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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2021

or

☐ **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: 333-254800

ASCEND WELLNESS HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**83-0602006**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1411 Broadway
16th Floor
New York, NY 10018
(Address of principal executive offices)

(781) 703-7800
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

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 (§ 232.405 of this chapter) 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 May 19, 2021, there were 170,648,127 shares of the registrant's Class A common stock, par value $0.001, and 65,000 shares of the registrant's Class B common stock, par value $0.001, outstanding.

ASCEND WELLNESS HOLDINGS, INC

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains "forward-looking statements" regarding Ascend Wellness Holdings, Inc. and its subsidiaries (collectively referred to as "AWH," "we," "us," "our," or the "Company"). We make forward-looking statements related to future expectations, estimates, and projections that are uncertain and often contain words such as, but not limited to, "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "outlook," "plan," "predict," "should," "target," or other similar words or phrases. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and assumptions that are difficult to predict. Particular risks and uncertainties that could cause our actual results to be materially different from those expressed in our forward-looking statements include those listed below:

- the effect of the volatility of the market price and liquidity risks on shares of our Class A common stock;
- the effect of the voting control exercised by holders of Class B common stock;
- our ability to attract and maintain key personnel;
- our ability to continue to open new dispensaries and cultivation facilities as anticipated;
- the illegality of cannabis under federal law;
- our ability to comply with state and federal regulations;
- the uncertainty regarding enforcement of cannabis laws;
- the effect of restricted access to banking and other financial services;
- the effect of constraints on marketing and risks related to our products;
- the effect of unfavorable tax treatment for cannabis businesses;
- the effect of security risks;
- the effect of infringement or misappropriation claims by third parties;
- our ability to comply with potential future FDA regulations;
- our ability to enforce our contracts;
- the effect of unfavorable publicity or consumer perception;
- the effect of risks related to material acquisitions, dispositions and other strategic transactions;
- the effect of agricultural and environmental risks;
- the effect of risks related to information technology systems;
- the effect of product liability claims and other litigation to which we may be subjected;
- the effect of risks related to the results of future clinical research;
- the effect of intense competition in the industry;
- the effect of adverse changes in the wholesale and retail prices;
- the effect of outbreaks of pandemic diseases, fear of such outbreaks or economic disturbances due to such outbreaks, particularly the impact of the COVID-19 pandemic; and
- the effect of general economic risks, such as the unemployment level, interest rates and inflation, and challenging global economic conditions.

The list of factors above is illustrative and by no means exhaustive. Additional information regarding these risks and other risks and uncertainties we face is contained in Part II., Item 1A., "Risk Factors," in this Form 10-Q and in other reports we may file from time to time with the Securities and Exchange Commission and the applicable Canadian securities regulatory authorities (including all amendments to those reports). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated, or intended.

We urge readers to consider these risks and uncertainties in evaluating our forward-looking statements. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands)	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 62,633	$ 56,547
Restricted cash	646	1,550
Accounts receivable, net	7,115	6,227
Inventory	38,620	28,997
Notes receivable	8,867	8,259
Other current assets	23,188	32,598
Total current assets	141,069	134,178
Property and equipment, net	150,075	120,540
Operating lease right-of-use assets	95,731	84,642
Intangible assets, net	47,272	50,461
Goodwill	24,302	22,798
Deferred tax assets	3,191	2,395
Other noncurrent assets	19,648	12,734
TOTAL ASSETS	$ 481,288	$ 427,748
Liabilities and Members' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 49,816	$ 31,224
Current portion of debt, net	47,669	59,330
Operating lease liabilities, current	2,261	2,128
Income taxes payable	22,500	18,275
Other current liabilities	3,883	4,328
Total current liabilities	126,129	115,285
Long-term debt, net	201,556	152,277
Operating lease liabilities, noncurrent	168,122	156,400
Total liabilities	495,807	423,962
Commitments and contingencies (Note 15)		
Members' Equity		
Membership units, no par value, 107,165 and 106,082 issued and outstanding, respectively (Note 12)	—	—
Additional paid-in capital	97,296	67,378
Accumulated deficit	(111,815)	(63,592)
Total members' (deficit) equity	(14,519)	3,786
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 481,288	$ 427,748

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per unit amounts)	Three Months Ended March 31, 2021	2020
Revenue, net	$ 66,137	$ 22,592
Cost of goods sold	(36,470)	(15,100)
Gross profit	29,667	7,492
Operating expenses		
General and administrative expenses	25,146	9,649
Settlement expense	36,511	—
Total operating expenses	61,657	9,649
Operating loss	(31,990)	(2,157)
Other (expense) income		
Interest expense	(7,337)	(2,530)
Other, net	80	6
Total other expense	(7,257)	(2,524)
Loss before income taxes	(39,247)	(4,681)
Income tax expense	(8,976)	(2,437)
Net loss	(48,223)	(7,118)
Less: net income attributable to non-controlling interests	—	360
Net loss attributable to Ascend Wellness Holdings, Inc.	$ (48,223)	$ (7,478)
Net loss per unit attributable to Ascend Wellness Holdings, Inc. — basic and diluted (Note 12)	$ (0.45)	$ (0.08)
Weighted-average units outstanding — basic and diluted	106,443	89,821

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' (DEFICIT) EQUITY

(UNAUDITED)

		Attributable to Members of the Parent				
(in thousands)	LLC Membership Units	Unit Capital	Accumulated Deficit	Members' Equity (Deficit)	Non-Controlling Interests	Total Equity (Deficit)
December 31, 2020	106,082	$ 67,378	$ (63,592)	$ 3,786	$ —	$ 3,786
Vesting of restricted common units	1,033	—	—	—	—	—
Equity-based compensation expense	50	2,487	—	2,487	—	2,487
Reserve for equity issued in litigation settlement	—	27,431	—	27,431	—	27,431
Net loss	—	—	(48,223)	(48,223)	—	(48,223)
March 31, 2021	107,165	$ 97,296	$ (111,815)	$ (14,519)	$ —	$ (14,519)

		Attributable to Members of the Parent				
(in thousands)	LLC Membership Units	Unit Capital	Accumulated Deficit	Members' Equity	Non-Controlling Interests	Total Equity
December 31, 2019	89,821	$ 71,947	$ (38,153)	$ 33,794	$ 1,046	$ 34,840
Issuance of warrants	—	147	—	147	—	147
Equity-based compensation expense	—	185	—	185	—	185
Net loss	—	—	(7,478)	(7,478)	360	(7,118)
March 31, 2020	89,821	$ 72,279	$ (45,631)	$ 26,648	$ 1,406	$ 28,054

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Three Months Ended March 31, 2021	2020
Cash flows from operating activities		
Net loss	$ (48,223)	$ (7,118)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,254	3,660
Amortization of operating lease assets	352	94
Non-cash interest expense	3,255	814
Share-based compensation expense	2,487	185
Reserve of equity for litigation settlement	27,431	—
Deferred income taxes	(796)	(298)
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	(888)	(1,292)
Inventory	(11,320)	(192)
Other current assets	(563)	560
Other noncurrent assets	(6,914)	(808)
Accounts payable and accrued liabilities	16,903	2,991
Other current liabilities	(446)	2,443
Lease liabilities	414	84
Income taxes payable	4,225	2,738
Net cash (used in) provided by operating activities	(7,829)	3,861
Cash flows from investing activities		
Additions to capital assets	(23,351)	(7,561)
Investments in notes receivable	(760)	(185)
Collection of notes receivable	82	—
Purchase of businesses, net of cash acquired	(11,174)	—
Net cash used in investing activities	(35,203)	(7,746)
Cash flows from financing activities		
Proceeds from issuance of debt	49,500	125
Repayments of debt	(1,286)	—
Proceeds from finance leases	—	3,750
Repayments under finance leases	—	(82)
Net cash provided by financing activities	48,214	3,793
Net increase (decrease) in cash, cash equivalents, and restricted cash	5,182	(92)
Cash, cash equivalents, and restricted cash at beginning of period	58,097	12,805
Cash, cash equivalents, and restricted cash at end of period	$ 63,279	$ 12,713

See accompanying notes to condensed consolidated financial statements.

