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 June 30, 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)

(646) 661-7600
(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 August 11, 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 U.S. Food and Drug Administration (the "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 our quarterly report on Form 10-Q for the period ended March 31, 2021 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, except per share amounts)	June 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 104,212	$ 56,547
Restricted cash	—	1,550
Accounts receivable, net	4,867	6,227
Inventory	47,099	28,997
Notes receivable	6,745	8,259
Other current assets	26,475	32,598
Total current assets	189,398	134,178
Property and equipment, net	182,486	120,540
Operating lease right-of-use assets	101,731	84,642
Intangible assets, net	52,513	50,461
Goodwill	27,341	22,798
Deferred tax assets	3,451	2,395
Other noncurrent assets	21,843	12,734
TOTAL ASSETS	$ 578,763	$ 427,748
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 47,212	$ 31,224
Current portion of debt, net	24,056	59,330
Operating lease liabilities, current	2,206	2,128
Income taxes payable	31,006	18,275
Other current liabilities	5,744	4,328
Total current liabilities	110,224	115,285
Long-term debt, net	104,730	152,277
Operating lease liabilities, noncurrent	174,489	156,400
Total liabilities	389,443	423,962
Commitments and contingencies (Note 15)		
Stockholders' Equity		
Membership units, no par value; none authorized, issued, and outstanding as of June 30, 2021; 106,082 issued and outstanding as of December 31, 2020 (Note 12)	—	—
Preferred stock, $0.001 par value per share; 10,000 shares authorized, none issued and outstanding as of June 30, 2021; none authorized, issued, and outstanding as of December 31, 2020 (Note 12)	—	—
Class A common stock, $0.001 par value per share; 750,000 shares authorized, 168,764 shares issued and outstanding as of June 30, 2021; none authorized, issued, and outstanding as of December 31, 2020 (Note 12)	168	—
Class B common stock, $0.001 par value per share, 100 shares authorized, 65 shares issued and outstanding as of June 30, 2021; none authorized, issued, and outstanding as of December 31, 2020 (Note 12)	—	—
Additional paid-in capital	345,864	67,378
Accumulated deficit	(156,712)	(63,592)
Total stockholders' equity	189,320	3,786
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 578,763	$ 427,748

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenue, net	$ 83,367	$ 25,384	$ 149,504	$ 47,976
Cost of goods sold	(48,851)	(13,206)	(85,321)	(28,306)
Gross profit	34,516	12,178	64,183	19,670
Operating expenses				
General and administrative expenses	30,612	9,975	55,758	19,624
Settlement expense	—	—	36,511	—
Total operating expenses	30,612	9,975	92,269	19,624
Operating profit (loss)	3,904	2,203	(28,086)	46
Other (expense) income				
Interest expense	(36,888)	(2,873)	(44,225)	(5,403)
Other, net	82	(3)	162	3
Total other expense	(36,806)	(2,876)	(44,063)	(5,400)
Loss before income taxes	(32,902)	(673)	(72,149)	(5,354)
Income tax expense	(11,995)	(3,632)	(20,971)	(6,069)
Net loss	(44,897)	(4,305)	(93,120)	(11,423)
Less: net income attributable to non-controlling interests	—	737	—	1,097
Net loss attributable to Ascend Wellness Holdings, Inc.	$ (44,897)	$ (5,042)	$ (93,120)	$ (12,520)
Net loss per share attributable to Class A and Class B stockholders of Ascend Wellness Holdings, Inc. — basic and diluted (Note 12)	$ (0.30)	$ (0.06)	$ (0.73)	$ (0.14)
Weighted-average common shares outstanding — basic and diluted	150,341	89,821	128,392	89,821

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

	Six Months Ended June 30, 2021							
		Class A and Class B Common Stock		Attributable to Stockholders of the Parent				
(in thousands)	Historical LLC Units	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity (Deficit)	Non-Controlling Interests	Total Equity
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)
Release of reserve for equity issued in litigation settlement	—	—	—	(27,431)	—	(27,431)	—	(27,431)
Equity issued in litigation settlement	5,025	—	—	27,431	—	27,431	—	27,431
Conversion of historical common units	(55,330)	55,330	55	(55)	—	—	—	—
Conversion of historical preferred units	(58,036)	58,036	58	(58)	—	—	—	—
Issuance of common stock in public offerings, net of $5,935 of underwriting commissions and discounts and offering expenses	—	11,500	12	86,053	—	86,065	—	86,065
Conversion of convertible notes upon initial public offering	—	37,388	37	137,718	—	137,755	—	137,755
Beneficial conversion feature associated with conversion of preferred units upon initial public offering	—	3,420	3	27,358	—	27,361	—	27,361
Vesting of restricted common units	1,176	3,155	3	(3)	—	—	—	—
Equity-based compensation expense	—	—	—	1,711	—	1,711	—	1,711
Repurchase of warrants	—	—	—	(4,156)	—	(4,156)	—	(4,156)
Net loss	—	—	—	—	(44,897)	(44,897)	—	(44,897)
June 30, 2021	—	168,829	$ 168	$ 345,864	$ (156,712)	$ 189,320	$ —	$ 189,320

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

	Six Months Ended June 30, 2020							
		Class A and Class B Common Stock		Attributable to Stockholders of the Parent				
(in thousands)	Historical LLC Units	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity	Non-Controlling Interests	Total Equity
December 31, 2019	89,821	—	$ —	$ 71,947	$ (38,153)	$ 33,794	$ 1,046	$ 34,840
Equity-based compensation expense	—	—	—	185	—	185	—	185
Issuance of warrants	—	—	—	147	—	147	—	147
Net loss	—	—	—	—	(7,478)	(7,478)	360	(7,118)
March 31, 2020	89,821	—	$ —	$ 72,279	$ (45,631)	$ 26,648	$ 1,406	$ 28,054
Equity-based compensation expense	—	—	—	85	—	85	—	85
Issuance of warrants	—	—	—	16	—	16	—	16
Net loss	—	—	—	—	(5,042)	(5,042)	737	(4,305)
June 30, 2020	89,821	—	$ —	$ 72,380	$ (50,673)	$ 21,707	$ 2,143	$ 23,850

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities		
Net loss	$ (93,120)	$ (11,423)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,911	6,248
Amortization of operating lease assets	612	360
Non-cash interest expense	35,898	1,662
Share-based compensation expense	4,198	270
Equity issued in litigation settlement	27,431	—
Deferred income taxes	(1,056)	(473)
Loss on sale of assets	—	286
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	1,401	(3,007)
Inventory	(19,992)	(2,978)
Other current assets	(4,084)	767
Other noncurrent assets	(9,110)	(2,822)
Accounts payable and accrued liabilities	19,245	1,069
Other current liabilities	1,415	1,936
Lease liabilities	464	1,122
Income taxes payable	12,732	6,545
Net cash used in operating activities	(12,055)	(438)
Cash flows from investing activities		
Additions to capital assets	(56,046)	(13,696)
Investments in notes receivable	(1,656)	(585)
Collection of notes receivable	164	—
Proceeds from sale of assets	—	26,750
Purchase of businesses, net of cash acquired	(13,630)	—
Net cash (used in) provided by investing activities	(71,168)	12,469
Cash flows from financing activities		
Proceeds from issuance of common stock in public offerings, net of underwriting discounts and commissions and offering expenses	86,065	—
Proceeds from issuance of debt	49,500	12,833
Repayments of debt	(2,071)	(15,317)
Repurchase of warrants	(4,156)	—
Proceeds from finance leases	—	3,750
Repayments under finance leases	—	(206)
Net cash provided by financing activities	129,338	1,060
Net increase in cash, cash equivalents, and restricted cash	46,115	13,091
Cash, cash equivalents, and restricted cash at beginning of period	58,097	12,805
Cash, cash equivalents, and restricted cash at end of period	$ 104,212	$ 25,896

