 94.3%, respectively.

The following unaudited pro forma information presents the condensed combined results of MariMed and Kind for the year ended December 31, 2022 as if the Kind Acquisition had been completed on January 1, 2021, with adjustments to give effect to pro forma events that are directly attributable to the Kind Acquisition. These pro forma adjustments include the reversal of MariMed revenue and related cost of sales derived from Kind prior to the Kind Acquisition Date, amortization expense for the acquired intangible assets, depreciation expense for property and equipment acquired by MariMed as part of the Kind Acquisition, and interest expense related to the Kind Notes. Pro forma adjustments also include the elimination of acquisition-related and other expenses directly attributable to the Kind Acquisition incurred during the year ended December 31, 2022.

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the consolidation of the operations of MariMed and Kind. Accordingly, these unaudited pro forma results are presented for illustrative purposes and are not intended to represent or be indicative of the actual results of operations of the combined companies that would have been achieved had the Kind Acquisition occurred on January 1, 2022, nor are they intended to represent or be indicative of future results of operations. The pro forma financial results for the year ended December 31, 2022, giving effect to the Kind Acquisition as if it had occurred on January 1, 2021 are as follows (unaudited, in thousands):

Revenue	$	136,078
Net income	$	15,823

Valuation of Acquired Intangible Assets

The valuation of acquired intangible assets is inherently subjective and relies on significant unobservable inputs. The Company uses an income approach to value acquired tradename/trademarks, licenses/customer base, and non-compete intangible assets. The valuation for each of these intangible assets was based on estimated projections of expected cash flows to be generated by the assets discounted to the present value at discount rates commensurate with perceived risk. The valuation assumptions take into consideration the Company's estimates of new markets, products and customers and its outcome through key assumptions driving asset values, including sales growth, royalty rates and other related costs.

Asset Purchases

Green Growth

In January 2022, the Company entered into a stock purchase agreement to acquire100% of the equity ownership of Green Growth Group Inc. ("Green Growth"), an entity that holds a craft cultivation and production cannabis license issued by the Illinois Department of Agriculture, in exchange for cash of $1.9 million and shares of the Company's common stock valued at $1.5 million. Concurrently, the Company made a good faith deposit of $0.1 million.

In April 2022, the Illinois Department of Agriculture approved the Company's acquisition of Green Growth, and the Green Growth Acquisition was completed on May 5, 2022. The Company paid the remaining $1.8 million in cash and issued 2,343,750 shares of common stock to the sellers on the Green Growth Acquisition Date. With this license, the Company can cultivate up to 14,000 square feet of canopy to grow cannabis flower and produce cannabis concentrates. The Company has allocated the purchase price to its licenses/customer base intangible asset, with an estimated useful life of ten years.

Greenhouse Naturals

In November 2021, the Company entered into an asset purchase agreement with Greenhouse Naturals LLC (the "Greenhouse Naturals Sellers") to acquire the cannabis license and assume the property lease associated with a cannabis dispensary in Beverly, MA.

The Greenhouse Naturals Acquisition was completed on December 30, 2022, on which date the Company paid $0.1 million of cash and issued 2,000,000 shares of the Company's common stock, with a fair value of $0.7 million, to the Greenhouse Naturals Sellers. The Company issued a note to the Greenhouse Naturals Sellers for the remaining $5.0 million of the cash purchase price payable post-closing on a monthly basis as a percentage of the dispensary's monthly gross sales (the "Greenhouse Naturals Note"). The Company has recorded the Greenhouse Naturals Note at its present value of $4.3 million. The difference between the face value of the Greenhouse Naturals Note and the net present value recorded will be amortized to interest expense over the term of such note. The final inspection by the Commonwealth of Massachusetts was completed in April 2023, and the Company opened the dispensary on April 25, 2023. The Company has allocated the purchase price to a licenses/customer base intangible asset, with an estimated useful life of 10 years.

Pending Transactions

Allgreens Dispensary, LLC ("Allgreens")

In August 2022, the Company entered into an agreement to purchase100% of the membership interests in Allgreens Dispensary, LLC (the "Allgreens Agreement"), a conditional adult-use cannabis dispensary license in Illinois for $2.25 million of cash. Completion of the acquisition is dependent upon certain conditions, including resolution of any remaining legal challenges affecting nearly 200 social equity dispensary licenses, and regulatory approval of the acquisition. If the closing conditions are met and the acquisition is completed, the Company will have five adult-use dispensaries operating in Illinois. While the Company believes this may still occur in 2023, it is quite possible that the closing date may not occur until 2024. For the interim period until the acquisition is completed, the Company has entered into a management agreement with Allgreens, with the management fees calculated as a percentage of Allgreens' revenue. In connection with this agreement, the Company recorded expenses related to Allgreens aggregating $0.1 million for both the three and nine months ended September 30, 2023 as a component of Investments, net of current portion (see Note 7).

Pursuant to the Allgreens Agreement, as of September 30, 2023 the Company had made payments aggregating $0.5 million to the Allgreens members, with additional cash payments aggregating $1.75 million to be made as specific milestones are reached. Additionally, the Company made a cash payment of $875,000 to the Allgreens members in October 2023. The Company will issue promissory notes for the final payment of $1.0 million, which will be issued at closing (the "Allgreens Notes"). The Allgreens Notes will mature one year from the date the dispensary is permitted to commence operations.

Robust Missouri Process and Manufacturing, LLC ("Robust")

In September 2022, the Company entered into an agreement to acquire100% of the membership interests in Robust Missouri Processing and Manufacturing 1, LLC (the "Robust Agreement"), a Missouri wholesale and cultivator, for $0.7 million of cash. Completion of the acquisition is dependent upon obtaining all requisite approvals from the Missouri Department of Health and Senior Services. While the Company believes this may still occur in 2023, it is quite possible that the closing date may not occur until 2024. Pursuant to the Robust Agreement, the Company has made an initial advance payment of $350,000 to the Robust members, with an additional payment of $350,000 to be made at closing.

(3) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding during the period. For periods in which the Company reports net income, diluted net income per share is determined by using the weighted average number of common and dilutive common equivalent shares outstanding during the period, unless the effect is antidilutive.

The number of shares used to compute earnings (loss) per share were as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Weighted average shares outstanding - basic	373,081	339,025	359,156	337,111
Potential dilutive common shares	—	42,046	—	42,757
Weighted average shares outstanding - diluted	373,081	381,071	359,156	379,868

(4) DEFERRED RENTS RECEIVABLE

The Company is the lessor under operating leases, which contain escalating rents over time, rent holidays; options to renew; requirements to pay property taxes; insurance and/or maintenance costs; and contingent rental payments based on a percentage of monthly tenant revenues. The Company is not the lessor under any finance leases.

The Company recognizes fixed rental receipts from such lease agreements on a straight-line basis over the expected lease term. Differences between amounts received and amounts recognized are recorded in Deferred rents receivable in the condensed consolidated balance sheets. Contingent rentals are recognized only after tenants' revenues are finalized and if such revenues exceed certain minimum levels.

The Company is the lessor of the following owned properties:

- Delaware – a 45,000 square foot cannabis cultivation, processing, and dispensary facility, which is leased to its cannabis-licensed client under a triple net lease that expires in 2035.
- Maryland – a 180,000 square foot cultivation and processing facility that expires in 2037. This facility was leased to Kind prior to the Kind Acquisition Date.
- Massachusetts – a 138,000 square foot industrial property, of which approximately half of the available square footage is leased to a non-cannabis manufacturing company (the "Tenant") under a lease that expired in February 2023. The Tenant currently continues to occupy this space on a month-to-month basis.