1. THE COMPANY AND NATURE OF OPERATIONS

Ascend Wellness Holdings, Inc., which operates through its subsidiaries (collectively referred to as "Ascend Wellness," "AWH," "we," "us," "our," or the "Company"), is a multi-state operator in the United States cannabis industry. AWH owns, manages, and operates cannabis cultivation facilities and dispensaries in several states across the United States, including Illinois, Massachusetts, Michigan, New Jersey, and Ohio. AWH is headquartered in New York, New York.

The Company was originally formed on May 15, 2018 as Ascend Group Partners, LLC, and changed its name to "Ascend Wellness Holdings, LLC" on September 10, 2018. On April 22, 2021, Ascend Wellness Holdings, LLC converted into a Delaware corporation and changed its name to "Ascend Wellness Holdings, Inc." and effected a 2-for-1 reverse stock split (the "Reverse Split"). We refer to this conversion throughout this filing as the "Conversion." As a result of the Conversion, the members of Ascend Wellness Holdings, LLC became holders of shares of stock of Ascend Wellness Holdings, Inc.

Following the conversion, the Company has authorized 750,000 shares of Class A Common Shares with a par value of $0.001 per share, 100 shares of Class B common stock with a par value of $0.001 par value per share and 10,000 shares of preferred stock with a par value of $0.001 per share. The rights of the holders of Class A common stock and Class B common stock are identical, except for voting and conversion rights. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 1,000 votes per share and is convertible at any time into one share of Class A common stock at the option of the holder. See Note 12, "Members' Equity," for additional details.

The condensed consolidated financial statements and the financial information contained throughout this Form 10-Q are those of Ascend Wellness Holdings, LLC and its subsidiaries prior to the Conversion, but have been adjusted retrospectively for the Reverse Split for all periods presented.

Initial Public Offering

On May 4, 2021, the Company completed an Initial Public Offering ("IPO") of its Class A common stock, in which it issued and sold 10,000 shares of Class A common stock, excluding the underwriters' over-allotment option, at a price of $8.00 per share with net proceeds of approximately $75,156 after deducting underwriting discounts and commissions, but excluding other direct offering expenses paid by us. On May 7, 2021, the underwriters exercised their over-allotment option in full and we received an additional $11,280, net of underwriting discounts of $720, for an additional 1,500 shares of Class A common stock. In connection with the IPO, the historical common units, Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units automatically converted into a total of 110,521 shares of Class A common stock. Additionally, the Company's convertible notes, plus accrued interest, converted into 37,388 shares of Class A Common Stock. See Note 12, "Members' Equity," for additional details.

The Company's shares of Class A common stock are listed on the Canadian Securities Exchange (the "CSE") under the ticker symbol "AAWH.U." We are an emerging growth company under federal securities laws and as such we are able to elect to follow scaled disclosure requirements for this filing.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with (i) United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and (ii) the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of our management, our unaudited condensed consolidated financial statements and accompanying notes (the "Financial Statements") include all normal recurring adjustments that are necessary for the fair statement of the interim periods presented. Interim results of operations are not necessarily indicative of results for the full year, or any other period. The Financial Statements should be read in conjunction with our audited consolidated financial statements (and notes thereto) for the year ended December 31, 2020 ("Annual Financial Statements") which are included in our Registration Statement on Form S-1, as amended, filed with the U.S. Securities and Exchange Commission on April 26, 2021.

The Financial Statements include the accounts of Ascend Wellness Holdings, Inc. and its subsidiaries. Refer to Note 8, "Variable Interest Entities," for additional information regarding certain entities that are not wholly-owned by the Company. We include the results of acquired businesses in the consolidated statements of operations from their respective acquisition dates. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts. We base our estimates on historical experience, known or expected trends, independent valuations, and various other measurements that we believe to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

We round amounts in the Financial Statements to thousands, except per unit or per share amounts or as otherwise stated. We calculate all percentages and per-unit data from the underlying whole-dollar amounts. Thus, certain amounts may not foot, crossfoot, or recalculate based on reported numbers due to rounding. Unless otherwise indicated, all references to years are to our fiscal year, which ends on December 31.

Liquidity

As reflected in the Financial Statements, the Company had an accumulated deficit as of March 31, 2021 and December 31, 2020, as well as a net loss for the three months ended March 31, 2021 and 2020, and negative cash flows from operating activities during the three months ended March 31, 2021, which are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of these Financial Statements has been alleviated due to: (i) capital raised subsequent to March 31, 2021, including net proceeds from our IPO (see Note 18, "Subsequent Events"), and (ii) continued growth of sales and gross profit from our consolidated operations. Management plans to continue to access capital markets for additional funding through debt and/or equity financings to supplement future cash needs, as may be required. However, management cannot provide any assurances that the Company will be successful in accomplishing its business plans. If the Company is unable to raise additional capital whenever necessary, it may be forced to decelerate or curtail certain of its operations until such time as additional capital becomes available.

Reclassifications

Certain prior year amounts have been reclassified to conform with our current period presentation. These changes had no impact on our previously reported net loss.

Variable Interest Entities

In determining whether we are the primary beneficiary of a variable interest entity ("VIE"), we assess whether we have the power to direct matters that most significantly impact the activities of the VIE and the obligation to absorb losses or the right to receive the benefits from the VIE that could potentially be significant to the VIE.

A VIE is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured that such equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains or losses of the entity. The primary beneficiary has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. We assess all variable interests in the entity and use our judgment when determining if we are the primary beneficiary. Other qualitative factors that are considered include decision-making responsibilities, the VIE capital structure, risk and rewards sharing, contractual agreements with the VIE, voting rights, and level of involvement of other parties. We assess the primary beneficiary determination for a VIE on an ongoing basis if there are any changes in the facts and circumstances related to a VIE.

Where we determine we are the primary beneficiary of a VIE, we consolidate the accounts of that VIE. The equity owned by other shareholders is shown as non-controlling interests in the accompanying unaudited Condensed Consolidated Balance Sheets, Statements of Operations, and Statements of Changes in Members' (Deficit) Equity. The assets of the VIE can only be used to settle obligations of that entity, and any creditors of that entity generally have no recourse to the assets of other entities or the Company unless the Company separately agrees to be subject to such claims.

Cash and Cash Equivalents and Restricted Cash

As of March 31, 2021 and December 31, 2020, we did not hold significant cash equivalents.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash to amounts shown in the unaudited Condensed Consolidated Statements of Cash Flows:

(in thousands)	March 31, 2021	December 31, 2020
Cash and cash equivalents	$ 62,633	$ 56,547
Restricted cash	646	1,550
Total cash, cash equivalents, and restricted cash	$ 63,279	$ 58,097

Fair Value of Financial Instruments

During the three months ended March 31, 2021 and 2020, we had no transfers of assets or liabilities between any of the hierarchy levels.