See accompanying notes to condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED, UNAUDITED)

(in thousands)	Six Months Ended June 30, 2021	2020
Supplemental Cash Flow Information		
Interest paid	$ 6,103	$ 3,746
Income taxes paid	9,311	—
Non-cash investing and financing activities		
Capital expenditures incurred but not yet paid	13,734	8,914
Conversion of convertible notes and accrued interest upon initial public offering	137,755	—
Conversion of preferred units into Class A common stock upon initial public offering	70,660	—
Beneficial conversion feature associated with conversion of preferred units upon initial public offering	27,361	—
Direct issuance costs incurred but not yet paid	156	—

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"), which is retrospectively presented for all periods in these financial statements. 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 stock with a par value of $0.001 per share, 100 shares of Class B common stock with a par value of $0.001 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, "Equity," for additional details.

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 at a price of $8.00 per share. On May 7, 2021, the underwriters exercised their over-allotment option in full and we issued and sold an additional 1,500 shares of Class A common stock. We received total net proceeds of approximately $86,065 after deducting underwriting discounts and commissions and certain other direct offering expenses paid by us. In connection with the IPO, the historical common units, Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units then-outstanding automatically converted into a total of 113,301 shares of Class A common stock and 65 historical common units were allocated as shares of Class B common stock. Additionally, 3,420 shares of Class A common stock were issued for a beneficial conversion feature associated with the conversion of certain historical preferred units and the Company's convertible notes, plus accrued interest, converted into 37,388 shares of Class A common stock. See Note 12, "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" and are quoted on the OTCQX under the symbol "AAWH." 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, per-unit, and per-share 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 June 30, 2021 and December 31, 2020, as well as a net loss for the three and six months ended June 30, 2021 and 2020, and negative cash flows from operating activities during the six months ended June 30, 2021 and 2020, 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) cash on hand, including capital raised from the Company's IPO in May 2021, 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 Stockholders' 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 June 30, 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)	June 30, 2021	December 31, 2020
Cash and cash equivalents	$ 104,212	$ 56,547
Restricted cash	—	1,550
Total cash, cash equivalents, and restricted cash	$ 104,212	$ 58,097

Fair Value of Financial Instruments

During the six months ended June 30, 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.

Basic and Diluted Loss per Share

The Company computes earnings (loss) per share ("EPS") using the two-class method required for multiple classes of common stock. The rights, including the liquidation and dividend rights, of the Class A common stock and Class B common stock are substantially identical, except for voting and conversion rights. As the liquidation and dividend rights are identical, undistributed earnings are allocated on a proportionate basis to each class of common stock and the resulting basic and diluted net loss per share attributable to common stockholders are, therefore, the same for both Class A and Class B common stock on both and individual and combined basis. EPS and weighted-average shares outstanding for the three and six months ended June 30, 2021 and 2020 have been computed on the basis of treating the historical common unit equivalents previously outstanding as shares of Class A common stock, as such historical units converted into shares of Class A common stock in the Conversion.

Basic EPS is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted EPS reflects potential dilution and is computed by dividing net loss by the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if all potential common shares had been issued and were dilutive. However, potentially dilutive securities are excluded from the computation of diluted EPS to the extent that their effect is anti-dilutive. Potential dilutive securities in the current year include incremental shares of common stock issuable upon the exercise of warrants and unvested restricted stock awards. Potential dilutive securities in the prior year periods include incremental shares of common stock issuable upon the exercise of warrants, vested incentive units, and the conversion of convertible notes. As of June 30, 2021 and 2020, 5,400 and 17,794 shares of common stock equivalents, respectively, were excluded from the calculation of diluted EPS because their inclusion would have been anti-dilutive.

Shares of restricted stock granted by us are considered to be legally issued and outstanding as of the date of grant, notwithstanding that the shares remain subject to the risk of forfeiture if the vesting conditions for such shares

are not met, and are included in the number of shares of Class A common stock outstanding disclosed on the cover page of this Quarterly Report on Form 10-Q. Weighted-average common shares outstanding excludes time-based and performance-based unvested shares of restricted Class A common stock, as restricted shares are treated as issued and outstanding for financial statement presentation purposes only after such shares have vested and, therefore, have ceased to be subject to a risk of forfeiture.

Recently Adopted Accounting Standards

Income Taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 guidance 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 our 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 our consolidated 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 guidance on our consolidated financial statements.

Modification or Exchanges of Freestanding Equity-Classified Written Call Options

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in an Entity's Own Equity (Subtopic 815-40): Issuer's Accounting For Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options,* ("ASU 2021-04"). ASU 2021-04 provides clarification and reduces diversity in an issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options, such as warrants, that remain equity classified after modification or exchange. This guidance will be effective for us on January 1, 2022 with early adoption permitted and will be applied prospectively. We are currently evaluating the impact of this guidance 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 June 30,		Six Months Ended June 30,	
(in thousands)	2021	2020	2021	2020
Retail revenue	$ 58,038	$ 19,132	$ 103,559	$ 37,986
Wholesale revenue	39,473	9,869	69,815	17,900
	97,511	29,001	173,374	55,886
Elimination of inter-company revenue	(14,144)	(3,617)	(23,870)	(7,910)
Total revenue, net	$ 83,367	$ 25,384	$ 149,504	$ 47,976

Sales discounts were not material during the three and six months ended June 30, 2021 and 2020. The liability related to the loyalty program we offer dispensary customers at certain locations was $686 and $219 at June 30, 2021 or December 31, 2020, respectively, and is included in “Other current liabilities” on the accompanying unaudited condensed consolidated balance sheets.

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 Financial Statements from the date of the acquisition.

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.

2021 Acquisition

Effective May 5, 2021, the Company completed the acquisition of the parent company of Hemma, LLC (“Hemma”), the owner of a medical cultivation site in Ohio, for total consideration of $10,381, subject to customary working capital adjustments. Acquisition-related costs incurred during the three and six months ended June 30, 2021 were not material.

Preliminary Purchase Price Allocation

The Company allocated the purchase price of the Hemma acquisition as summarized in the table below. The purchase price allocation 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.

(in thousands)		
Assets acquired (liabilities assumed):		
Cash	$	44
Accounts receivable		41
Inventory		188
Property and equipment		153
Intangible assets[1]		6,928
Goodwill[2]		3,039
Accounts payable and accrued liabilities		(12)
Net assets acquired	$	10,381
Consideration transferred:		
Cash[3]	$	7,212
Settlement of note and working capital loan[4]		3,169
Total consideration	$	10,381

(1) The amortization period for the acquired intangible assets is 10 years.