The Company is the sublessor of the following properties:

- Delaware – a 4,000 square foot cannabis dispensary, which is subleased to its cannabis-licensed client under a sublease expiring in April 2027.
- Delaware – a 100,000 square foot warehouse, of which the Company developed 60,000 square feet into a cultivation facility that is subleased to its cannabis-licensed client. The sublease expires in March 2030, with an option to extend the term for three additional five-year periods. The Company intends to develop the remaining space into a processing facility.
- Delaware – a 12,000 square foot cannabis production facility with offices, which is subleased to its cannabis-licensed client. The sublease expires in January 2026 and contains an option to negotiate an extension at the end of the lease term.

The Company received rental payments aggregating $0.5 million and $0.4 million in the three months ended September 30, 2023 and 2022, respectively, and $1.3 million and $2.4 million in the nine months ended September 30, 2023 and 2022, respectively. Revenue from these payments was recognized on a straight-line basis and aggregated $0.4 million in each of the three months ended September 30, 2023 and 2022, respectively, and $1.2 million and $2.3 million in the nine months ended September 30, 2023 and 2022, respectively.

Future minimum rental receipts for non-cancellable leases and subleases as of September 30, 2023 were as follows (in thousands):

Year ending December 31,		
Remainder of 2023	$	300
2024		1,200
2025		1,200
2026		1,059
2027		969
Thereafter		3,644
	$	8,372

(5) NOTES RECEIVABLE

Notes receivable, including accrued interest, at September 30, 2023 and December 31, 2022 consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
First State Compassion Center (FSCC Initial Note)	$ —	$ 328
First State Compassion Center (FSCC Secondary Notes)	—	8,160
First State Compassion Center (FSCC New Note)	—	750
Healer LLC (Revised Healer Note)	866	866
Total notes receivable	866	10,104
Less: Notes receivable, current portion	(52)	(2,637)
Notes receivable, less current portion	$ 814	$ 7,467

First State Compassion Center

Omnibus Agreement

On July 1, 2023 (the "Omnibus Agreement Date"), the Company entered into an Omnibus Agreement with First State Compassion Center ("FSCC"), the Company's cannabis-licensed client in Delaware: (a) consolidating all amounts owed by FSCC to the Company and its affiliated entities as described below, aggregating $11.0 million (the "Omnibus"); (b) providing for the automatic conversion of all amounts owed by FSCC to the Company, upon the approval of adult cannabis use in Delaware into 100% ownership of FSCC's licenses and business; and (c) extending to FSCC, in the Company's sole discretion, up to an additional $2.0 million of working capital loans. The Omnibus has a term of five years, with an automatic five-year extension if adult cannabis use is not approved in Delaware by the maturity date, bears interest, compounded semiannually and payable annually, at the appropriate rate of interest in effect under Sections 1274(d), 482 and 7872 of the Internal Revenue Code of 1986, as amended, as calculated under Rev. Ruling 86-17, 1986-1 C.B. 377, for the period for which the amount of interest is being determined. The state of Delaware recently approved the adult use of cannabis, with the implementation period expected to extend through approximately November 2024. The Company recorded the Omnibus as a component of Other assets in the condensed consolidated balance sheet at September 30, 2023.

Notes Receivable From FSCC Prior to the Omnibus Agreement Date

The notes receivable from FSCC described below in the aggregate were converted into the Omnibus on the Omnibus Agreement Date:

- FSCC issued a 10-year promissory note to the Company in May 2016 for $0.7 million, which bore interest at a rate of 12.5% per annum and matured in April 2026, as amended (the “FSCC Initial Note”). The monthly payments on the FSCC Initial Note were approximately $10,000. At June 30, 2023 and December 31, 2022, the current portions of the FSCC Initial Note were approximately $90,000 and $85,000, respectively, and were included in Notes receivable, current portion, in the condensed consolidated balance sheets.

- In December 2021, the Company converted financed trade accounts receivable balances from FSCC aggregating $7.8 million into notes receivable, which was net of the $1.3 million debt issuance discount recorded in connection with the conversion, whereby FSCC issued promissory notes aggregating $7.8 million to the Company (the “FSCC Secondary Notes”). The FSCC Secondary Notes bore interest at a rate of 6.0% per annum and matured in December 2025. FSCC was required to make periodic payments of principal and interest throughout the term of the FSCC Secondary Notes. At December 31, 2022, the FSCC Secondary Notes balance included approximately $49,000 of unpaid accrued interest. The balance at June 30, 2023 did not include accrued interest, as the Company granted FSCC an interest holiday for the six months then ended. The increase in the FSCC Secondary Notes in the six months ended June 30, 2023 was attributable to the accretion of the original debt discount, which increased the value of such notes. At each of June 30, 2023 and December 31, 2022, the current portions of the FSCC Secondary Notes aggregated $2.5 million.

- In December 2022, the Company converted amounts due from FSCC aggregating $750,000 into a note receivable, whereby FSCC issued a promissory note to the Company for $750,000 (the "FSCC New Note"). The FSCC New

Note bore interest at a rate of 6.0% per annum and matured in December 2026. FSCC was required to make quarterly interest payments, with the full amount of principal due on December 31, 2026; however, the Company had granted FSCC an interest holiday for the six months ended June 30, 2023. At each of June 30, 2023 and December 31, 2022, the entire balance of the FSCC New Note was long-term.

- In the second quarter of 2023, the Company converted $879,000 due from FSCC into a note receivable (the "FSCC Second New Note").

Healer LLC

In March 2021, the Company was issued a promissory note in the principal amount of approximately $0.9 million from Healer LLC, an entity that provides cannabis education, dosage programs, and products developed by Dr. Dustin Sulak ("Healer"). The principal balance of the note represents previous loans extended to Healer by the Company of $0.8 million, plus accrued interest through the revised promissory note issuance date of approximately $94,000 (the "Revised Healer Note"). The Revised Healer Note bears interest at a rate of 6.0% per annum and requires quarterly payments of interest through the April 2026 maturity date.

The Company has the right to offset any licensing fees payable by the Company to Healer in the event Healer fails to make any payment when due. In March 2021, the Company offset approximately $28,000 of licensing fees payable to Healer against the principal balance of the Revised Healer Note, reducing the principal amount to approximately $866,000. Of the outstanding Revised Healer Note balance at each of September 30, 2023 and December 31, 2022, approximately $52,000 was current.

(6) INVENTORY

Inventory at September 30, 2023 and December 31, 2022 consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Plants	$ 3,427	$ 2,653
Ingredients and other raw materials	4,302	3,255
Work-in-process	9,159	7,635
Finished goods	7,318	5,934
	$ 24,206	$ 19,477

(7) INVESTMENTS

The Company's investments at September 30, 2023 and December 31, 2022 were comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Investment – current:		
WM Technology Inc.	$ 161	$ 123
Investments - non-current:		
Artis LLC (d/b/a Little Dog)	$ 67	$ —
Investment in Allgreens	97	—
Total investments - non-current	$ 164	$ —

The Company did not have any long-term investments at December 31, 2022.

Allgreens

In connection with the pending acquisition of Allgreens and the management agreement the Company entered into with Allgreens for the interim period prior to the completion of the acquisition (see Note 2), the Company recorded expenses related to Allgreens aggregating $0.1 million for both the three and nine months ended September 30, 2023 as a component of Investments, net of current portion.

Artis LLC (d/b/a Little Dog)

In April, 2023, the Company purchased a 49% interest in Artis LLC, d/b/a Little Dog ("Little Dog"), a cannabis delivery service (the "Little Dog Investment") for $98,000 of cash. The Company recognizes changes in the fair value of the Little Dog Investment based on its proportional share of Little Dog's net income (loss). During the three and nine months ended September 30, 2023, the Company recognized losses in the Little Dog Investment of approximately $22,000 and $31,000, respectively, which are included as components of Other (expense) income, net, in the condensed consolidated statements of operations for the respective periods.

WM Technology Inc.