In addition to assets and liabilities that are measured at fair value on a recurring basis, we are also required to measure certain assets at fair value on a non-recurring basis that are subject to fair value adjustments in specific circumstances. These assets can include: goodwill; intangible assets; property and equipment; and lease related right-of use assets. We estimate the fair value of these assets using primarily unobservable Level 3 inputs.

Loss per Unit

Net loss per unit represents the net loss attributable to members divided by the weighted average number of units outstanding during the period on an as-converted to common unit basis. Diluted earnings per unit reflects the potential dilution that could occur if securities or other contracts to issue common units were exercised or converted into common units of the Company during the reporting periods. Potential dilutive common unit equivalents consist of the incremental common units issuable upon the exercise of warrants, vested incentive units, and the incremental shares issuable upon conversion of convertible notes. In reporting periods in which the Company has a net loss, the effect of these are considered anti-dilutive and are excluded from the diluted earnings per unit calculation. The number of units excluded from the calculation was 40,966 and 13,232 as of March 31, 2021 and 2020, respectively, because their inclusion would have been anti-dilutive.

Recently Adopted Accounting Standards

Income Taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, *Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes*, ("ASU 2019-12") which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 became effective for on beginning January 1, 2021 and did not have a significant impact on our Consolidated Financial Statements.

Investments

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815.* This ASU provides clarification of the interaction of rules for equity securities, the equity method of accounting, and forward contracts and purchase options on certain types of securities and became effective for the Company beginning on January 1, 2021. Adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

The following standards have been recently issued by the FASB. Pronouncements that are not applicable to the Company or where it has been determined do not have a significant impact on us have been excluded herein.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, ("ASU 2016-13"). ASU 2016-13 replaces the existing guidance surrounding measurement and recognition of credit losses on financial assets measured at amortized cost, including trade receivables and investments in certain debt securities, by requiring recognition of an allowance for credit losses expected to be incurred over an asset's life based on relevant information about past events, current conditions, and supportable forecasts impacting its ultimate collectability. This current expected credit losses ("CECL") model will result in earlier recognition of credit losses than the current "as incurred" model, under which losses are recognized only upon the occurrence of an event that gives rise to the incurrence of a probable loss.

ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*, was issued in May 2019 to provide target transition relief allowing entities to make an irrevocable one-time election upon adoption of the new credit losses standard to measure financial assets previously measured at amortized cost (except held-to-maturity securities) using the fair value option.

ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, was issued in November 2019 to clarify, improve, and amend certain aspects of ASU 2016-13, such as disclosures related to accrued interest receivables and the estimation of credit losses associated with financial assets secured by collateral.

ASU 2020-03, *Codification Improvements to Financial Instruments*, was issued in March 2020 to improve and clarify various financial instruments topics, including the CECL standard issued in 2016. The ASU includes seven different issues that describe the areas of improvement and the related amendments to U.S. GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. Certain amendments contained within this update were effective upon issuance and had no material impact on our Consolidated Financial Statements. The amendments related to ASU 2019-04 and ASU 2016-13 will be adopted in conjunction with ASU 2016-13. ASU 2016-13 and its related ASUs are effective for us beginning January 1, 2023. We are currently evaluating the impact of this ASU on our Consolidated Financial Statements.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This new guidance can be adopted prospectively no later than December 1, 2022, with early adoption permitted, and is not expected to have a material impact on the Company's Consolidated Financial Statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, ("ASU 2021-01"), which clarifies certain optional expedients and exceptions in Topic 848 when accounting for derivative contracts and certain hedging relationships affected by changes in interest rates. ASU 2021-01 was effective upon issuance and the amendments within are applied either prospectively or retrospectively. ASU 2021-01 did not have a significant impact on the Company's financial statements.

Debt

In August 2020, the FASB issued ASU 2020-06, *Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. This guidance will be effective for us January 1, 2022 on a full modified or modified retrospective basis, with early adoption permitted. We are currently evaluating the impact of this updated on our Consolidated Financial Statements.

3. REPORTABLE SEGMENTS AND REVENUE

The Company operates under one operating segment, which is its only reportable segment: the production and sale of cannabis products. The Company prepares its segment reporting on the same basis that its Chief Operating Decision Maker manages the business and makes operating decisions. The Company's measure of segment performance is net income and derives its revenue primarily from the sale of cannabis products. All of the Company's operations are located in the United States.

Disaggregation of Revenue

The Company disaggregates its revenue from the direct sale of cannabis to customers as retail revenue and wholesale revenue. We have determined that disaggregating revenue into these categories best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

	Three Months Ended March 31,	
(in thousands)	**2021**	**2020**
Retail revenue	$ 45,521	$ 18,854
Wholesale revenue	30,342	8,031
	75,863	26,885
Elimination of inter-company revenue	(9,726)	(4,293)
Total revenue, net	$ 66,137	$ 22,592

Sales discounts were not material during the three months ended March 31, 2021 or 2020. The liability related to the loyalty program we offer dispensary customers at certain locations was not material at March 31, 2021 or December 31, 2020.

4. ACQUISITIONS

The Company has determined that the acquisitions discussed below are considered business combinations under ASC Topic 805, *Business Combinations*, ("ASC Topic 805") and are accounted for by applying the acquisition method, whereby the assets acquired and the liabilities assumed are recorded at their fair values with any excess of the aggregate consideration over the fair values of the identifiable net assets allocated to goodwill. Operating results have been included in these Consolidated Financial Statements from the date of the acquisition.

Preliminary Purchase Price Allocation

Effective August 1, 2020, the Company acquired MOCA LLC ("MOCA"), a dispensary operator in the Chicago, Illinois area, which was consolidated as a VIE from the signing date until the final closing date in December 2020. Effective September 29, 2020, the Company's subsidiary, Ascend New Jersey, acquired the assets and liabilities of Greenleaf Compassion Center ("GCC"), a vertically integrated operator in New Jersey with licenses for three retail locations and one cultivation and manufacturing facility. Additionally, effective December 15, 2020, the Company acquired Chicago Alternative Health Center, LLC and Chicago Alternative Health Center Holdings, LLC (together, "Midway"), a medical and adult use dispensary operator in the Chicago, Illinois area. Midway is consolidated as a VIE from the signing date through the final closing date, which is pending the state's approval of the license transfer.

The Company allocates the purchase price of each of its acquisitions to the assets acquired and liabilities assumed at fair value. The preliminary purchase price allocation for each acquisition reflects various preliminary fair value estimates and analyses, including certain tangible assets acquired and liabilities assumed, the valuation of intangible assets acquired, and goodwill, which are subject to change within the measurement period as preliminary valuations are finalized (generally one year from the acquisition date). Measurement period adjustments are recorded in the reporting period in which the estimates are finalized and adjustment amounts are determined. During the three months ended March 31, 2021, we recorded measurement period purchase accounting adjustments based on changes to certain estimates and assumptions and their related impact to goodwill. The MOCA license was revised from $10,661 to $9,755; the GCC license was revised from $11,845 to $11,501; the Midway license was revised from $15,108 to $14,684; and the Midway trade name was revised from $10 to $180.