(2) Goodwill is largely attributable to the value we expect to obtain from long-term business growth and buyer-specific synergies. The goodwill is not deductible for tax purposes due to the limitations imposed under Internal Revenue Code ("IRC") Section 280E. See Note 14, "Income Taxes," for additional information.

(3) Total cash consideration includes a $4,712 sellers' note. See Note 11, "Debt," for additional information.

(4) Includes settlement of $2,500 due under a note receivable and settlement of $669 due under a working capital line of credit.

2020 Acquisitions

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.

During the six months ended June 30, 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 tables summarize the revenue and net income related to MOCA, GCC, Midway, and Hemma included in our consolidated results for the three and six months ended June 30, 2021.

	Three Months Ended June 30, 2021			
(in thousands)	**MOCA**	**GCC**	**Midway**	**Hemma**
Revenue, net	$ 11,088	$ 2,651	$ 5,316	$ —
Net income (loss)	1,188	(1,431)	(623)	(101)

	Six Months Ended June 30, 2021			
(in thousands)	MOCA	GCC	Midway	Hemma
Revenue, net	$ 20,994	$ 5,057	$ 8,579	$ —
Net income (loss)	1,899	(942)	(905)	(101)

The tables below summarize the unaudited pro forma combined revenue and net income (loss) of AWH, MOCA, GCC, and Midway for the three and six months ended June 30, 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. Pro forma financial information is not presented for Hemma, as such results are immaterial to both the current and prior periods.

	Three Months Ended June 30, 2020					
(in thousands)	AWH (as reported)	MOCA	GCC	Midway	Pro Forma Adjustments[(1)]	Pro Forma Combined
Revenue, net	$ 25,384	$ 3,357	$ 996	$ 2,418	$ —	$ 32,155
Net income (loss)	(4,305)	961	177	471	(3,371)	(6,067)

[(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 $62 of acquisition-related costs incurred during the three months ended June 30, 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 IRC Section 280E.

	Six Months Ended June 30, 2020					
(in thousands)	AWH (as reported)	MOCA	GCC	Midway	Pro Forma Adjustments[(1)]	Pro Forma Combined
Revenue, net	$ 47,976	$ 7,035	$ 2,011	$ 4,641	$ —	$ 61,663
Net income (loss)	(11,423)	2,021	515	907	(6,794)	(14,774)

[(1).] These adjustments include estimated additional amortization expense of $1,797 on intangible assets acquired as part of the acquisitions as follows: $488 related to MOCA, $575 related to GCC, and $734 related to Midway. These adjustments also include additional estimated interest expense of $5,069 and an adjustment to exclude $72 of acquisition-related costs incurred during the six months ended June 30, 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 IRC Section 280E.

5. INVENTORY

The components of inventory are as follows:

(in thousands)	June 30, 2021	December 31, 2020
Materials and supplies	$ 19,126	$ 7,756
Work in process	16,788	13,615
Finished goods	11,185	7,626
Total	$ 47,099	$ 28,997

Total compensation expense capitalized to inventory was $8,157 and $3,201 during the three months ended June 30, 2021 and 2020, respectively, and $14,520 and $6,599 during the six months ended June 30, 2021 and 2020, respectively. At June 30, 2021 and December 31, 2020, $7,055 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 $1,172 is outstanding as of June 30, 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.

As discussed in Note 4, "Acquisitions," the Company settled a total of $3,169 due under the Hemma note receivable and working capital loan agreement as part of consideration upon the closing of the acquisition.

Additionally, a total of $4,413 is outstanding at June 30, 2021 related to a promissory note issued to the owner of a property the Company is renting, of which $153 and $4,260 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 June 30, 2021 for the amounts due under notes receivable. No impairment losses on notes receivable were recognized during the six months ended June 30, 2021 or 2020.

7. PROPERTY AND EQUIPMENT

Property and equipment and related depreciation consist of the following:

(in thousands)	June 30, 2021	December 31, 2020
Leasehold improvements	$ 80,401	$ 33,931
Buildings	42,486	38,561
Furniture, fixtures, and equipment	38,614	28,554
Construction in progress	32,983	25,139
Land	1,002	894
Property and equipment, gross	195,486	127,079
Less: accumulated depreciation	13,000	6,539
Property and equipment, net	$ 182,486	$ 120,540

Total depreciation expense was $3,509 and $1,053 during the three months ended June 30, 2021 and 2020, respectively, and $6,461 and $2,037 during the six months ended June 30, 2021 and 2020, respectively. Total depreciation expense capitalized to inventory was $2,378 and $946 during the three months ended June 30, 2021 and 2020, respectively, and $4,334 and $1,841 during the six months ended June 30, 2021 and 2020, respectively. At June 30, 2021 and December 31, 2020, $2,002 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 June 30, 2021 and December 31, 2020 and unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 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.

	June 30, 2021	December 31, 2020	
(in thousands)	Ascend Illinois	Ascend Illinois	Ascend Michigan
Current assets	$ 70,278	$ 54,787	$ 11,355
Other noncurrent assets	162,954	151,449	58,516
Current liabilities	71,757	62,508	5,553
Noncurrent liabilities	127,944	134,792	37,809
Equity (deficit) attributable to AWH	16,398	9,322	(23,822)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	
(in thousands)	Ascend Illinois	Ascend Illinois	Ascend Michigan[2]
Revenue, net	$ 68,083	$ 21,912	$ 1,703
Net income attributable to non-controlling interests[1]	—	737	—
Net income (loss) attributable to AWH	9,329	2,949	(3,514)
Net income (loss)	$ 9,329	$ 3,686	$ (3,514)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	
(in thousands)	Ascend Illinois	Ascend Illinois	Ascend Michigan[2]
Revenue, net	$ 122,821	$ 42,969	$ 3,238
Net income attributable to non-controlling interests[1]	—	1,097	—
Net income (loss) attributable to AWH	16,423	4,387	(8,094)
Net income (loss)	$ 16,423	$ 5,484	$ (8,094)

(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 and six months ended June 30, 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)	June 30, 2021	December 31, 2020
Finite-lived intangible assets		
Licenses and permits[1]	$ 45,142	$ 39,888
In-place leases	19,963	19,963
Trade names[1]	380	210
	65,485	60,061
Accumulated amortization:		
Licenses and permits	(3,132)	(1,080)
In-place leases	(9,460)	(8,362)
Trade names	(380)	(158)
	(12,972)	(9,600)
Total intangible assets, net	$ 52,513	$ 50,461

[1] During the six months ended June 30, 2021, we recorded measurement period purchase accounting adjustments related to our 2020 acquisitions based on changes to certain estimates and assumptions and their related impact to goodwill. Additionally, during the three months ended June 30, 2021 we recorded $6,928 related to the Hemma acquisition. See Note 4, "Acquisitions," for additional information.

Amortization expense was $1,687 and $1,866 during the three months ended June 30, 2021 and 2020, respectively, and $3,372 and $3,745 during the six months ended June 30, 2021 and 2020, respectively. Total amortization expense capitalized to inventory was $348 and $4 during three months ended June 30, 2021 and 2020, respectively, and $610 and $21 during the six months ended June 30, 2021 and 2020, respectively. At June 30, 2021 and December 31, 2020, $472 and $564, respectively, of amortization expense remained capitalized as part of inventory.