In February 2022, the Company received 121,968 shares of common stock of WM Technology Inc. (Nasdaq: MAPS) (the "WMT Shares"), a technology and software infrastructure provider to the cannabis industry, which represented the Company’s pro rata share of additional consideration pursuant to a 2021 asset purchase agreement between the Company and Members RSVP LLC. The Company recognized gains of approximately $59,000 and $38,000 in the three and nine months ended September 30, 2023, respectively, reflecting the changes in the fair value of the WMT Shares for the respective periods. The Company recognized losses of $0.2 million and $0.8 million in the three and nine months ended September 30, 2022, respectively, representing the changes in the fair value of the WMT Shares for such periods. Both the losses arising from the changes in the fair value of the WMT Shares and the gain arising from the receipt in February 2022 of the WMT Shares are reported as Other (expense) income, net, in the condensed consolidated statements of operations for the respective periods.

Flowr Corp.

In December 2021, the Company received shares of Flowr Corp. common stock (the "Flowr Stock") arising from the sale of its ownership interest in Terrace Inc., which was sold to Flowr Corp. (TSX.V: FLWR; OTC: FLWPF). The Flowr Stock was recorded at fair value, with changes in fair value recorded as a component of Other (expense) income, net, in the condensed consolidated statements of operations. The Company recorded losses of $0.1 million and $0.2 million in the three and nine months ended September 30, 2022, respectively, representing the changes in the fair value of the Flowr Stock in the respective periods. In the fourth quarter of 2022, the Company wrote off the remaining fair value of the Flowr Stock as a result of Flowr Corp.'s bankruptcy filing and delisting from the exchange on which its stock was traded.

(8) PROPERTY AND EQUIPMENT, NET

The Company’s property and equipment, net, at September 30, 2023 and December 31, 2022 was comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Land	$ 6,446	$ 4,450
Buildings and building improvements	44,202	43,542
Tenant improvements	19,600	17,016
Furniture and fixtures	2,079	2,009
Machinery and equipment	13,993	10,087
Construction in progress	12,321	4,761
	98,641	81,865
Less: accumulated depreciation	(13,446)	(10,224)
Property and equipment, net	$ 85,195	$ 71,641

The Company recorded depreciation expense related to property and equipment of $1.6 million and $0.9 million in the three months ended September 30, 2023 and 2022, respectively, and $3.8 million and $2.5 million in the nine months ended September 30, 2023 and 2022, respectively.

In the first quarter of 2023, the Company disposed of equipment it had previously purchased in connection with its planned acquisition of The Harvest Foundation LLC ("Harvest") in Nevada as a result of the Company's withdrawal from the agreement to purchase Harvest. The Company recorded a loss on the disposal of assets aggregating $0.9 million, which is included as a component of Other (expense) income, net, in the condensed consolidated statement of operations for the nine months ended September 30, 2023.

(9) INTANGIBLE ASSETS AND GOODWILL

The Company's acquired intangible assets at September 30, 2023 and December 31, 2022 consisted of the following (in thousands):

September 30, 2023	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Tradename and trademarks	7.11	$ 3,104	$ 1,076	$ 2,028
Licenses and customer base	9.15	18,033	2,217	15,816
Non-compete agreements	2.00	42	30	12
	8.84	$ 21,179	$ 3,323	$ 17,856

December 31, 2022	Weighted average amortization period (years)	Cost	Accumulated amortization	Net carrying value
Tradename and trademarks	3.00	$ 2,041	$ 453	$ 1,588
Licenses and customer base	8.94	13,260	675	12,585
Non-compete agreements	2.00	42	14	28
	8.13	$ 15,343	$ 1,142	$ 14,201

Estimated future amortization expense for the Company's intangible assets at September 30, 2023 was as follows:

Year ending December 31,	
Remainder of 2023	$ 844
2024	3,254
2025	2,772
2026	2,344
2027	2,191
Thereafter	6,451
Total	$ 17,856

The changes in the carrying value of the Company's goodwill in the nine months ended September 30, 2023 and 2022 were as follows (in thousands):

	2023	2022
Balance at January 1,	$ 8,079	$ 2,068
Ermont Acquisition	3,914	—
Kind Acquisition	—	6,011
Balance at September 30,	$ 11,993	$ 8,079

(10) TERM LOAN

Credit Agreement

On January 24, 2023, the Company 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 Notes incurred in connection with the Kind Acquisition, which repayment occurred on January 24, 2023 (see Note 11). 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 the Borrowers' 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 (the "Term Loan"), which amount was reduced by an original issuance discount of $0.9 million (the "Original Issuance Discount"). The Company had the option, during the six-month period following the initial closing, to draw down an additional $5.0 million, which it did not elect to do. The loan requires 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, the Company 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 the Borrowers' ability to incur additional indebtedness and grant liens that are otherwise not permitted, among others. Additionally, the Credit Agreement requires the Borrowers to meet certain financial tests. At September 30, 2023, the Company was in compliance with the Credit Agreement covenants.

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, the Company issued to the Lenders an aggregate of 19,148,936 warrants to purchase shares of the Company's common stock at $0.47 per share, exercisable for a five-year period following issuance.

The Company recorded the warrants at present value of $5.5 million as a component of Additional paid-in capital on the condensed consolidated balance sheet as of January 24, 2023, and discounted the Term Loan by $5.5 million (the "Warrant Discount"). The Warrant Discount is being amortized to interest expense over the term of the Credit Agreement.

Prepaid Debt Issuance Costs

The Company incurred $1.8 million of third party costs (i.e., legal fees, referral fees, etc.) in connection with the Term Loan, which have been recorded as a discount to the Term Loan (the "Third-Party Costs Discount"), which is being amortized to interest expense over the term of the Credit Agreement.

Interest Amortization

The Company recorded $0.7 million and $1.9 million of aggregate interest amortization for the three and nine months ended September 30, 2023, respectively, related to the Original Issuance Discount, Warrant Discount and Third-Party Costs Discount.

Outstanding Balance

At September 30, 2023, the outstanding Term Loan balance reported on the Company's condensed consolidated balance sheet was $22.5 million, with the current portion totaling $3.6 million.

(11) MORTGAGES AND NOTES PAYABLE

The Company's mortgages and notes payable are reported in the aggregate on the condensed consolidated balance sheets under the captions Mortgages and notes payable, current portion, and Mortgages and notes payable, net of current portion.

Mortgages

The Company's mortgage balances at September 30, 2023 and December 31, 2022 were comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Bank of New England – New Bedford, MA and Middleboro, MA properties	$ 12,248	$ 12,141
Bank of New England – Wilmington, DE property	1,382	1,345
DuQuoin State Bank – Anna, IL and Harrisburg, IL properties	752	750
DuQuoin State Bank – Metropolis, IL property	2,528	2,508
Du Quoin State Bank - Mt. Vernon, IL property	2,981	2,974
South Porte Bank – Mt. Vernon, IL property	—	801
Total mortgages payable	19,891	20,519
Less: Mortgages payable, current	(649)	(1,491)
Mortgages payable, less current portion	$ 19,242	$ 19,028

The Company maintains an amended and restated mortgage agreement with the Bank of New England with an interest rate of 6.5% per annum, which matures in August 2025 (the "Amended BNE Mortgage"). The Amended BNE Mortgage is secured by the Company's properties in New Bedford, Massachusetts and Middleboro, Massachusetts. Proceeds from the Amended BNE Mortgage were used to pay down a previous mortgage of $4.8 million with the Bank of New England on the New Bedford property and $7.2 million of outstanding promissory notes as discussed below. The current portions of the outstanding principal balance under the Amended BNE Mortgage at September 30, 2023 and December 31, 2022 were approximately $400,000 and $382,000, respectively.

The Company maintains a second mortgage with Bank of New England that is secured by the Company's property in Wilmington, Delaware (the "BNE Delaware Mortgage"). The mortgage matures in 2031, with monthly principal and interest payments. The interest rate is 5.25% per annum, with the rate adjusting every five years to the then-prime rate plus

1.5%, with a floor of 5.25% per annum. The next interest rate adjustment will occur in September 2026. The current portions of the outstanding principal balance under the BNE Delaware Mortgage at September 30, 2023 and December 31, 2022 were approximately $131,000 and $126,000, respectively.