Pro Forma and Financial Information

The following table summarizes the revenue and net income related to MOCA, GCC, and Midway included in our consolidated results for the three months ended March 31, 2021:

(in thousands)	MOCA	GCC	Midway
Revenue, net	$ 9,906	$ 2,406	$ 3,263
Net income (loss)	711	489	(282)

The tables below summarize the unaudited pro forma combined revenue and net income (loss) of AWH, MOCA, GCC, and Midway for the three months ended March 31, 2020 as if the respective acquisitions had occurred on January 1, 2019. These results do not reflect the cost of integration activities or benefits from expected revenue enhancements and synergies. Accordingly, the unaudited pro forma information is not necessarily indicative of the results that would have been achieved if the acquisitions had been effective on January 1, 2019.

	Three Months Ended March 31, 2020					
(in thousands)	AWH (as reported)	MOCA	GCC	Midway	Pro Forma Adjustments(1)	Pro Forma Combined
Revenue, net	$ 22,592	$ 3,678	$ 1,016	$ 2,223	$ —	$ 29,509
Net income (loss)	(7,118)	1,060	338	436	(3,424)	(8,708)

(1). These adjustments include estimated additional amortization expense of $899 on intangible assets acquired as part of the acquisitions as follows: $244 related to MOCA, $288 related to GCC, and $367 related to Midway. These adjustments also include additional estimated interest expense of $2,534 and an adjustment to exclude $9 of acquisition-related costs incurred during the three months ended March 31, 2020, which are included in “General and administrative expenses” in the accompanying unaudited Condensed Consolidated Statements of Operations. These adjustments are not tax-effected, as the related expenses are not deductible for tax purposes due to the limitations imposed on marijuana dispensaries under Internal Revenue Code (“IRC”) Section 280E.

5. INVENTORY

The components of inventory are as follows:

(in thousands)	March 31, 2021	December 31, 2020
Materials and supplies	$ 11,745	$ 7,756
Work in process	16,889	13,615
Finished goods	9,986	7,626
Total	$ 38,620	$ 28,997

Total compensation expense capitalized to inventory during the three months ended March 31, 2021 and 2020 was $6,363 and $3,398, respectively. At March 31, 2021 and December 31, 2020, $6,160 and $5,909, respectively, of compensation expense remained capitalized as part of inventory.

6. NOTES RECEIVABLE

In February 2021, in conjunction with an investment agreement, the Company entered into a working capital advance agreement with MedMen NY, Inc. (“MMNY”), an unrelated third party, under which $250 is outstanding as of March 31, 2021. The working capital advance agreement allows for initial maximum borrowings of up to $10,000, which may be increased to $17,500, and was issued to provide MMNY with additional funding for operations in conjunction with an investment agreement the parties entered into (see Note 15, “Commitments and Contingencies” for additional information on the investment agreement). Borrowings do not bear interest, but may be subject to a financing fee. The outstanding balance is due and payable at the earlier of the initial closing of the investment agreement or, if the investment agreement is terminated, three business days following such termination.

Additionally, a total of $4,451 is outstanding at March 31, 2021 related to a promissory note issued to the owner of a property the Company is renting, of which $152 and $4,299 is included in “Other current assets” and “Other noncurrent assets,” respectively, on the unaudited Condensed Consolidated Balance Sheet. At December 31, 2020, $4,473 was outstanding, of which $151 and $4,322 is included in “Other current assets” and “Other noncurrent assets,” respectively, on the unaudited Condensed Consolidated Balance Sheet.

The Company has not identified any collectability concerns as of March 31, 2021 for the amounts due under notes receivable. No impairment losses on notes receivable were recognized during the three months ended March 31, 2021 or 2020.

7. PROPERTY AND EQUIPMENT

Property and equipment and related depreciation consist of the following:

(in thousands)	March 31, 2021	December 31, 2020
Leasehold improvements	$ 58,653	$ 33,931
Buildings	40,365	38,561
Furniture, fixtures, and equipment	33,755	28,554
Construction in progress	25,790	25,139
Land	1,002	894
Property and equipment, gross	159,565	127,079
Less: accumulated depreciation	9,490	6,539
Property and equipment, net	$ 150,075	$ 120,540

Total depreciation expense was $2,951 and $985 during the three months ended March 31, 2021 and 2020, respectively. Total depreciation expense capitalized to inventory was $1,956 and $896 during the three months ended March 31, 2021 and 2020, respectively. At March 31, 2021 and December 31, 2020, $1,698 and $602, respectively, of depreciation expense remained capitalized as part of inventory.

8. VARIABLE INTEREST ENTITIES

The following tables present the summarized financial information about the Company's consolidated VIEs which are included in the unaudited Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020 and unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2021 and 2020. These entities were determined to be VIEs since the Company possesses the power to direct the significant activities of the VIEs and has the obligation to absorb losses or the right to receive benefits from the VIE.

	March 31, 2021	December 31, 2020	
(in thousands)	Ascend Illinois	Ascend Illinois	Ascend Michigan
Current assets	$ 51,096	$ 54,787	$ 11,355
Non-current assets	156,576	151,449	58,516
Current liabilities	57,457	62,508	5,553
Non-current liabilities	128,191	134,792	37,809
Equity (deficit) attributable to AWH	7,069	9,322	(23,822)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	
(in thousands)	Ascend Illinois	Ascend Illinois	Ascend Michigan(2)
Revenue, net	$ 54,738	$ 21,057	$ 1,535
Net income attributable to non-controlling interests(1)	—	360	—
Net income (loss) attributable to AWH	7,094	1,438	(4,580)
Net income (loss)	$ 7,094	$ 1,798	$ (4,580)

(1) Effective July 30, 2020, the Company purchased the non-controlling interests of Ascend Illinois; therefore, there are no non-controlling interests as of and for the three months ended March 31, 2021.

(2) In December 2020, the sole member of FPAW Michigan 2, Inc. ("Ascend Michigan") assigned his interests to AWH, thereby making AWH the majority member, retaining 99.9% of the membership interests in Ascend Michigan. Following this assignment, Ascend Michigan is no longer considered a VIE.

9. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

(in thousands)	March 31, 2021	December 31, 2020
Finite-lived intangible assets		
Licenses and permits[1]	$ 38,214	$ 39,888
In-place leases	19,963	19,963
Trade names[1]	380	210
	58,557	60,061
Accumulated amortization:		
Licenses and permits	(2,068)	(1,080)
In-place leases	(8,911)	(8,362)
Trade names	(306)	(158)
	(11,285)	(9,600)
Total intangible assets, net	$ 47,272	$ 50,461

(1) During the three months ended March 31, 2021, we recorded measurement period purchase accounting adjustments based on changes to certain estimates and assumptions and their related impact to goodwill. See Note 4, "Acquisitions," for additional information.

Amortization expense was $1,685 and $1,879 for the three months ended March 31, 2021 and 2020, respectively. No impairment indicators were noted during the three months ended March 31, 2021 or 2020 and, as such, we did not record any impairment charges during either period.

Goodwill

(in thousands)	
Balance, December 31, 2020	$ 22,798
Adjustments to purchase price allocation	1,504
Balance, March 31, 2021	$ 24,302

10. LEASES

The Company leases land, buildings, equipment, and other capital assets which it plans to use for corporate purposes and the production and sale of cannabis products. We determine if an arrangement is a lease at inception and begin recording lease activity at the commencement date, which is generally the date in which we take possession of or control the physical use of the asset. Right-of-use ("ROU") assets and lease liabilities are recognized based on the present value of lease payments over the lease term with lease expense recognized on a straight-line basis. We use our incremental borrowing rate to determine the present value of future lease payments unless the implicit rate is readily determinable. Our incremental borrowing rate is the rate of interest we would have to pay to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. This incremental borrowing rate is applied to the minimum lease payments within each lease agreement to determine the amounts of our ROU assets and lease liabilities.