No impairment indicators were noted during the six months ended June 30, 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
Acquisitions	3,039
Adjustments to purchase price allocation	1,504
Balance, June 30, 2021	$ 27,341

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	June 30, 2021	December 31, 2020
Lease assets			
Operating leases	Operating lease right-of-use assets	$ 101,731	$ 84,642
Lease liabilities			
Current liabilities			
Operating leases	Operating lease liabilities, current	$ 2,206	$ 2,128
Noncurrent liabilities			
Operating leases	Operating lease liabilities, noncurrent	174,489	156,400
Total lease liabilities		$ 176,695	$ 158,528

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2021	2020	2021	2020
Operating lease costs				
Capitalized to inventory	$ 4,620	$ 3,292	$ 9,114	$ 4,553
General and administrative expenses	1,310	1,028	2,590	1,827
Total operating lease costs	$ 5,930	$ 4,320	$ 11,704	$ 6,380

At June 30, 2021 and December 31, 2020, $3,608 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 June 30,		Six Months Ended June 30,	
(in thousands)	2021	2020	2021	2020
Total short-term and variable lease costs	$ 174	$ 578	$ 826	$ 1,184

Sublease income generated during the three and six months ended June 30, 2021 and 2020 was immaterial.

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

(in thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 10,568	$ 5,038
Lease assets obtained in exchange for new operating lease liabilities	$ 17,759	$ 64,757

The weighted average remaining lease term for our operating leases is 16.4 years and 17.3 years at June 30, 2021 and December 31, 2020, respectively, and the weighted average discount rate is 13.2% and 13.1% at June 30, 2021 and December 31, 2020, respectively.

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 June 30, 2021 are as follows:

(in thousands)	Operating Lease Liabilities
Remainder of 2021	$ 11,589
2022	23,923
2023	24,602
2024	25,301
2025	26,032
Thereafter	343,309
Total lease payments	454,756
Less: imputed interest	278,061
Present value of lease liabilities	$ 176,695

As of June 30, 2021, we have entered into operating lease arrangements which are effective for future periods. The total amount of ROU lease assets and lease liabilities related to these arrangements is approximately $1,100.

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	$ 1,020	$ 2,082	$ 2,143	$ 2,206	$ 2,271	$ 9,149	$ 18,871

On June 29, 2021, a wholly owned subsidiary of the Company entered into a definitive agreement for the sale of certain real estate and related assets of a commercial property located in New Bedford, Massachusetts to a third-party for a total purchase price is $350, subject to certain adjustments. The closing is subject to certain

conditions, including entering into an operating lease with the third-party. The Company anticipates this transaction will be accounted for either a sale leaseback transaction or a finance liability, depending on the final lease terms.

11. DEBT

(in thousands)	June 30, 2021	December 31, 2020
Capital Construction Loan	$ 11,624	$ 11,624
AWH Convertible Promissory Notes[1]	—	75,484
July 2019 Notes	10,000	10,000
Ann Arbor Note	4,750	5,250
October 2020 Credit Facility[2]	25,885	25,260
NJ Term Loan[3]	20,000	20,000
NJ Real Estate Loan	4,500	4,500
Sellers' Notes[4]	37,755	45,782
Finance liabilities	17,129	17,129
Total debt	$ 131,643	$ 215,029
Current portion of debt	$ 25,053	$ 60,357
Less: unamortized deferred financing costs	997	1,027
Current portion of debt, net	$ 24,056	$ 59,330
Long-term debt	$ 106,590	$ 154,672
Less: unamortized deferred financing costs	1,860	2,395
Long-term debt, net	$ 104,730	$ 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. Per the terms of the notes, any AWH Convertible Promissory Notes outstanding for less than twelve months received a full twelve months of interest at conversion. $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 of 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 June 30, 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 June 30, 2021.

(4) 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 June 30, 2021 and December 31, 2020 and $8,000 is included in "Long-term debt, net" on the unaudited Condensed Consolidated Balance Sheet at June 30, 2021 and December 31, 2020.

Additionally, at June 30, 2021, $7,843 remains due under the purchase of a non-controlling interest, of which $3,141 and $4,702 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.

As discussed in Note 4, "Acquisitions," the Company issued a $4,712 sellers' note in connection with the Hemma acquisition. The note accrues interest at a rate of 12% per annum. The outstanding principal plus accrued interest is due on December 5, 2021, but may be prepaid without premium or penalty.

In addition to the activity described above, 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 initial public offering. Pursuant to the terms of the notes, upon the occurrence of an initial public offering, each note, including interest thereon less applicable withholding taxes, automatically converts into equity securities issued in connection with such initial public offering, 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 initial public offering occurs on or before 12 months from each note issuance; (ii) a 25% discount to the issue price if an initial public offering 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. Per the terms of the notes, the 2021 AWH Convertible Promissory Notes received a full twelve months of interest at conversion.

Debt Maturities

During the three months ended June 30, 2021, we repaid $786 of sellers' notes related to the former owners of HealthCentral, LLC ("HCI"). During the six months ended June 30, 2021, we repaid: $500 of principal under our term notes; $11,174 of sellers' notes related to the MOCA acquisition; and $1,571 of sellers' notes related to the former owners of HCI.

At June 30, 2021, the following cash payments are required under our debt arrangements:

(in thousands)	Remainder of 2021	2022	2023	2024	2025	Total
Term note maturities	$ —	$ 4,750	$ 33,250	$ 21,624	$ 20,000	$ 79,624
Sellers' notes[1]	23,484	11,143	3,143	—	—	37,770

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

Interest Expense

Interest expense during 2021 and 2020 consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2021	2020	2021	2020
Cash interest on notes	$ 3,742	$ 1,705	$ 7,325	$ 3,068
Accretion	5,283	804	8,538	1,663
Non-cash interest related to beneficial conversion feature[1]	27,361	—	27,361	—
Interest on financing liability[2]	502	364	1,001	672
Total	$ 36,888	$ 2,873	$ 44,225	$ 5,403

(1) See Note 12, “Equity,” for additional details.

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

12. EQUITY

Following the Conversion on April 22, 2021, the Company has authorized 750,000 shares of Class A common stock with a par value of $0.001 per share, 100 shares of Class B common stock with a par value of $0.001 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 of directors (the “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 in respect of the Company, 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 total shares of Class A common stock and Class B common stock outstanding as of June 30, 2021:

(in thousands)	**June 30, 2021**
Shares of Class A common stock	168,764
Shares of Class B common stock	65
Total	168,829

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 included Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units, unless otherwise specified. These share classes are included within "Additional Paid-In Capital" in the unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity on an as-converted to historical common units basis. The following table summarizes the historical units outstanding at our prior quarter end and as of December 31, 2020:

(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

In conjunction with the Company's Conversion, each historical common unit then-outstanding converted into one share of Class A common stock, except 65 units that were allocated to shares of Class B common stock. In conjunction with the IPO, 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 stock. 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 non-cash interest charge of $27,361. Each Series Seed Preferred Unit and Series Seed+ Preferred Unit converted into shares of Class A common stock on a one-for-one basis. As discussed in Note 11, "Debt," the AWH Promissory Notes, plus accrued interest, converted into 28,478 shares of Class A common stock and the 2021 AWH Convertible Promissory Notes, plus accrued interest, converted into 8,910 shares of Class A common stock.