The Company maintains a mortgage with DuQuoin State Bank ("DSB") in connection with its purchase of properties in Anna, Illinois and Harrisburg, Illinois (the "DuQuoin Mortgage"). On May 5th of each year, the DuQuoin Mortgage becomes due unless it is renewed for another year at a rate determined by DSB's executive committee. The DuQuoin Mortgage was renewed in May 2023 at a rate of 9.75% per annum. The current portions of the outstanding principal balance under the DuQuoin Mortgage at September 30, 2023 and December 31, 2022 were approximately $27,000 and $36,000, respectively.

In July 2021, the Company purchased the land and building in which it operates its cannabis dispensary in Metropolis, Illinois. The purchase price consisted of 750,000 shares of the Company's common stock, which were valued at $705,000 on the date of the transaction, and payoff of the seller's remaining mortgage balance of $1.6 million. In connection with this purchase, the Company entered into a second mortgage agreement with DSB for $2.7 million that matures in July 2041, and which initially bears interest at a rate of 6.25% per annum (the "DuQuoin Metropolis Mortgage"). The interest rate on the DuQuoin Metropolis Mortgage is adjusted each year based on a certain interest rate index plus a margin. As part of this transaction, the seller was provided with a 30.0% ownership interest in Mari Holdings Metropolis LLC ("Metro"), the Company's subsidiary that owns the property and holds the related mortgage obligation, reducing the Company's ownership interest in Metro to 70.0%. The current portions of the outstanding principal balance of the DuQuoin Metropolis Mortgage at September 30, 2023 and December 31, 2022 were approximately $45,000 and $77,000, respectively.

In July 2022, Mari Holdings Mt Vernon LLC, a wholly owned subsidiary of the Company, entered into a $3.0 million loan agreement and mortgage with DSB secured by property owned in Mt. Vernon, Illinois, which the Company is developing into a grow and production facility (the "DuQuoin Mt. Vernon Mortgage"). The DuQuoin Mt. Vernon Mortgage has a 20-year term and initially bears interest at the rate of 7.75% per annum, subject to upward adjustment on each annual anniversary date to the Wall Street Journal U.S. Prime Rate (with an interest rate floor of 7.75%). The proceeds of this loan are being utilized for the build-out of the property and other working capital needs. The current portions of the outstanding principal balance of the DuQuoin Mt. Vernon Mortgage were approximately $46,000 and $68,000 at September 30, 2023 and December 31, 2022, respectively.

In February 2020, the Company entered into a mortgage agreement with South Porte Bank for the purchase and development of a property in Mt. Vernon, Illinois, (the "South Porte Bank Mortgage"). Beginning in August 2021, pursuant to an amendment of the South Porte Bank Mortgage, the monthly payments of principal and interest aggregated approximately $6,000, with such payment amounts effective through June 2023, at which time all remaining principal, interest and fees were due. On May 26, 2023, the Company repaid the outstanding balance on the South Porte Bank Mortgage, which totaled approximately $778,000, and the Company currently owns this property outright.

Promissory Notes

Promissory Notes Issued as Purchase Consideration

Ermont Acquisition

In connection with the Ermont Acquisition, the Company issued the Ermont Note (see Note 2), totaling $7.0 million. The Ermont Note matures in March 2029, and bears interest at 6.0% per annum, with payments of interest only for two years, and thereafter quarterly payments of principal and interest in arrears. The outstanding balance on the Ermont Note is due and payable in full if and when the Company raises $75.0 million or more of equity capital. The Company recorded the Ermont Note at a present value of $4.6 million. The Company recorded $2.4 million as a debt discount, which is being accreted through the term of the Ermont Note. The difference between the face value of the Ermont Note and the present value recorded at the time of the Ermont Acquisition is being amortized to interest expense over the term of the Ermont Note. The fair value of the Ermont Note was $4.8 million at September 30, 2023, all of which was recorded as noncurrent, as the first principal payment is not due until two years after the Ermont Acquisition Date.

Greenhouse Naturals Acquisition

In connection with the Greenhouse Naturals Acquisition, the Company issued the Greenhouse Naturals Note (see Note 2) totaling $5.0 million to the Greenhouse Naturals Sellers, payable on a monthly basis as a percentage of the monthly gross sales of the Company's Beverly, Massachusetts dispensary (the "Beverly Dispensary"). The Company recorded the Greenhouse Naturals Note at a present value of $4.3 million. The Company recorded $0.7 million as a debt discount, which is being accreted through the term of the Greenhouse Naturals Note. The difference between the face value of the Greenhouse Naturals Note and the present value recorded at the time of the Greenhouse Naturals Acquisition is being amortized to interest expense over the term of such note, which matures in July 2026. The fair value of the Greenhouse Naturals Note was $4.3 million at each of September 30, 2023 and December 31, 2022. In the third quarter of 2023, the Company updated its forecast of revenue attributable to the Beverly Dispensary and, accordingly, adjusted the schedule of estimated future payments on the Greenhouse Naturals Note. The Company estimated that the current portions of the Greenhouse Naturals Note were $0.3 million and $0.9 million at September 30, 2023 and December 31, 2022, respectively, which are included in Mortgages and notes payable, current portion, in the Company's condensed consolidated balance sheets.

Kind Acquisition

In connection with the Kind Acquisition (see Note 2), the Company issued four-year promissory notes aggregating $6.5 million with an interest rate of 6.0% per annum to the members of Kind (the “Kind Notes”). At December 31, 2022, the outstanding balance of the Kind Notes totaled $5.5 million, of which $1.6 million was current.

In connection with the Credit Agreement (see Note 10), on January 24, 2023, the Company repaid the Kind Notes in full, aggregating $5.4 million, including approximately $420,000 of accrued interest. There was no penalty in connection with the early repayment of the Kind Notes.

Promissory Note Conversion

During the three months ended March 31, 2022, a noteholder converted the outstanding principal balance of $400,000 into 1,142,858 shares of the Company’s common stock and such note was retired. The Company did not record any gains or losses arising from this conversion.

Promissory Notes Issued to Purchase Commercial Vehicles

The Company entered into three note agreements to purchase commercial vehicles in the nine months ended September 30, 2023: in August 2023 with Ally Financial, in April 2023 with Ford Credit, and in January 2023 with Ally Financial. The Company had previously entered into note agreements to purchase commercial vehicles in August 2020 with First Citizens' Federal Credit Union and in June 2021 with Ally Financial. At September 30, 2023, the five outstanding notes had an aggregate outstanding balance of $0.2 million, of which approximately $33,000 was current. At December 31, 2022, there were two outstanding notes with an aggregate outstanding balance of approximately $48,000, of which approximately $12,000 was current. The weighted average interest rates of the outstanding balances were 11.04% and 8.19% at September 30, 2023 and December 31, 2022, respectively. The weighted average remaining terms of these notes were 4.84 years and 4.07 years at September 30, 2023 and December 31, 2022, respectively.

Future Payments

The future principal amounts due under the Company outstanding mortgages and notes payable at September 30, 2023 were as follows (in thousands):

Year ending December 31,		
Remainder of 2023	$	238
2024		1,019
2025		1,282
2026		1,678
2027		1,882
Thereafter		25,085
		31,184
Less: discount		(2,731)
	$	28,453

(12) MEZZANINE EQUITY

Series B Convertible Preferred Stock

In 2021, the Company entered into an exchange agreement withtwo unaffiliated institutional shareholders (the "Exchange Agreement") whereby the Company (i) issued $4.4 million of promissory notes to the two institutional shareholders, which were retired in March 2021, and (ii) exchanged4,908,333 shares of the Company's common stock previously acquired by the two institutional shareholders for an equal number of shares of the Company's newly designated Series B convertible preferred stock (the "Series B Stock").