Our lease terms range from 1 to 20 years. Some leases include one or more options to renew, with renewal terms that can extend the lease terms. We typically exclude options to extend the lease in a lease term unless it is reasonably certain that we will exercise the option and when doing so is at our sole discretion. The depreciable lives of assets and leasehold improvements are limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise. Typically, if we decide to cancel or terminate a lease before the end of its term, we would owe the lessor the remaining lease payments under the term of such lease. Our lease agreements generally do not contain any material residual value guarantees or material restrictive covenants. We may rent or sublease to third parties certain real property assets that we no longer use.

Lease agreements may contain rent escalation clauses, rent holidays, or certain landlord incentives, including tenant improvement allowances. ROU assets include amounts for scheduled rent increases and are reduced by lease incentive amounts. Certain of our lease agreements include variable rent payments, consisting primarily of rental payments adjusted periodically for inflation and amounts paid to the lessor based on cost or consumption, such as maintenance and utilities. Variable rent lease components are not included in the lease liability.

The components of lease assets and lease liabilities and their classification on our unaudited Condensed Consolidated Balance Sheets were as follows:

(in thousands)	**Classification**	**March 31, 2021**	**December 31, 2020**
Lease assets			
Operating leases	Operating lease right-of-use assets	$ 95,731	$ 84,642
Lease liabilities			
Current liabilities			
Operating leases	Operating lease liabilities, current	$ 2,261	$ 2,128
Noncurrent liabilities			
Operating leases	Operating lease liabilities, noncurrent	168,122	156,400
Total lease liabilities		$ 170,383	$ 158,528

The components of lease costs and classification within the unaudited Condensed Consolidated Statements of Operations were as follows:

	Three Months Ended March 31,	
(in thousands)	**2021**	**2020**
Operating lease costs		
Capitalized to inventory	$ 4,494	$ 1,261
General and administrative expenses	1,280	799
Total operating lease costs	$ 5,774	$ 2,060

At March 31, 2021 and December 31, 2020, $4,940 and $4,913, respectively, of lease costs remained capitalized in inventory.

The following table presents information on short-term and variable lease costs:

	Three Months Ended March 31,	
(in thousands)	**2021**	**2020**
Total short-term and variable lease costs	$ 652	$ 606

Sublease income generated during the three months ended March 31, 2021 and 2020 was immaterial.

The following table includes supplemental cash and non-cash information related to our leases:

	Three Months Ended March 31,	
(in thousands)	**2021**	**2020**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 5,069	$ 1,998
Lease assets obtained in exchange for new operating lease liabilities	$ 11,442	$ 425

The weighted average remaining lease term for our operating leases is 16.8 years and 17.3 years at March 31, 2021 and December 31, 2020, respectively, and the weighted average discount rate is 13.1% at March 31, 2021 and December 31, 2020.

The amounts of future undiscounted cash flows related to the lease payments over the lease terms and the reconciliation to the present value of the lease liabilities as recorded on our unaudited Condensed Consolidated Balance Sheet as of March 31, 2021 are as follows:

(in thousands)	**Operating Lease Liabilities**
Remainder of 2021	$ 16,725
2022	22,831
2023	23,472
2024	24,131
2025	24,820
Thereafter	335,804
Total lease payments	447,783
Less: imputed interest	277,400
Present value of lease liabilities	$ 170,383

We have entered into operating lease arrangements as of March 31, 2021 that are effective for future periods. The total amount of ROU lease assets and lease liabilities related to these arrangements is approximately $5,000.

Sale Leaseback Transactions

The following table presents cash payments due under transactions that did not qualify for sale-leaseback treatment. The cash payments are allocated between interest and liability reduction, as applicable. The "sold" assets remain within land, buildings, and leasehold improvements, as appropriate, for the duration of the lease and a financing liability equal to the amount of proceeds received is recorded within "Long-term debt, net" on the accompanying unaudited Condensed Consolidated Balance Sheets.

(in thousands)	**Remainder of 2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Cash payments due under financing liabilities	$ 1,522	$ 2,082	$ 2,143	$ 2,206	$ 2,271	$ 9,149	$ 19,373

11. DEBT

(in thousands)	March 31, 2021	December 31, 2020
Capital Construction Loan	$ 11,624	$ 11,624
AWH Convertible Promissory Notes(1)	75,484	75,484
July 2019 Notes	10,000	10,000
Ann Arbor Note	4,750	5,250
October 2020 Credit Facility(2)	25,573	25,260
NJ Term Loan(3)	20,000	20,000
NJ Real Estate Loan	4,500	4,500
2021 AWH Convertible Promissory Notes(4)	49,500	—
Sellers' Notes(5)	33,825	45,782
Finance liabilities	17,129	17,129
Total debt	$ 252,385	$ 215,029
Current portion of debt	$ 48,687	$ 60,357
Less: unamortized deferred financing costs	1,018	1,027
Current portion of debt, net	$ 47,669	$ 59,330
Long-term debt	$ 203,698	$ 154,672
Less: unamortized deferred financing costs	2,142	2,395
Long-term debt, net	$ 201,556	$ 152,277

(1) On April 22, 2021 the convertible note purchase agreement entered in June 2019 (the "AWH Convertible Promissory Notes") was amended to clarify the conversion rate of the underlying notes. Prior to the amendment, the conversion feature in connection with a going public transaction specified that the holders would receive a number of shares of Class A common stock equal to the outstanding principal and accrued and unpaid interest under the notes divided by a price per share equal to the lesser of (a) (i) a 20% discount to the price per share of Class A common stock offered pursuant to an offering in the event such offering occurs on or before 12 months from the closing date; (ii) a 25% discount to the price per share of Class A common stock offered pursuant to an offering in the event such offering occurs after 12 months from the closing date, but before the maturity date; and (b) the price per security, which equals the price per share resulting from a pre-money valuation of the company of $295,900, which was determined by the Company to be $2.96. The amendment to the note purchase agreement was solely made to clarify the conversion price in connection with a going public transaction. The note purchase agreement includes provisions to the effect that the notes may be amended with the written consent of the holders of a majority of the outstanding principal amount of all such notes, and which such consent was obtained, and any amendment so approved is binding on all holders of the notes. In conjunction with the Company's IPO on May 4, 2021, the total principal outstanding under the AWH Convertible Promissory Notes, plus accrued interest thereon, automatically converted into 28,478 shares of Class A common stock based on a conversion price of $2.96 per share in accordance with the terms of the amended agreement. $1,000 of these notes were with related party entities that are managed by one of the founders of the Company.

(2) In October 2020, the Company entered into a $38,000 senior secured credit facility (the "October 2020 Credit Facility"), consisting of a $25,000 initial term loan and $13,000 aggregate principal or delayed draw term loans (which remain available for future funding). The October 2020 Credit Facility" contains certain covenants, including a minimum cash balance requirement of $5,000 at the end of each fiscal month and a minimum cash to consolidated fixed charge ratio of 2.00 to 1.00. The Company was in compliance with these covenants at March 31, 2021.

(3) This loan contains certain covenants, including a maximum debt to assets ratio of 70%, as defined in the agreement. The Company was in compliance with these covenants at March 31, 2021.

(4) In January 2021, the Company entered into a convertible note purchase agreement under which the Company issued $49,500 notes (the "2021 AWH Convertible Promissory Notes"). Each note bears interest at 8% for the first twelve months, 10% for months thirteen through fifteen, and 13% thereafter through maturity. Interest is paid-in-kind and added to the outstanding balance of the note, to be paid at maturity or upon conversion.