Warrants

In conjunction with the Conversion, 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 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 was paid in May 2021 and is reflected within "Additional paid-in capital" on the unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity.

As of June 30, 2021, warrants to acquire a total of 3,531 shares of Class A common stock at an exercise price of $4.00 per share 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. The weighted-average remaining contractual life of the warrants outstanding as of June 30, 2021 is 2.5 years and the outstanding warrants had an intrinsic value of $23,835 at that date.

13. EQUITY-BASED COMPENSATION EXPENSE

The Company adopted an 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 9,994 Awards were issued under the plan as of June 30, 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 restricted share of Class A common stock (a "restricted common share") 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 shares activity during the six months ended June 30, 2021:

	Restricted Common Shares
Unvested, December 31, 2020	7,280
Granted	50
Vested	(5,364)
Forfeited	(96)
Unvested, June 30, 2021	1,870

The Company recognized $1,711 and $4,198 as compensation expense in connection with the restricted common shares during the three and six months ended June 30, 2021, respectively. This expense is included in "General and administrative expenses" on the unaudited Condensed Consolidated Statements of Operations and includes additional compensation charges of approximately $733 recognized with the closing of the IPO related to restricted common shares that became fully vested at that time due to acceleration clauses. During the three and six months ended June 30, 2020, the Company recognized $85 and $270, respectively, as compensation expense in connection with the Company's previous incentive units that were outstanding at that time. As of June 30, 2021, total unrecognized compensation cost related to restricted common shares was $432, which is expected to be recognized over the weighted-average remaining vesting period of 0.6 years.

In July 2021, the Company adopted a new stock incentive plan (the "2021 Plan"), pursuant to which 17,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. Following the adoption of the 2021 Plan, no additional awards are expected to be issued under the 2020 Plan.

In July 2021, the Company also adopted an employee stock purchase plan (the "2021 ESPP"), pursuant to which 4,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. As of the date of this filing, no shares have been issued under the 2021 ESPP.

14. INCOME TAXES

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2021	2020	2021	2020
Gross profit	$ 34,516	$ 12,178	$ 64,183	$ 19,670
Income tax expense	11,995	3,632	20,971	6,069
Effective tax rate on gross profit	34.8 %	29.8 %	32.7 %	30.9 %

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 and six months ended June 30, 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 June 30, 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 June 30, 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 as disclosed below.

Legal Settlement

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, $5,480 is included within "Accounts payable and accrued expenses" on the accompanying unaudited Condensed Consolidated Balance Sheet as of June 30, 2021 and the fair value of the share issuance of $27,431 is reflected within "Reserve for equity issued in litigation settlement" and "Equity issued in litigation settlement" on the unaudited Condensed Consolidated Statement of Changes in Stockholders' 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 June 30, 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.

Shareholder Dispute

On May 28, 2021, Senvest Management, LLC, Hadron Capital (Cayman) LTD., and Measure8 Venture Partners, LLC (collectively, the "Claimants"), as former holders of convertible notes issued and sold by the Company (the "Convertible Notes") pursuant to the Company's Convertible Note Purchase Agreement, dated as of June 12, 2019 (the "2019 Convertible Note Purchase Agreement"), filed an arbitration demand, which was subsequently amended on July 28, 2021 (the "Arbitration Demand"), against the Company and its Chief Executive Officer, Abner Kurtin, before the American Arbitration Association. In their Arbitration Demand, the Claimants take issue with the April 22, 2021 amendment of the terms of the Convertible Note Purchase Agreement (the "Amended Notes Consent"), which was approved by holders of approximately 66% of the principal amount of the Convertible Notes, in excess of the simple majority required to amend the Convertible Notes. The Amended Notes Consent set the conversion price of the Convertible Notes at $2.96 per share. The Claimants allege that the Amended Notes Consent was obtained improperly and is void, and seek damages in excess of $20,000. The Company disputes the Claimants' allegations and believes the Amended Notes Consent was properly obtained in accordance with the terms of the Convertible Notes and 2019 Convertible Note Purchase Agreement and the Amended Notes are binding on all holders of the Convertible Notes. The Company intends to vigorously defend against what it views as meritless claims.

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 $3,460 as of June 30, 2021, as part of the purchase price at closing. The Company expects the transaction to close in August 2021.

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 paid AGP a quarterly fee of $100. Pursuant to the terms of the agreement, the MSA was terminated following the Company's IPO in May 2021. Upon termination, AGP was 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 may waive, in whole or in part, such extended lock-up thereto if AWH's Board 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.

We recognized expenses related to the MSA of $2,024 and $2,124 during the three and six months ended June 30, 2021, respectively, and $100 and $200 during the three and six months ended June 30, 2020, respectively, that are included in "General and administrative expenses" on the unaudited Condensed Consolidated Statements of Operations. A total of $2,024 and $100 of these fees are included in "Accounts payable and other accrued expenses" on the unaudited Condensed Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020, respectively.

As discussed in Note 11, "Debt," certain of the AWH Convertible Promissory Notes were 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)	June 30, 2021	December 31, 2020
Tenant improvement allowance	$ 14,292	$ 24,349
Deposits and other receivables	4,666	4,021
Prepaid expenses	4,247	2,311
Construction deposits	1,582	712
Other	1,688	1,205
Total	$ 26,475	$ 32,598

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

(in thousands)	June 30, 2021	December 31, 2020
Accounts payable	$ 15,894	$ 7,363
Fixed asset purchases	13,734	11,572
Litigation settlement	5,480	—
Accrued interest	3,544	7,723
Accrued payroll and related expenses	2,462	2,762
Other	6,098	1,804
Total	$ 47,212	$ 31,224

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2021	2020	2021	2020
Compensation	$ 13,654	$ 2,809	$ 23,706	$ 5,274
Professional services	5,870	1,450	9,787	2,907
Rent and utilities	4,213	2,665	9,646	5,433
Depreciation and amortization	2,470	1,969	4,889	3,920
Insurance	1,176	358	2,038	568
Marketing	871	224	1,405	625
Loss on sale of assets	—	286	—	286
Other	2,358	214	4,287	611
Total	$ 30,612	$ 9,975	$ 55,758	$ 19,624

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 condensed consolidated financial statements. There were no events that require adjustment to or disclosure in the condensed consolidated financial statements, except as disclosed.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following management discussion and analysis, which we refer to as the "MD&A", of the financial condition and results of operations of Ascend Wellness Holdings, Inc. (the "Company," "AWH," or "Ascend") is for the three and six months ended June 30, 2021 and 2020. It is supplemental to, and should be read in conjunction with, the unaudited condensed consolidated financial statements, and the accompanying notes thereto, (the "Financial Statements") appearing elsewhere in this Quarterly Report on Form 10-Q (the "Quarterly Report" or "Form 10-Q") and our annual financial statements for the years ended December 31, 2020 and 2019, and the accompanying notes thereto (the "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 and Annual Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America, which we refer to as "GAAP."

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"), which is retrospectively presented for all periods in this filing. 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.