In connection with the Exchange Agreement, the Company filed (i) a certificate of designation with respect to the rights and preferences of the Series B Stock, and (ii) a certificate of elimination to return all shares of the Series A convertible preferred stock, of which no shares were issued or outstanding at the time of filing, to the status of authorized and unissued shares of undesignated preferred stock.

The holders of Series B Stock (the "Series B Holders") are entitled to cast a number of votes equal to the number of shares of the Company's common stock into which the shares of Series B Stock are convertible, together with the holders of the Company's common stock as a single class, on most matters. However, the affirmative vote or consent of the Series B Holders voting separately as a class is required for certain acts taken by the Company, including an amendment or repeal of certain charter provisions, liquidation or winding up of the Company, creation of stock senior to the Series B Stock, and/or other acts defined in the certificate of designation.

The Series B Stock shall, with respect to dividend rights and rights on liquidation, winding up and dissolution, rank senior to the Company's common stock. The Company shall not declare, pay, or set aside any dividends on shares of any other class or series of capital stock of the Company unless the Series B Holders shall first receive, or simultaneously receive, a dividend on each outstanding share of Series B Stock in an amount calculated pursuant to the certificate of designation.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the Series B Holders shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of the Company's common stock by reason of their ownership thereof, an amount per share of Series B Stock equal to $3.00, plus any dividends declared but unpaid thereon, with any remaining assets distributed pro-rata among the Series B Holders and the holders of the Company's common stock, based on the number of shares held by each such holder, treating for this purpose all such securities as if they had been converted into shares of the Company's common stock.

At any time on or prior to thesix-year anniversary of the issuance date of the Series B Stock, (i) the Series B Holders have the option to convert their shares of Series B Stock into shares of the Company's common stock at a conversion price of $3.00 per share, without the payment of additional consideration, and (ii) the Company has the option to convert all, but not less than all, shares of Series B Stock into shares of the Company's common stock at a conversion price of $3.00 if the daily volume weighted average price of the Company's common stock (the "VWAP") exceeds $4.00 per share for at least twenty consecutive trading days prior to the date on which the Company gives notice of such conversion to the Series B Holders.

On the day following the six-year anniversary of the issuance of the Series B Stock (February 28, 2026), all outstanding shares of Series B Stock (4,908,333 shares) shall automatically convert into shares of the Company's common stock as follows:

If the sixty-day VWAP is less than or equal to $0.50 per share, the Company shall have the option to:

- convert all shares of Series B Stock into shares of the Company's common stock at a conversion ratio of 1:1 (4,908,333 shares), subject to adjustment upon the occurrence of certain events, and pay cash to the Series B Holders equal to the difference between the sixty-day VWAP and $3.00 per share; or
- pay cash to the Series B Holders equal to $3.00 per share ($14,725,000).

If the sixty-day VWAP is greater than $0.50 per share, the Company shall have the option to:

- convert all shares of Series B Stock into shares of the Company's common stock at a conversion price per share equal to $3.00 per share divided by the sixty-day VWAP; or
- pay cash to the Series B Holders equal to $3.00 per share ($14,725,000); or
- convert a number of shares of Series B Stock, such number at the Company's sole discretion, into shares of the Company's common stock valued at the sixty-day VWAP (the "Conversion Value"), and pay cash to the Series B Holders equal to the difference between $14,725,000 and the Conversion Value (shares issued multiplied by the sixty-day VWAP).

The Company shall at all times when the Series B Stock is outstanding, reserve and keep available out of its authorized but unissued capital stock, for the purpose of effecting the conversion of the Series B Stock, such number of its duly authorized shares of common stock as shall from time to time be sufficient to effect the conversion of all outstanding Series B Stock.

Series C Convertible Preferred Stock

In March 2021, the Company entered into a securities purchase agreement with Hadron Healthcare Master Fund (“Hadron”) with respect to a financing facility of up to $46.0 million (the “Hadron Facility”) in exchange for newly-designated Series C convertible preferred stock of the Company (the “Series C Stock”) and warrants to purchase the Company’s common stock (the “Hadron Transaction”).

At the closing of the Hadron Transaction in March 2021, Hadron purchased $23.0 million of Units at a price of $3.70 per Unit. Each Unit is comprised of one share of Series C Stock and a four-year warrant to purchase two and one-half shares of the Company's common stock. The Company issued to Hadron 6,216,216 shares of Series C Stock and warrants to purchase up to an aggregate of 15,540,540 shares of its common stock. Each share of Series C Stock is convertible, at Hadron’s option, into five shares of the Company's common stock, and each warrant is exercisable at an exercise price of $1.087 per share. The warrants are subject to early termination if certain milestones are achieved and the market value of the Company’s common stock reaches certain predetermined levels. The fair value of the warrants on the issuance date was $9.5 million, which amount was recorded in Additional paid-in capital. The Company incurred $0.4 million of costs related to the issuance of these securities, which was recorded as a reduction to Additional paid-in capital in March 2021.

In connection with the closing of the Hadron Transaction, the Company filed a certificate of designation with respect to the rights and preferences of the Series C Stock. Such stock is zero coupon, non-voting, and has a liquidation preference equal to its original issuance price plus declared but unpaid dividends. Holders of Series C Stock are entitled to receive dividends on an as-converted basis.

Of the $23.0 million of proceeds received by the Company from the Hadron Transaction, $7.3 million was used to fund construction and upgrades to certain of the Company’s owned and managed facilities, and $15.7 million was used to pay down debt and related interest (see Note 11).

No further funding has occurred under the Hadron Facility and, on August 4, 2022, the Company and Hadron entered into a second amendment to the Securities Purchase Agreement pursuant to which, inter alia, (a) Hadron’s obligation to provide any further funding to the Company and the Company’s obligation to sell any further securities to Hadron was terminated,

(b) Hadron's right to appoint a designee to the Company's board of directors was eliminated, and (c) certain covenants restricting the Company's incurrence of new indebtedness were eliminated.

During the three months ended September 30, 2023, the Company converted, at Hadron's request in accordance with the terms and conditions of the Series C stock certificate of designation, a total of 784,334 shares of Series C Stock into 3,921,670 shares of the Company's common stock (the "Q3 Conversions"). During the three months ended June 30, 2023, the Company converted, in two separate transactions at Hadron's request in accordance with the terms and conditions of the Series C Stock certificate of designation, a total of 4,276,608 shares of Series C Stock into 21,383,040 shares of the Company's common stock (collectively, with the Q3 Conversions, the "Conversions"). The Conversions were effected at a conversion rate of five shares of the Company's common stock for each share of Series C common stock converted. The Company did not recognize a gain or loss on the Conversions as they were effected in accordance with the Series C Stock certificate of designation. At September 30, 2023, 1,155,274 shares of Series C Stock remained outstanding.

(13) STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Amended and Restated 2018 Stock Award and Incentive Plan

The Company's Amended and Restated 2018 Stock Award and Incentive Plan (the "Plan") provides for the award of options to purchase the Company's common stock ("stock options"), restricted stock units ("RSUs"), stock appreciation rights ("SARs"), restricted stock, deferred stock, dividend equivalents, performance shares or other stock-based performance awards and other stock- or cash-based awards. Awards can be granted under the Plan to the Company's employees, officers and non-employee directors, as well as consultants and advisors of the Company and its subsidiaries.

On June 8, 2023, the Company's Board of Directors approved an amendment to the Plan (the "2018 Plan") to modify theone-year minimum vesting requirements.

Stock Options

A summary of the Company's stock option activity during the nine months ended September 30, 2023 is below:

	Shares	Weighted average exercise price
Outstanding at January 1, 2023	36,504,673	$ 0.82
Granted	1,100,000	$ 0.43
Exercised	(487,752)	$ 0.23
Forfeited	(495,000)	$ 1.92
Expired	(362,500)	$ 1.98
Outstanding at September 30, 2023	36,259,421	$ 0.79

Stock options granted under the 2018 Plan generally expirefive years from the date of grant. At September 30, 2023, the stock options outstanding had a weighted average remaining life of approximately three years.