Prior to the Conversion, the 2021 AWH Convertible Promissory Notes were convertible into common units of the Company on occurrence of certain events, such as a change of control or an IPO (which events had not occurred as of March 31, 2021). Pursuant to the terms of the notes, upon the occurrence of an IPO, each note, including interest thereon less applicable withholding taxes, automatically converts into equity securities issued in connection with the IPO, with the number of securities issued on the basis of a price equal to the lesser of: (a)(i) a 20% discount to the issue price if an IPO occurs on or before 12 months from each note issuance; (ii) a 25% discount to the issue price if an IPO occurs after 12 months of each note issuance, but before maturity; and (b) the conversion price then in effect based on a defined pre-money valuation of the Company. In conjunction with the Company's IPO on May 4, 2021, the total principal outstanding under the 2021 AWH Convertible Promissory Notes, plus accrued interest thereon, automatically converted into 8,910 shares of Class A common stock based on a conversion price of $6.00 per share in accordance with the terms of the agreement.

(5) Sellers' Notes consist of amounts owed for acquisitions or other purchases. A total of $11,174 was paid to the former owners of MOCA in January 2021, which amount is included in "Current portion of debt, net" on the unaudited Condensed Consolidated Balance Sheet at December 31, 2020. A total of $25,200 remains due to the former owners of Midway, of which $17,200 is included in "Current portion of debt, net" on the unaudited Condensed Consolidated Balance Sheet at March 31, 2021 and December 31, 2020 and $8,000 is included in "Long-term debt, net" on the unaudited Condensed Consolidated Balance Sheet at March 31, 2021 and December 31, 2020.

Additionally, at March 31, 2021, $8,625 remains due under the purchase of a non-controlling interest, of which $3,140 and $5,485 is included in "Current portion of debt, net" and "Long-term debt, net" respectively on the unaudited Condensed Consolidated Balance Sheet. At December 31, 2020, $3,140 and $6,268 is included in "Current portion of debt, net" and "Long-term debt, net" respectively.

Debt Maturities

During the three months ended March 31, 2021, we repaid: $500 of principal under our term notes; $11,174 of sellers' notes related to the MOCA acquisition; and $786 of sellers' notes related to the former HCI owners. At March 31, 2021, the following cash payments are required under our debt arrangements:

(in thousands)	Remainder of 2021	2022	2023	2024	2025	Total
Term note maturities	$ 28,222	$ 52,012	$ 82,750	$ 21,624	$ 20,000	$ 204,608
Sellers' notes[1]	19,557	11,143	3,143	—	—	33,843

(1) Certain cash payments include an interest accretion component.

Interest Expense

Interest expense related to the Company's debt during 2021 and 2020 consisted of the following:

	Three Months Ended March 31,	
(in thousands)	2021	2020
Cash interest on notes	$ 3,426	$ 1,407
Accretion	3,412	814
Interest on financing liability[1]	499	309
Total	$ 7,337	$ 2,530

(1) Interest on financing liability related to failed sale leasebacks.

12. MEMBERS' EQUITY

Share Capital

As of March 31, 2021, and immediately prior to the completion of the Conversion, the Company was authorized to issue Common Units, Preferred Units, and Restricted Common Units (see Note 13, "Equity-Based Compensation Expense"), all with no par value. Preferred Units collectively includes Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units, unless otherwise specified. All share classes are included within "Unit capital" in the unaudited Condensed Consolidated Statements of Changes in Members' (Deficit) Equity on an as-converted to common units basis.

The following table summarizes the member units outstanding prior to the Conversion:

(in thousands)	March 31, 2021	December 31, 2020
Common Units	49,130	48,047
Real Estate Preferred Units	22,801	22,801
Series Seed Preferred Units	14,252	14,252
Series Seed+ Preferred Units	20,982	20,982
Total	107,165	106,082

Following the Conversion on April 22, 2021, the Company has authorized 750,000 shares of Class A Common Shares with a par value of $0.001 per share, 100 shares of Class B common stock with a par value of $0.001 par value per share and 10,000 shares of preferred stock with a par value of $0.001 per share.

Each share of Class A Common Stock is entitled to one vote per share and holders of Class B Common Stock are entitled to 1,000 votes per share. Holders of Class A common stock and Class B common stock will vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders, unless otherwise required by law or our certificate of incorporation. Each share of Class B common stock is convertible at any time into one share of Class A Common stock at the option of the holder. In addition, each share of Class B common stock will automatically convert into one share of Class A common stock on the final conversion date (May 4, 2026). Each share of Class B common stock will convert automatically into one share of Class A common stock upon any transfer, whether or not for value, except for certain transfers described in our certificate of incorporation, including, without limitation, transfers for tax and estate planning purposes, so long as the transferring holder of Class B common stock continues to hold exclusive voting and dispositive power with respect to the shares transferred. Once converted into a share of Class A common stock, a converted share of Class B common stock will not be reissued, and following the conversion of all outstanding shares of Class B common stock, no further shares of Class B common stock will be issued.

Subject to preferences that may apply to any shares of preferred stock outstanding at the time and any contractual limitations, such as our credit agreements, the holders of our common stock will be entitled to receive dividends out of funds then legally available, if any, if our Board, in its discretion, determines to issue dividends and then only at the times and in the amounts that our Board may determine. If a dividend is paid in the form of a Class A common stock or Class B common stock, then holders of Class A common stock shall receive Class A common stock and holders of Class B common stock shall receive Class B common stock.

In the event of a liquidation, dissolution, or winding up, holders of Class A common stock and Class B common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then-outstanding shares of preferred stock.

In the event of any change of control transaction, shares of our Class A common stock and Class B common stock shall be treated equally, ratably, and identically, on a per share basis, with respect to any consideration into which such shares are converted or any consideration paid or otherwise distributed to stockholders of the Company, unless different treatment of the shares of each class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting separately as a class.

The following table summarizes the unaudited pro forma shares outstanding if the Conversion had occurred as of March 31, 2021. Such amounts exclude the 10,000 shares of Class A common stock issued in the IPO and the impact of restricted stock units with accelerated vesting clauses (see Note 13, "Equity-Based Compensation Expense," for additional details).

(in thousands)	Pro Forma Class A Shares Outstanding as of March 31, 2021	Pro Forma Class B Shares Outstanding as of March 31, 2021
Common units[1]	49,065	65
Real Estate Preferred Units[2]	26,221	—
Series Seed Preferred Units[3]	14,252	—
Series Seed+ Preferred Units[3]	20,982	—
2019 AWH Convertible Notes[4]	28,478	—
2021 AWH Convertible Notes[5]	8,910	—
Total	147,908	65

(1) Each historical common unit converted into one share of Class A common stock, except 65 units that were allocated to shares of Class B common stock.

(2) Each Real Estate Preferred Unit converted into Class A common stock at a rate of one plus 1.5x, divided by the IPO price of $8.00 per share, for a total of 26,221 shares of Class A common stocks. The additional 3,420 shares issued per the conversion feature was considered a contingent beneficial conversion feature and was recognized when the conversion event occurred, for a total charge of $27,361.

(3) Each historical unit converted into shares of Class A common stock on a one-for-one basis.

(4) The AWH Convertible Promissory Notes, plus accrued interest, converted into shares of Class A common stock at a conversion rate of $2.96, per the amended note agreement. The pro forma calculation above includes accrued interest through the May 4, 2021 conversion date. Per the terms of the note agreement, any notes outstanding for less than twelve months received a full twelve months of interest at conversion.