In May 2021, the Company completed an Initial Public Offering ("IPO") of its Class A common stock, in which it issued and sold a total of 11,500 shares of Class A common stock, including the underwriters' over-allotment option, at a price of $8.00 per share with net proceeds of approximately $86,065, after deducting underwriting discounts and commissions and certain expenses paid by us. In connection with the IPO, the historical common units, Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units then-outstanding automatically converted into a total of 113,301 shares of Class A common stock and 65 historical common units were allocated as shares of Class B common stock. Additionally, 3,420 shares of Class A common stock were issued for a beneficial conversion feature associated with the conversion of certain historical preferred units and the Company's convertible notes, plus accrued interest, converted into 37,388 shares of Class A Common Stock. See Note 12, "Equity," in the Financial Statements 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" and are quoted on the OTCQX under the symbol "AAWH." 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.

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Financial Statements. In addition to historical information, the discussion in this section contains forward-looking statements and forward-looking information (collectively, "forward-looking information") that involve risks and uncertainties. Generally, forward-looking information may be identified by the use of forward-looking terminology such as "plans," "expects," "does not expect," "proposed," "is expected," "budgets," "scheduled," "estimates," "forecasts," "intends," "anticipates," "does not anticipate," "believes," or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events, or results may, could, would, or might occur or be achieved. There can be no assurance that such forward-looking information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such forward-looking information. Forward-looking information is subject to known and unknown risks, uncertainties, and other factors that may cause the actual results, level of activity, performance, or achievements of the Company to be materially different from those or implied by such forward-looking information.

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 U.S. Food and Drug Administration (the "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. See "Forward-Looking Statements" for more information. Readers are cautioned that the foregoing list of factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking information as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

Financial information and unit or share figures, except per-unit or per-share amounts, presented in this MD&A are presented in thousands of United States dollars ("$"), unless otherwise indicated. We round amounts in this MD&A to the thousands and calculate all percentages, per-unit, and per-share 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.

BUSINESS OVERVIEW

Established in 2018 and headquartered in New York, New York, AWH is a vertically integrated multi-state operator focused on adult-use or near-term adult-use cannabis states in limited license markets. Our core business is the cultivation, manufacturing, and distribution of cannabis consumer packaged goods, which we sell through our company-owned retail stores and to third-party licensed retail cannabis stores. We believe in bettering lives through cannabis. Our mission is to improve the lives of our employees, patients, customers, and the communities we serve through the use of the cannabis plant. We are committed to providing safe, reliable, and high-quality products and providing consumers options and education to ensure they are able to identify and obtain the products that fit their personal needs.

Since our formation, we have expanded our operational footprint, primarily through acquisitions, and currently have direct or indirect operations or financial interests in five U.S. geographic markets: Illinois, Massachusetts, Michigan, New Jersey, and Ohio, and employ approximately 1,200 people.

We are committed to being vertically integrated in every state we operate in, which entails controlling the entire supply chain from seed to sale. We are currently vertically integrated in four out of the five states in which we operate with expansion plans underway to achieve vertical integration in all five states. While we have been successful in opening facilities and dispensaries, we expect continued growth to be driven by opening new operational facilities and dispensaries under our current licenses, expansion of our current facilities, and increased consumer demand.

Our consumer products portfolio is generated primarily from plant material that we grow and process ourselves. We produce our consumer packaged goods in five manufacturing facilities with 90,000 square feet of current operational canopy and total current capacity of 47,000 pounds annually. We are undergoing expansions to 285,000 square feet of cumulative canopy, which is estimated to have a total production capacity of 146,000 pounds annually post build-out. As of August 13, 2021, our product portfolio consists of 121 stock keeping units (“SKUs”), across a range of cannabis product categories, including flower, pre-rolls, concentrates, vapes, edibles, and other cannabis-related products. As of August 13, 2021, we have 17 open and operating retail locations with expectations to have 21 retail locations by the end of 2021. Our new store opening plans are flexible and will ultimately depend on market conditions, local licensing, construction, and other regulatory permissions. All of our expansion plans are subject to capital allocations decisions, the evolving regulatory environment, and the COVID-19 pandemic.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2021 Compared with the Three Months Ended June 30, 2020

	Three Months Ended June 30,			
($ in thousands)	2021	2020	Increase / (Decrease)	
Revenue, net	$ 83,367	$ 25,384	$ 57,983	228%
Cost of goods sold	(48,851)	(13,206)	35,645	270%
Gross profit	34,516	12,178	22,338	183%
Gross profit %	*41.4 %*	*48.0 %*		
Operating expenses				
General and administrative expenses	30,612	9,975	20,637	207%
Operating profit	3,904	2,203	1,701	77%
Other (expense) income				
Interest expense	(36,888)	(2,873)	34,015	NM*
Other, net	82	(3)	85	NM*
Total other expense	(36,806)	(2,876)	33,930	NM*
Loss before income taxes	(32,902)	(673)	32,229	NM*
Income tax expense	(11,995)	(3,632)	8,363	230%
Net loss	(44,897)	(4,305)	40,592	943%
Less: net income attributable to non-controlling interests	—	737	(737)	NM*
Net loss attributable to AWH	$ (44,897)	$ (5,042)	$ 39,855	790%

*Not meaningful

Revenue

Revenue increased by $57,983, or 228%, during the three months ended June 30, 2021, as compared to the three months ended June 30, 2020, primarily driven by growth from our existing businesses as well as new site openings and acquisitions. During the three months ended June 30, 2021, we recognized incremental revenue from acquisitions of $19,055. Five new dispensaries that were opened between the second half of 2020 and first quarter of 2021 and two new dispensaries that were opened during the three months ended June 30, 2021 contributed $18,507 of the revenue growth. Revenue from existing dispensaries increased by $1,345. Additionally, increased production and sales from our cultivation and manufacturing sites contributed $19,076. As of June 30, 2021, we had 121 SKUs for our cultivation products, compared to 35 SKUs as of June 30, 2020.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by $35,645, or 270%, during the three months ended June 30, 2021, as compared to the three months ended June 30, 2020. Cost of goods sold represent direct and indirect expenses attributable to the production of wholesale products as well as direct expenses incurred in purchasing products from other wholesalers. The increase in cost of goods sold in the three months ended June 30, 2021 was driven by expansion of our operations, including $11,483 of incremental costs from acquisitions. Gross profit for the three months ended June 30, 2021 was $34,516, representing a gross margin of 41.4%, compared to gross profit of $12,178 and gross margin of 48.0% for the three months ended June 30, 2020. The decrease in gross margin was primarily driven by operational issues at our Massachusetts cultivation facility that resulted in pricing pressure due to lower quality production, partially offset by efficiency improvements at our Illinois cultivation facility.

General and Administrative Expenses

General and administrative expenses increased by $20,637, or 207%, during the three months ended June 30, 2021, as compared to the three months ended June 30, 2020. The increase was primarily related to:

- a $10,845 increase in compensation expense resulting from an increase in headcount from approximately 450 as of June 30, 2020 to approximately 1,200 by June 30, 2021 to support our expanded operations, including $1,626 of higher equity based compensation expense from the vesting of restricted common shares that were granted in 2020;
- a $4,420 increase in professional services, including a $2,000 termination fee associated with a master services agreement ("MSA") following our IPO, as well as an increase in legal, consulting, accounting, and tax services;
- a $1,548 increase in rent and utilities, resulting from eighteen operating leases during the 2021 period, compared to eight during the 2020 period, and an increase in related utilities expenses to support the expansion of our operations;
- an increase of $818 related to insurance expenses;
- a $647 increase in marketing expenses associated with new dispensary openings;
- a $501 increase in depreciation and amortization expense due to $1,024 of incremental depreciation expense due to a larger average balance of fixed assets in service and $862 of incremental amortization of licenses that were acquired primarily in late 2020, partially offset by $1,385 of lower amortization from in-place leases that became fully amortized in late 2020; and
- a $155 increase in charitable donations, including our corporate match of donations to the Last Prisoner Project, a cannabis criminal justice-focused nonprofit organization.