The grant date fair values of stock options granted in the nine months ended September 30, 2023 were estimated using the Black-Scholes valuation model with the following assumptions:

Estimated life (in years)	3.00 to 3.26
Weighted average volatility	99.22 %
Weighted average risk-free interest rate	3.59 %
Dividend yield	—

The Company did not grant any stock options in the three months ended September 30, 2023.

Restricted Stock Units

The Company began to grant RSUs under the 2018 Plan in the fourth quarter of 2022. Holders of unvested RSUs do not have voting or dividend rights. The grant date fair value of RSUs is recognized as expense on a straight-line basis over the requisite service periods. The fair value of RSUs is determined based on the market value of the shares of the Company's common stock on the date of grant.

The activity related to the Company's RSUs for the nine months ended September 30, 2023 was as follows:

	RSUs	Weighted average grant date fair value
Unvested at January 1, 2023	1,599,999	$ 0.53
Granted	4,355,038	$ 0.41
Vested	(349,999)	$ 0.53
Forfeited	(61,000)	$ 0.43
Outstanding at September 30, 2023	5,544,038	$ 0.44

Warrants

In connection with the Credit Agreement, the Company issued to the Lenders an aggregate of 19,148,936 warrants to purchase shares of the Company's common stock at $0.47 per share, exercisable for a five-year period following issuance (see Note 10).

In addition to the 450,000 shares of restricted common stock issued to purchase the outstanding minority interest in Mari Holdings MD LLC ("Mari MD") noted below, the Company also issued 400,000 warrants to purchase the Company's common stock at an exercise price of $0.40 per share (the "Mari MD Warrants"). The Mari MD Warrants expire on April 13, 2026.

At September 30, 2023, warrants to purchase up to 42,199,476 shares of the Company's common stock were outstanding, with a weighted average exercise price of $0.68.

Other Common Stock Issuances

In addition to the activity related to stock options and RSUs, described previously, the Company also issued during the nine months ended September 30, 2023:

- 70,000 shares of restricted common stock reported as subscribed at December 31, 2022 as discussed below;
- 5,025 shares of restricted common stock subscribed;
- 6,580,390 shares of restricted common stock with a fair value of $3.0 million issued as purchase consideration for the Ermont Acquisition (see Note 2);
- 450,000 shares of restricted common stock to purchase a 0.33% minority interest in Mari Holdings MD LLC, one of the Company's majority-owned subsidiaries;
- 25,304,710 shares of common stock issued to convert 5,060,942 shares of Series C Stock to common stock;
- an aggregate of 1,140,741 shares of restricted common stock with a total fair value of approximately $460,000 issued as payment for services to two service providers; and
- 8,613 shares of restricted common stock with an aggregate fair value of approximately $3,000 issued under a royalty agreement.

Stock-Based Compensation

The Company recorded stock-based compensation of $0.3 million and $1.4 million in the three months ended September 30, 2023 and 2022, respectively, and $0.8 million and $6.4 million in the nine months ended September 30, 2023 and 2022, respectively.

Common Stock Issuance Obligations

At December 31, 2022, the Company was obligated to issue70,000 shares of restricted common stock in the aggregate with a total grant date fair value of approximately $39,000, to two employees, which shares of common stock were issued in the first quarter of 2023.

(14) REVENUE

The Company's main sources of revenue are comprised of the following:

- Product sales (retail and wholesale) – direct sales of cannabis and cannabis-infused products by the Company's retail dispensaries and wholesale operations. This revenue is recognized when products are delivered or at retail points-of-sale.
- Real estate rental income – rental income generated from leasing of the Company's state-of-the-art, regulatory-compliant cannabis facilities to its 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, the Company charged additional rental fees based on a percentage of tenant revenues that exceeded specific amounts; these incremental rental fees were eliminated in connection with new contract terms with the Company's client.
- Supply procurement – resale of cultivation and production resources, supplies and equipment that the Company has acquired from top national vendors at discounted prices to its client and third parties within the cannabis industry. The Company recognizes this revenue after the delivery and acceptance of goods by a purchaser.
- Management fees – fees for providing the Company's 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 were performed; these fees were eliminated in connection with new contract terms with the Company's client.
- Licensing fees – revenue from the licensing of the Company's 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. The Company recognizes this revenue when the products are delivered.

The Financial Accounting Standards Board Accounting Standards Codification 606,*Revenue from Contract with Customers,* as amended by subsequently issued Accounting Standards Updates, requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The recognition of revenue is determined by performing the following consecutive steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract(s); and
- Recognize revenue as the performance obligation is satisfied.

Additionally, when another party is involved in providing goods or services to the Company's clients, a determination is made as to who - the Company or the other party - is acting in the capacity as the principal in the sale transaction, and who is the agent arranging for goods or services to be provided by the other party.

The Company is typically considered the principal if it controls the specified good or service before such good or service is transferred to its client. The Company may also be deemed to be the principal even if it engages another party (an agent) to satisfy some of the performance obligations on its behalf, provided the Company (i) takes on certain responsibilities, obligations, and risks, (ii) possesses certain abilities and discretion, or (iii) other relevant indicators of the sale. If deemed an agent, the Company would not recognize revenue for the performance obligations it does not satisfy.

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

(15) MAJOR CUSTOMERS

The Company did not have any customers that contributed 10% or more of total revenue in any of the three- or nine-month periods ended September 30, 2023 or 2022.

The Company did not have any customers that accounted for 10% or more of the Company's accounts receivable balance at either September 30, 2023 or December 31, 2022. The Company performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. The Company maintains an allowance for doubtful accounts and historical losses have been within management's expectations.

(16) LEASES

Arrangements that are determined to be leases with a term greater than one year are accounted for by the recognition of right-of-use assets that represent the Company's right to use an underlying asset for the lease term, and lease liabilities that represent the Company's obligation to make lease payments arising from the lease. Non-lease components within lease agreements are accounted for separately.

Right-of-use assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term, utilizing the Company's incremental borrowing rate. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company is currently the lessee under seven operating leases and fourteen finance leases. These leases contain rent holidays and customary escalations of lease payments for the type of facilities being leased. The Company recognizes rent expense on a straight-line basis over the expected lease term, including cancelable option periods which the Company fully expects to exercise. Certain leases require the payment of property taxes, insurance and/or maintenance costs in addition to the rent payments.

The Company leases the following facilities under operating leases:

- Delaware - 4,000 square feet of retail space in a multi-use building under a five-year lease that expires in April 2027 that the Company has developed into a cannabis dispensary, which is subleased to its cannabis-licensed client.
- Delaware - a 100,000 square foot warehouse, of which the Company developed 60,000 square feet into a cultivation facility that is being subleased to its cannabis-licensed client. The lease expires in March 2030, with an option to extend the term for three additional years.

- Delaware - a 12,000 square foot premises, which the Company developed into a cannabis production facility with offices and which it subleases to its cannabis-licensed client. The lease expires in January 2026 and contains an option to negotiate an extension at the end of the lease.
- Massachusetts - 10,000 square feet of office space, which the Company utilizes as its corporate offices under a lease with a related party expiring in 2028, with an option to extend the term for an additional five-year period.
- Massachusetts - a 2,700 square foot dispensary, which lease the Company assumed that expires in 2026, with options to extend the term forthree additional five-year periods through 2041.
- Massachusetts - an approximately 33,800 square foot building which houses both a dispensary and a cultivation facility, whose lease expires in October 2038.
- Ohio - approximately 4,700 square feet of retail space in a multi-use building under aten-year lease that expires in February 2033, with options to extend the term for two additional five-year periods through February 2043.

The Company had previously leased a 2,700 square foot two-unit apartment in Maryland under a lease that expired in July 2023. The Company is currently renting this space on a month-to-month basis while it negotiates a new lease for the space.

The Company leases machinery and office equipment under finance leases that expire from February 2024 through July 2028, with such terms being a major part of the economic useful life of the leased property.