(5) The 2021 AWH Convertible Promissory Notes, plus accrued interest, converted into shares of Class A common stock at a conversion rate of $6.00. The pro forma calculation above includes accrued interest through the May 4, 2021 conversion date. Per the terms of the note agreement, the notes received a full twelve months of interest at conversion.

Pro Forma Loss Per Share

The unaudited pro forma loss per pro forma share of Class A common stock, calculated above, would have been $0.54 for the three months ended March 31, 2021 if the Conversion had occurred as of March 31, 2021, based on the following pro forma adjustments to reported net loss: $4,663 of incremental interest expense on the convertible notes through the May 4, 2021 conversion date; and $27,361 of expense related to the beneficial conversion feature of the Real Estate Preferred Units.

Warrants

As of March 31, 2021, warrants to acquire a total of 3,531 common units at an exercise price of $4.00 per unit were outstanding. These warrants had an estimated total fair value of $237 at issuance, with the fair value per warrant ranging from $0.02 to $0.10. Additionally, as of March 31, 2021, warrants to acquire a total of 1,094 common units at an exercise price of $3.20 per unit were outstanding. These warrants had an estimated total fair value of $72 at issuance. The weighted-average remaining contractual life of the warrants outstanding as of March 31, 2021 is 2.2 years and such warrants had no intrinsic value at that date.

In conjunction with the Conversion in April 2021, the holders of warrants to acquire 3,531 common units at an exercise price of $4.00 received warrants to acquire an equal number of shares of Class A common stock. On April 14, 2021, the Company entered into a warrant cancellation agreement with One Tower Atlantic, LLC, the holder of warrants to acquire 1,094 common units of AWH at an exercise price of $3.20 per unit (the "$3.20 Warrants"). Upon the completion of the IPO, the $3.20 Warrants were cancelled and cashed out in exchange for a payment of $4,156 (or $7.00 per share calculated in accordance with the cashless exercise provisions of the warrant agreement) that is due by May 31, 2021.

13. EQUITY-BASED COMPENSATION EXPENSE

The Company adopted a new incentive plan in November 2020 (the "2020 Plan") which authorized the issuance of incentive common unit options and restricted common units (collectively, "Awards"). The maximum number of Awards to be issued under the 2020 Plan is 10,031 and any Awards that expire or are forfeited may be re-issued. A total of 9,944 restricted common units were issued under the plan as of March 31, 2021. The Awards generally vest over two or three years. The estimated fair value of the Awards at issuance is recognized as compensation expense over the related vesting period.

In conjunction with the Conversion in April 2021, the holders of the restricted common units issued under the 2020 Plan received one share of Class A common stock for each restricted common unit held immediately prior to the Conversion. Unless otherwise specified, the Awards may not be exercised for six months following the IPO.

The following table summarizes the restricted common units activity during the three months ended March 31, 2021:

	Number of Units
Unvested, December 31, 2020	7,280
Vested	(1,033)
Forfeited	(26)
Unvested, March 31, 2021	6,221

The Company recognized $2,487 as compensation expense in connection with the restricted common units during the three months ended March 31, 2021, which is included in "General and administrative expenses" on the unaudited Condensed Consolidated Statements of Operations. During the three months ended March 31, 2020, the Company recognized $185 as compensation expense in connection with the Company's previous incentive units that were outstanding at that time.

As of March 31, 2021, total unrecognized compensation cost related to restricted common units was $1,375, which is expected to be recognized over the weighted-average remaining vesting period of 1.3 years.

In conjunction with the IPO on May 4, 2021, 3,676 of restricted common shares became fully vested due to acceleration clauses, resulting in additional compensation expense of $733 upon acceleration.

14. INCOME TAXES

	Three Months Ended March 31,	
($ in thousands)	2021	2020
Gross profit	$ 29,667	$ 7,492
Income tax expense	8,976	2,437
Effective tax rate on gross profit	30.3%	32.5%

The Company's quarterly tax provision is calculated under the discrete method which treats the interim period as if it were the annual period and determines the income tax expense or benefit on that basis. The discrete method is applied when application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The Company believes, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method due to the high degree of uncertainty in estimating annual pre-tax income due to the early growth stage of the business.

Since the Company operates in the cannabis industry, it is subject to the limitations of IRC Section 280E, which prohibits businesses engaged in the trafficking of Schedule I or Schedule II controlled substances from deducting ordinary and necessary business expenses from gross profit. Cannabis businesses operating in states that align their tax codes with IRC Section 280E are also unable to deduct ordinary and necessary business expenses for state tax purposes. Ordinary and necessary business expenses deemed non-deductible under IRC Section 280E are treated as permanent book-to-tax differences. Therefore, the effective tax rate can be highly variable and may not necessarily correlate with pre-tax income or loss.

There have been no material changes to income tax matters in connection with the normal course of operations during the three months ended March 31, 2021.

15. COMMITMENTS AND CONTINGENCIES

Commitments

The Company does not have significant future annual commitments, other than related to leases and debt, which are disclosed in Notes 10 and 11, respectively.

Legal and Other Matters

The Company's operations are subject to a variety of local and state regulations. Failure to comply with one or more of those regulations could result in fines, restrictions on its operations, or losses of permits that could result in the Company ceasing operations. While management believes that the Company is in compliance with applicable local and state regulations as of March 31, 2021, cannabis regulations continue to evolve and are subject to differing interpretations, and accordingly, the Company may be subject to regulatory fines, penalties, or restrictions in the future.

State laws that permit and regulate the production, distribution, and use of cannabis for adult use or medical purposes are in direct conflict with the Controlled Substances Act (21 U.S.C. § 811) (the "CSA"), which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical and/or adult use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under the CSA. Although the Company's activities are believed to be compliant with applicable state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

The Company may be, from time to time, subject to various administrative, regulatory, and other legal proceedings arising in the ordinary course of business. Contingent liabilities associated with legal proceedings are recorded when a liability is probable and the contingent liability can be estimated. We do not accrue for contingent losses that, in our judgment, are considered to be reasonably possible but not probable. At March 31, 2021 there were no pending or threatened lawsuits that could reasonably be expected to have a material effect on our consolidated results of operations, other than the matter discussed below.

Legal Settlement Matter

In December 2020, TVP, LLC, TVP Grand Rapids, LLC and, TVP Alma, LLC (collectively, the "TVP Parties") filed a claim alleging breach of contract against FPAW Michigan, LLC ("FPAW"), a VIE of the Company through FPAW Michigan 2, Inc., and AWH related to a purchase agreement for the Company's potential acquisition of certain locations in Michigan. The TVP Parties asked the court to grant specific performance of the contracts between the Company and the TVP Parties, which, if granted, would have resulted in AWH issuing approximately

4,770 common units as originally agreed in September 2019 and paying approximately $16,500 in cash to the TVP parties in exchange for the entities holding the properties subject to the agreements. AWH and FPAW filed an answer to the complaint on January 28, 2021 and believed there existed valid defenses to the demand for specific performance due to lack of suitability of three of the six properties subject to the original transaction agreements.