Interest Expense

Interest expense increased by $34,015 during the three months ended June 30, 2021, as compared to the three months ended June 30, 2020. The increase was primarily driven by a $27,361 non-cash interest expense charge related to the beneficial conversion feature of the historical Real Estate Preferred Units recognized in conjunction with the IPO, as well as $3,606 of incremental non-cash interest recognized upon conversion of the Company's convertible notes in conjunction with the IPO. During the three months ended June 30, 2021, the Company had a weighted-average outstanding debt balance of $176,317 with a weighted-average interest rate of 11.0%, compared to an average debt balance of $75,187 during three months ended June 30, 2020 with a weighted-average interest rate of 10.2%.

Income Tax Expense

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 Internal Revenue Code ("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.

The statutory federal tax rate was 21% during both periods. The Company has operations in five U.S. geographic markets: Illinois, Massachusetts, Michigan, New Jersey, and Ohio, which have state tax rates ranging from 4% to 9.5%. Certain states, including Michigan, do not align with IRC Section 280E for state tax purposes and permit the deduction of ordinary and necessary business expenses from gross profit in the calculation of state taxable income.

Income tax expense was $11,995, or 34.8% of gross profit, during the three months ended June 30, 2021, as compared to $3,632, or 29.8% of gross profit, during the three months ended June 30, 2020. There have been no material changes to income tax matters in connection with the normal course of operations during the three months ended June 30, 2021. The effective tax rate on gross profit for the three months ended June 30, 2021 was impacted by higher accrued penalties and interest due on tax payments in the current year, an increase in state taxes related to states where we had losses in the prior year, and a change in the allocation of taxable income for certain state and local jurisdictions.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2021 Compared with the Six Months Ended June 30, 2020

	Six Months Ended June 30,			
($ in thousands)	2021	2020	Increase / (Decrease)	
Revenue, net	$ 149,504	$ 47,976	$ 101,528	212%
Cost of goods sold	(85,321)	(28,306)	57,015	201%
Gross profit	64,183	19,670	44,513	226%
Gross profit %	*42.9 %*	*41.0 %*		
Operating expenses				
General and administrative expenses	55,758	19,624	36,134	184%
Settlement expense	36,511	—	36,511	NM*
Total operating expenses	92,269	19,624	72,645	370%
Operating (loss) profit	(28,086)	46	(28,132)	NM*
Other (expense) income				
Interest expense	(44,225)	(5,403)	38,822	719%
Other, net	162	3	159	NM*
Total other expense	(44,063)	(5,400)	38,663	716%
Loss before income taxes	(72,149)	(5,354)	66,795	NM*
Income tax expense	(20,971)	(6,069)	14,902	246%
Net loss	(93,120)	(11,423)	81,697	715%
Less: net income attributable to non-controlling interests	—	1,097	(1,097)	NM*
Net loss attributable to AWH	$ (93,120)	$ (12,520)	$ 80,600	644%

*Not meaningful

Revenue

Revenue increased by $101,528, or 212%, during the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily driven by growth from our existing businesses as well as new site openings and acquisitions. During the six months ended June 30, 2021, we recognized incremental revenue from acquisitions of $34,630. Three new dispensaries that were opened during the second half of 2020 and four new dispensaries that were opened during the six months ended June 30, 2021 contributed $26,119 of the revenue growth. Revenue from existing dispensaries increased by $4,825. Additionally, increased production and sales from our cultivation and manufacturing sites contributed $35,954. As of June 30, 2021, we had 121 SKUs for our cultivation products, compared to 35 SKUs as of June 30, 2020.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by $57,015, or 201%, during the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. Cost of goods sold represent direct and indirect expenses attributable to the production of wholesale products as well as direct expenses incurred in purchasing products from other wholesalers. The increase in cost of goods sold in the six months ended June 30, 2021 was driven by expansion of our operations, including $20,432 of incremental costs from acquisitions. Gross profit for the six months ended June 30, 2021 was $64,183, representing a gross margin of 42.9%, compared to gross profit of $19,670 and gross margin of 41.0% for the six months ended June 30, 2020. The increase in gross margin was primarily driven by efficiency improvements at our Illinois cultivation facility, partially offset by operational issues at our Massachusetts cultivation facility that resulted in pricing pressure due to lower quality production.

General and Administrative Expenses

General and administrative expenses increased by $36,134, or 184%, during the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The increase was primarily related to:

- a $18,432 increase in compensation expense resulting from an increase in headcount from approximately 450 as of June 30, 2020 to approximately 1,200 by June 30, 2021 to support our expanded operations, including $3,928 of higher equity based compensation expense from the vesting of restricted stock units that were granted in 2020;
- a $6,880 increase in professional services, including a $2,000 termination fee associated with an MSA following our IPO, as well as an increase in legal, consulting, accounting, and tax services;
- a $4,213 increase in rent and utilities, resulting from eighteen operating leases during the 2021 period, compared to eight during the 2020 period, and an increase in related utilities expenses to support the expansion of our operations;
- an increase of $1,470 related to insurance expenses;
- a $969 increase in depreciation and amortization expense due to $1,931 of incremental depreciation expense due to a larger average balance of fixed assets in service and $1,766 of incremental amortization of licenses that were acquired primarily in late 2020, partially offset by $2,728 of lower amortization from in-place leases that became fully amortized in late 2020;
- a $780 increase in marketing expenses associated with new dispensary openings; and
- a $276 increase in charitable donations, including our corporate match of donations to the Last Prisoner Project, a cannabis criminal justice-focused nonprofit organization.

Settlement Expense

During the six months ended June 30, 2021, we recognized a charge of $36,511 related to the settlement of a litigation matter. Refer to "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Legal Matters*" for additional details.

Interest Expense

Interest expense increased by $38,822, or 719%, during the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The increase was primarily driven by a $27,361 non-cash interest expense charge related to the beneficial conversion feature of the historical Real Estate Preferred Units recognized in conjunction with the Company's IPO, as well as $3,606 incremental non-cash interest recognized upon conversion of the Company's convertible notes in conjunction with the IPO. During the six months ended June 30, 2021, the Company had an average outstanding debt balance of $214,561 with a weighted-average interest rate of 11.0%, compared to an average debt balance of $78,493 during six months ended June 30, 2020 with a weighted-average interest rate of 13.7%.

Income Tax Expense

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.

The statutory federal tax rate was 21% during both periods. The Company has operations in five U.S. geographic markets: Illinois, Massachusetts, Michigan, New Jersey, and Ohio, which have state tax rates ranging from 4% to 9.5%. Certain states, including Michigan, do not align with IRC Section 280E for state tax purposes and permit the deduction of ordinary and necessary business expenses from gross profit in the calculation of state taxable income.