The components of lease expense for the three and nine months ended September 30, 2023 and 2022 were as follows (in thousands):

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Operating lease expense	$ 507	$ 296	$ 1,321	$ 872
Finance lease expenses:				
Amortization of right of use assets	$ 191	$ 48	$ 405	$ 108
Interest on lease liabilities	$ 76	$ 14	$ 161	$ 32
Total finance lease expense	$ 267	$ 62	$ 566	$ 140

At September 30, 2023, the weighted average remaining lease terms for operating leases and finance leases were10.1 years and 3.7 years, respectively. The weighted average discount rate used to determine the right-of-use assets and lease liabilities was between 11.0% and 12.1% for all leases.

Future minimum lease payments as of September 30, 2023 under all non-cancelable leases having an initial or remaining term of more than one year were (in thousands):

	Operating leases	Finance leases
Remainder of 2023	$ 454	$ 243
2024	1,886	961
2025	1,928	960
2026	1,899	717
2027	1,882	359
Thereafter	3,825	104
Total lease payments	11,874	3,344
Less: imputed interest	(1,560)	(606)
	$ 10,314	$ 2,738

In November 2021, the Company entered into lease agreements forsix retail properties, each with square footage between4,000 and 6,000 square feet, in the state of Ohio (each an “Ohio Lease” and collectively the “Ohio Leases”). Each Ohio Lease had an initial lease period of eleven months, with a minimum rent of $31.00 per square foot, which increased 3.0% annually. Should the Company be awarded one or more cannabis licenses by the state of Ohio prior to the end of the initial lease period, it could extend the term of one or more of the Ohio Leases to ten years (with two additional five-year options to extend) upon the payment of $50,000 for the extended Ohio Lease, which the Company is building out into a medical use dispensary. In February 2022, the Company was notified that it was awarded a cannabis dispensary license from the state of Ohio. In April 2022, the Company extended the term of one of the Ohio Leases to February 2023 (the "Extended Ohio Lease"), and the remaining five Ohio Leases were terminated. In February 2023, the Company entered into a ten-year lease on the Extended Ohio Lease property, and the Company opened its dispensary in Tiffin, Ohio in June 2023. At December 31, 2022, the lease term of the Extended Ohio Lease was less than one year, and the Company was not required to record a right-of-use asset and corresponding lease liability on its balance sheet.

(17) RELATED PARTY TRANSACTIONS

The Company’s corporate offices are leased from an entity in which the Company’s Chief Executive Officer and President (the "CEO") has an investment interest. This lease expires in October 2028 and contains a five-year extension option. Expenses incurred under this lease were approximately $61,000 and $39,000 for the three months ended September 30, 2023 and 2022, respectively, and approximately $190,000 and $117,000 for the nine months ended September 30, 2023 and 2022, respectively.

The Company procures nutrients, lab equipment, cultivation supplies, furniture, and tools from an entity owned by the family of the Company’s Chief Operating Officer (the “COO”). Purchases from this entity totaled $1.4 million and $1.1 million in the three months ended September 30, 2023 and 2022, respectively, and $4.2 million and $3.4 million in the nine months ended September 30, 2023 and 2022, respectively.

The Company pays royalties on the revenue generated from its Betty’s Eddies product line to an entity owned by the COO and its Chief Revenue Officer (the “CRO") under a royalty agreement. This agreement was amended effective January 1, 2021 whereby, among other modifications, the royalty percentage changed from 2.5% on all sales of Betty’s Eddies products to 3.0% if sold directly by the Company and between 1.35% and 2.5% if licensed by the Company for sale by third parties. Future developed products (i.e., ice cream) have a royalty rate of 0.5% if sold directly by the Company and between 0.125% and 0.135% if licensed by the Company for sale by third parties. The aggregate royalties due to this entity were approximately $149,000 and $53,000 for the three months ended September 30, 2023 and 2022, respectively, and approximately $614,000 and $163,000 for the nine months ended September 30, 2023 and 2022, respectively.

During the three and nine months ended September 30, 2023, one of the Company’s majority-owned subsidiaries paid distributions in the aggregate of approximately $3,000 and $6,400, respectively, to the CEO, who owns a minority equity interest in such subsidiary. During the three and nine months ended September 30, 2022, this majority-owned subsidiary paid distributions aggregating approximately $4,200 and $27,300 to the Company’s then-CEO and then-Chief Financial Officer (now the CEO), each of whom owned minority equity interests in such subsidiary.

FSCC, the cannabis-licensed client in Delaware that the Company manages, pays fees to BKR Management Inc., a company partially owned by the CEO, related to the initial formation, licensing and establishment of FSCC's cannabis operations. The aggregate fees paid by FSCC were $48,000 for each of the three months ended September 30, 2023 and 2022, and $144,000 for each of the nine months ended September 30, 2023 and 2022.

The Company’s mortgages with Bank of New England and DuQuoin State Bank are personally guaranteed by the CEO. Additionally, the CEO provided a limited guaranty to the Lenders under the Company's Credit Agreement with Chicago Atlantic. The CEO had also guaranteed the South Porte Bank Mortgage prior to its repayment in May 2023.

(18) COMMITMENTS AND CONTINGENCIES

Maryland Litigation

Following the consummation of the Kind Acquisition, in April 2022, litigation between the Company and the members of Kind was dismissed in its entirety with prejudice, and the parties have released one another of any and all claims between them.

DiPietro Lawsuit

In December 2021, the parties to this action entered into a global confidential settlement and release agreement, along with the parties to the aforementioned Maryland litigation. At the same date, the Company's wholly-owned subsidiary MariMed Advisors Inc. ("MMA") and Jennifer DiPietro ("Ms. DiPietro"), one of the former members of Kind, entered into a membership interest purchase agreement pursuant to which the Company would purchase Ms. DiPietro's interests in Mia Development LLC, the Company's majority-owned subsidiary that owns production and retail cannabis facilities in Wilmington, Delaware, and Mari Holdings MD LLC ("Mari-MD"), the Company's majority-owned subsidiary that owns production and retail cannabis facilities in Hagerstown, Maryland and Annapolis Maryland. Upon the court's approval of the parties' joint motion for approval, on June 8, 2022, the purchase of Ms. DiPietro's interests was consummated. The parties released all direct and derivative claims against one another, and a stipulation dismissing all claims and counterclaims with prejudice was filed with the court.

Bankruptcy Claim

During 2019, the Company's subsidiary, MariMed Hemp, Inc. ("MHI") sold and delivered hemp seed inventory to GenCanna Global Inc., a Kentucky-based cultivator, producer, and distributor of hemp ("GenCanna"). At the time of sale, the Company owned a 33.5% ownership interest in GenCanna. The Company recorded a related party receivable of approximately $29 million from the sale, which was fully reserved at December 31, 2019.

On January 24, 2020, an involuntary bankruptcy proceeding under Chapter 11 was filed against GenCanna and its wholly-owned subsidiary, OGGUSA Inc. (f/k/a GenCanna Global US, Inc.) ("OGGUSA" and together with GenCanna, the "OGGUSA Debtors") in the U.S. Bankruptcy Court in the Eastern District of Kentucky (the "Bankruptcy Court"). In February 2020, the OGGUSA Debtors, agreed to convert the involuntary bankruptcy proceeding into a voluntary Chapter 11 proceeding. The OGGUSA Debtors' subsidiary, Hemp Kentucky LLC, also filed voluntary petitions under Chapter 11 in the Bankruptcy Court.

In May 2020, after an abbreviated solicitation/bid/sale process, the Bankruptcy Court, over numerous objections by creditors and shareholders of the OGGUSA Debtors, which included the Company, entered an order authorizing the sale of all or substantially all of the assets of the OGGUSA Debtors to MGG Investment Group LP ("MGG"), a creditor of the OGGUSA Debtors. After the consummation of the sale of all or substantially all of their assets and business, the OGGUSA Debtors filed their liquidating plan of reorganization (the "Liquidating Plan") to collect various prepetition payments and commercial claims against third parties, liquidate the remaining assets of the OGGUSA Debtors, and make payments to creditors. The Liquidating Plan was confirmed by the Bankruptcy Court on November 12, 2020.