On April 14, 2021, FPAW and AWH entered into a settlement agreement with TVP Parties (the "Settlement Agreement"). The Settlement Agreement provides for, among other items, the dismissal of all claims brought by the TVP Parties against FPAW and AWH upon performance of each parties' obligations under the Settlement Agreement. Pursuant to the Settlement Agreement, FPAW and AWH were required to deliver a cash payment of $9,000 to TVP, LLC on the date of the Settlement Agreement, with an additional cash payment of $5,480 due on or before January 1, 2022, or approximately $2,000 less than would have otherwise been payable under the agreements. In addition, on April 14, 2021, upon the execution of the Settlement Agreement, AWH issued 4,770 common units of AWH with a fair value of $26,041 to an escrow account, to be held in the name of the escrow agent (the "Escrow Units"). Also as part of the Settlement Agreement and in order to avoid further potential litigation, AWH issued 255 common units of AWH with a fair value of $1,390 to a party to one of the September 2019 agreements that was not a party to the litigation matter.

Upon the receipt of the initial cash payment of $9,000 and the issuance of the Escrow Units, the TVP Parties filed a stipulated order dismissing all lawsuits, with prejudice and without costs, against FPAW and AWH. The Escrow Units are issued and outstanding and will remain in the escrow account until such time as the TVP Parties exercise an option to hold the Escrow Units directly (the "Put Option"). Upon their exercise of the Put Option, the Escrow Units shall be released to the TVP Parties and the TVP Parties shall transfer to FPAW the equity interests of the entities that hold the three real estate properties in Grand Rapids, which are the three remaining properties that remain suitable for the original business purposes. The Put Option is required to be exercised by the TVP Parties within three years of the date of the Settlement Agreement.

Of the total settlement liability, $14,480 is recorded within "Accounts payable and accrued expenses" on the accompanying unaudited Condensed Consolidated Balance Sheet as of March 31, 2021 and the fair value of the share issuance of $27,431 is reflected within "Reserve for equity issued in litigation settlement" on the unaudited Condensed Consolidated Statement of Changes in Members' (Deficit) Equity. The fair value of the three properties to be acquired per the settlement of $5,400 is recorded within "Other noncurrent assets" as of March 31, 2021, and will remain until the time such property titles transfer to the Company. The settlement charge of $36,511 is reflected within "Settlement expense" on the unaudited Condensed Consolidated Statements of Operations. The settlement charge is not expected to be deductible for tax purposes.

Other Transactions

In December 2020, the Company submitted an amended state application to acquire BCCO, LLC, a medical dispensary license holder in Ohio for total cash consideration of approximately $3,500, subject to certain adjustments at closing. The Company may settle the outstanding balances due under a note receivable and a working capital loan, which total $3,336 as of March 31, 2021, as part of the purchase price at closing. The Company has entered into a unit purchase option agreement with BCCO, LLC and expects to enter into a definitive purchase agreement following the state approval of the license transfer.

Investments

On February 25, 2021, we entered into a definitive investment agreement (the "Investment Agreement") with MedMen Enterprises Inc. ("MedMen"), under which we will, subject to regulatory approval, complete an investment (the "Investment") of approximately $73,000 in MedMen NY, Inc. ("MMNY"), a licensed medical cannabis operator in New York. In connection with the investment, and subject to regulatory approval, MMNY will engage our services pursuant to a management agreement (the "Management Agreement") under which we will advise on MMNY's operations pending regulatory approval of the Investment transaction.

Under the terms of the Investment, at closing, MMNY will assume approximately $73,000 of MedMen's existing secured debt, AWH will invest $35,000 in cash in MMNY, and AWH New York, LLC will issue a senior secured promissory note in favor of MMNY's senior secured lender in the principal amount of $28,000, guaranteed by AWH, which cash investment and note will be used to reduce the amounts owed to MMNY's senior secured lender. Following its investment, AWH will hold a controlling interest in MMNY equal to approximately 86.7% of the equity in MMNY, and be provided with an option to acquire MedMen's remaining interest in MMNY in the future. AWH must also make an additional investment of $10,000 in exchange for additional equity in MMNY, which investment will also be used to repay MMNY's senior secured lender if adult-use cannabis sales commence in MMNY's dispensaries. The transactions contemplated by the Investment Agreement are subject to customary closing conditions, including approval from the New York State Department of Health and other applicable regulatory bodies.

16. RELATED PARTY TRANSACTIONS

AWH had a management services agreement ("MSA") with AGP Partners, LLC ("AGP") under which AGP provided management services to AWH in connection with the monitoring and oversight of AWH's financial and business functions. The founder of AGP is the Chief Executive Officer and one of the founders of AWH. Pursuant to the MSA, AWH pays AGP a quarterly fee of $100. As of March 31, 2021 and December 31, 2020, $100 of these fees are included in "Accounts payable and other accrued expenses" on the unaudited Condensed Consolidated Balance Sheets. We recognized expenses of $100 during each of the three months ended March 31, 2021, and 2020, that are included in "General and administrative expenses" on the unaudited Condensed Consolidated Statements of Operations. Pursuant to the terms of the agreement, the MSA was terminated following the Company's IPO in May 2021. Upon termination, AGP is entitled to receive a $2,000 payout that was contingent upon the beneficial owners of AGP who serve as officers of the Company entering into lock-up agreements that extend for 360 days following the Company's IPO. Pursuant to the MSA, each such lock-up agreement contains a provision whereby AWH's Board of Managers may waive, in whole or in part, such extended lock-up thereto if AWH's Board of Managers determines, in its sole discretion and in accordance with AWH's governing documents and applicable law, that such waiver will not have an adverse effect on AWH and its equity holders, business, financial condition and prospects.

As discussed in Note 11, "Debt," certain of the AWH Convertible Promissory Notes are with related party entities that are managed by one of the founders of the Company.

17. SUPPLEMENTAL INFORMATION

The following table presents supplemental information regarding our other current assets:

(in thousands)	March 31, 2021	December 31, 2020
Tenant improvement allowance	$ 14,292	$ 24,349
Deposits and other receivables	4,021	4,021
Prepaid expenses	2,304	2,311
Construction deposits	1,134	712
Other	1,437	1,205
Total	$ 23,188	$ 32,598

The following table presents supplemental information regarding our accounts payable and accrued liabilities:

(in thousands)	March 31, 2021	December 31, 2020
Accounts payable	$ 21,339	$ 17,763
Litigation settlement	14,480	—
Accrued interest	10,556	7,723
Accrued payroll and related expenses	824	2,762
Other	2,617	2,976
Total	$ 49,816	$ 31,224

The following table presents supplemental information regarding our general and administrative expenses:

	Three Months Ended March 31,	
(in thousands)	2021	2020
Compensation	$ 10,052	$ 2,465
Rent and utilities	5,433	2,768
Professional services	3,917	1,457
Depreciation and amortization	2,419	1,951
Insurance	861	210
Marketing	534	401
Other	1,930	397
Total	$ 25,146	$ 9,649

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions occurring through the filing date of this Quarterly Report on Form 10-Q require adjustment to or disclosure in the Company's consolidated financial statements. There were no events that require adjustment to or disclosure in the consolidated financial statements, except as disclosed.

Acquisition

Effective May 5, 2021, the Company completed the previously disclosed acquisition of the parent company of Hemma, LLC ("Hemma"), the owner of a medical cultivation site in Ohio. The total purchase price of $10,239 consists of cash payments of $2,500, the issuance of a $4,712 sellers' note, settlement of $2,500 due under a note receivable, settlement of $669 due under a working capital line of credit, and customary working capital adjustments. The sellers' note accrues interest at a rate of 12% per annum, and the outstanding principal plus accrued interest is due on December 5, 2021, but may be prepaid without premium or penalty.