Since the approval of the Liquidating Plan, the OGGUSA Debtors have been in the process of liquidating the remaining assets, negotiating and prosecuting objections to other creditors' claims, and pursuing the collection of accounts receivable and Chapter 5 bankruptcy avoidance claims.

In April 2022, the Plan Administrator filed a Complaint against MHI (the "Complaint") alleging certain preferential transfers of assets, which were valued by the Plan Administrator at $250,000, relating to payments on a $600,000 loan made to MHI by the Company prior to the filing of the OGGUSA Debtors Chapter 11 proceeding (the "Preferential Claim"). The Complaint sought to recover an amount no less than $200,000 and to disallow MHI's unsecured general claim in the bankruptcy proceeding until such time as such preferential transfer had been repaid to the OGGUSA Debtors.

In July 2023, MHI entered into a Settlement and Release Agreement with the Plan Administrator pursuant to which it agreed to reduce its Bankruptcy Court approved unsecured general claim to $15.5 million, or by 50%, in consideration for the settlement of the Preferential Claim and a general release of MHI and the Company.

As of the date of this filing, there is insufficient information to determine how much MHI may receive upon the completion of the liquidation of the remaining assets of the OGGUSA Debtors on account of its general unsecured claim, if anything.

New Bedford, MA and Middleborough, MA Buildouts

In the third quarter of 2023, the Company recorded an increase of $2.0 million in building and building improvements and a corresponding accrued liability in the same amount for electrical work performed at the Company's New Bedford and Middleborough properties between December 2017 and June 2023. The electrical work was performed by an electrical contractor that is owned and/or controlled by the family of a non-officer/director Company stockholder who beneficially owned more than 5% of the Company's common stock when the electrical work began. The electrical work was primarily paid for by an entity that is indirectly controlled by that individual and another non-officer/director Company shareholder who also beneficially owned more than 5% of the common stock when the electrical work began. The Company repaid the two shareholders $300,000 each as salary between 2021 and 2023 (at the rate of $100,000 each per year), which payments have since been terminated. The Company intends to negotiate an agreement with the entity that paid for the electrical work and all other interested parties to reflect the liability and agreed-upon payment terms.

(19) SUBSEQUENT EVENTS

On October 31, 2023, Susan M. Villare, the former Chief Financial Officer of the Company, tendered her resignation, effective immediately. Subsequent thereto, the Board of Directors appointed Jon R. Levine, the Company's President and Chief Executive Officer, as the Company's Interim Chief Financial Officer, and has initiated a search process to identify and engage a new Chief Financial Officer.

Subsequent to September 30, 2023, the following equity transaction occurred:

- On October 27, 2023, the Company issued 250,000 common shares underlying RSUs that vested on that date.

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):

			Increase (decrease) from prior year	
	2023	**2022**	**$**	**%**
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.

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. Other than as set forth hereinbelow, there have been no material changes to the risk factors contained in the Annual Report.

The occurrence of cybersecurity incidents, or a deficiency in our cybersecurity or in those of any of our third-party service providers, could negatively impact our business by causing a financial loss, significant disruption to our operations, a compromise or corruption of our confidential information or damage to our business relationships or reputation, all of which could negatively impact our business, financial condition and results of operations.

In September 2023, we experienced a cybersecurity incident resulting from a fraudulent email sent to our finance department which resulted in our initiating a $0.7 million electronic payment to a fraudulent bank account. We are awaiting receipt of a formal response from the recipient's bank (Chase Bank) following its investigation into this matter and we are pursuing all channels through our bank to recover these funds. We have also initiated, and are pursuing, a claim under our cybersecurity insurance coverage to recover this amount. Despite our ongoing efforts, there is no assurance that we will recover this amount. As a result of this incident, we immediately launched an internal investigation, and engaged a cybersecurity consultant to fully assess the incident and recommend remediation measures.

As cybersecurity threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any security vulnerabilities. While we have implemented the remediation measures recommended by our cybersecurity consultant, such measures may not prevent all such events in the future. We will continually assess cybersecurity threats and make investments to increase internal protection, detection, and response capabilities to address this risk. To date, other than the incident described above, we have not experienced any material impact to our financial condition, business or operations resulting from cybersecurity attacks. However, because of the frequently changing attack techniques, along with the increasing volume and sophistication of the attacks, there is the potential for us to be adversely impacted. This impact could result in reputational, competitive, operational or other business harm as well as financial losses and costs, all of which could negatively impact our business, financial condition and results of operations.

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

During the three months ended September 30, 2023, the Company issued unregistered securities as described below:

- 3,921,670 shares of common stock issued to convert 784,334 shares of Series C convertible preferred stock to common stock; and
- 5,530 shares of restricted common stock with an aggregate fair value of approximately $2,200 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

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).
3.1.1	Certificate of Amendment to the Certificate of Incorporation of the Company as filed with the Secretary of State of Delaware on March 9, 2017 (incorporated by reference to Exhibit 3.1.1 to the Company’s Annual Report on Form 10-K filed on April 17, 2017 with the SEC).
3.1.2	Series B Convertible Preferred Stock Certificate of Designation as filed with the Secretary of State of Delaware on February 27, 2020 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K, filed on February 28, 2020 with the SEC).
3.1.3	Certificate Eliminating the Series A Preferred Stock as filed with the Secretary of State of Delaware on February 27, 2020 (incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K, filed on February 28, 2020 with the SEC).
3.1.4	Series C Convertible Preferred Stock Certificate of Designation as filed with the Secretary of State of Delaware on March 1, 2021 (incorporated by reference to Exhibit 3.1.4 to the Company’s Current Report on Form 8-K, filed on March 2, 2021 with the SEC).
3.1.5	Certificate of Amendment to the Certificate of Incorporation of the Company as filed with the Secretary of State of Delaware on April 25, 2017, effective as of May 1, 2017 (incorporated by reference to Exhibit 3.1.5 to the Company’s Quarterly Report on Form 10-Q, filed on November 15, 2021 with the SEC).
3.1.6	Certificate of Amendment to the Certificate of Incorporation of the Company as filed with the Secretary of State of Delaware on September 24, 2021 (incorporated by reference to Exhibit 3.1.6 to the Company’s Quarterly Report on Form 10-Q, filed on November 15, 2021 with the SEC).
3.2	Amended By-Laws, amended as of February 28, 2023 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, filed on May 9, 2023 with the SEC).
10.1	Omnibus Agreement, dated July 1, 2023, by and between MariMed Inc., MariMed Advisors Inc., MIA Development LLC, and First State Compassion Center, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on August 4, 2023 with the SEC).
31.1 *	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive and Financial Officer
32.1 **	Section 1350 Certification of Chief Executive and Financial Officer
101.INS XBRL *	Instance Document
101.SCH XBRL *	Taxonomy Extension Schema
101.CAL XBRL *	Taxonomy Extension Calculation Linkbase
101.DEF XBRL *	Taxonomy Extension Definition Linkbase
101.LAB XBRL *	Taxonomy Extension Label Linkbase
101.PRE XBRL *	Taxonomy Extension Presentation Linkbase
104 *	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herewith in accordance with Item 601 (32)(ii) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 9, 2023

MARIMED INC.

By: */s/ Jon R. Levine*

Jon R. Levine

President, Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive and Financial Officer)

EXHIBIT 31.1

Rule 13a-14(a)/15d-14(a) Certification

I, Jon R. Levine, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MariMed Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2023

/s/ Jon R. Levine

Jon R. Levine

Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive and Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of MariMed Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jon R. Levine, Chief Executive Officer and Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2023

/s/ Jon R. Levine

Jon R. Levine
Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive and Financial Officer)

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.