Income tax expense was $20,971, or 32.7% of gross profit, during the six months ended June 30, 2021, as compared to $6,069, or 30.9% of gross profit, during the six months ended June 30, 2020. There have been no material changes to income tax matters in connection with the normal course of operations during the six months ended June 30, 2021. The effective tax rate on gross profit for the six months ended June 30, 2021 was impacted by higher accrued penalties and interest due on tax payments in the current year, an increase in state taxes related to states where we had losses in the prior year, and a change in the allocation of taxable income for certain state and local jurisdictions.

NON-GAAP FINANCIAL MEASURES

We define "Adjusted Gross Profit" as gross profit excluding non-cash inventory costs. We define "Adjusted Gross Margin" as Adjusted Gross Profit as a percentage of net revenue. Our "Adjusted EBITDA" is a non-GAAP measure used by management that is not defined by U.S. GAAP and may not be comparable to similar measures presented by other companies. We define "Adjusted EBITDA Margin" as Adjusted EBITDA as a percentage of net revenue. Management calculates Adjusted EBITDA as the reported net loss, adjusted to exclude: income tax expense; other (income) expense; interest expense; depreciation and amortization; depreciation and amortization included in cost of goods sold; non-cash inventory adjustments; equity based compensation; start-up costs; transaction-related and other non-recurring expenses; litigation settlement; and loss on sale of assets. Accordingly, management believes that Adjusted EBITDA provides meaningful and useful financial information, as this measure demonstrates the operating performance of the business. Non-GAAP financial measures may be considered in addition to the results prepared in accordance with U.S. GAAP, but they should not be considered a substitute for, or superior to, U.S. GAAP results.

The following table presents Adjusted Gross Profit for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	**2021**	**2020**	**2021**	**2020**
Gross Profit	$ 34,516	$ 12,178	$ 64,183	$ 19,670
Depreciation and amortization included in cost of goods sold	2,387	627	4,549	1,696
Non-cash inventory adjustments	2,714	—	3,464	—
Adjusted Gross Profit	$ 39,617	$ 12,805	$ 72,196	$ 21,366
Adjusted Gross Margin	*47.5 %*	*50.4 %*	*48.3 %*	*44.5 %*

The following table presents Adjusted EBITDA for the three and six months ended June 30, 2021 and 2020:

(in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income (loss)	$ (44,897)	$ (4,305)	$ (93,120)	$ (11,423)
Income tax expense	11,995	3,632	20,971	6,069
Other (income) expense	(82)	3	(162)	(3)
Interest expense	36,888	2,873	44,225	5,403
Depreciation and amortization	2,470	1,969	4,889	3,920
Depreciation and amortization included in cost of goods sold	2,387	627	4,549	1,696
Non-cash inventory adjustments	2,714	—	3,464	—
Equity based compensation	1,711	85	4,198	270
Start-up costs[1]	1,716	1,845	3,027	3,264
Transaction-related and other non-recurring expenses[2]	5,406	164	7,584	267
Litigation settlement	—	—	36,511	—
Loss on sale of assets	—	286	—	286
Adjusted EBITDA	$ 20,308	$ 7,179	$ 36,136	$ 9,749
Adjusted EBITDA Margin	*24.4 %*	*28.3 %*	*24.2 %*	*20.3 %*

(1) One-time costs associated with acquiring real estate, obtaining licenses and permits, and other costs incurred before commencement of operations at certain locations.

(2) Legal and professional fees associated with the Company’s IPO and other non-recurring expenses.

LIQUIDITY AND CAPITAL RESOURCES

We are an emerging growth company and our primary sources of liquidity are operating cash flows, borrowings through the issuance of debt, and funds raised through the issuance of equity securities. We are generating cash from sales and deploying our capital reserves to acquire and develop assets capable of producing additional revenue and earnings over both the immediate and long term. Capital reserves are being utilized for acquisitions in the medical and adult use cannabis markets, for capital expenditures and improvements in existing facilities, product development and marketing, as well as customer, supplier, and investor and industry relations.

Financing History and Future Capital Requirements

Historically, we have used private financing as a source of liquidity for short-term working capital needs and general corporate purposes. During the first quarter of 2021 we raised $49,500 through the issuance of convertible notes to further finance our expanded operations and acquisitions. In May 2021, we completed the IPO of our Class A common stock, in which we issued and sold a total of 11,500 shares of Class A common stock, including the underwriters' over-allotment, at a price of $8.00 per share for net proceeds of approximately $86,065 after deducting underwriting discounts and commissions and certain direct offering expenses paid by us.

Our future ability to fund operations, to make planned capital expenditures, to acquire other entities or investments, to make scheduled debt payments, and to repay or refinance indebtedness depends on our future operating performance, cash flows, and ability to obtain equity or debt financing, which are subject to prevailing economic conditions, as well as financial, business, and other factors, some of which are beyond our control.

As reflected in the Financial Statements, the Company had an accumulated deficit as of June 30, 2021 and December 31, 2020, as well as a net loss for the three and six months ended June 30, 2021 and 2020, and negative cash flows from operating activities during the six months ended June 30, 2021 and 2020, 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 our Financial Statements has been alleviated due to: (i) cash on hand, including capital raised from the Company's IPO in May 2021, 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 we are unable to raise additional capital on favorable terms, if at all, whenever necessary, we may be forced to decelerate or curtail certain of our operations until such time as additional capital becomes available.

As of June 30, 2021 and December 31, 2020, the Company had total current liabilities of $110,224 and $115,285, respectively, and total current assets of $189,398 and $134,178, respectively, which includes cash and cash equivalents of $104,212 and $56,547, respectively, to meet its current obligations. As of June 30, 2021, the Company had working capital of $79,174, compared to $18,893 as of December 31, 2020.

Approximately 97% and 95% of the Company's cash and cash equivalents balance as of June 30, 2021 and December 31, 2020, respectively, is on deposit with banks, credit unions, or other financial institutions. We have not experienced any material impacts related to banking restrictions applicable to cannabis businesses. Our cash and cash equivalents balance is not restricted for use by variable interest entities.

Cash Flows

	Six Months Ended June 30,	
(in thousands)	**2021**	**2020**
Net cash used in operating activities	$ (12,055)	$ (438)
Net cash (used in) provided by investing activities	(71,168)	12,469
Net cash provided by financing activities	129,338	1,060

Operating Activities

Net cash used in operating activities increased by $11,617 during the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The change was primarily driven by: a year-over-year increase in our net loss; increases in non-cash expense items impacting net loss; and increases in net investments in working capital, including inventory, as well as the timing of accounts payable and accrued liabilities, income taxes payable, and accounts receivable.

Investing Activities

Net cash used in investing activities was $71,168 during the six months ended June 30, 2021, as compared to net cash provided by investing activities of $12,469 during the six months ended June 30, 2020. The change was primarily driven: by an increase in cash investments in capital assets and cash paid for acquisitions, including the final cash payment to the former owners of an entity acquired in the prior year and the initial cash payments for a current year acquisition; all partially offset by the absence of proceeds from the sale of assets that occurred in the prior year.

Financing Activities

Net cash provided by financing activities increased by $128,278 during the six months ended June 30, 2021, as compared to the six months ended June 30, 2020. The increase was primarily driven by net proceeds from our IPO and higher proceeds from the issuances of debt, partially offset by the repurchase of warrants in the current year and the absence of proceeds from a financing sale-leaseback transaction that occurred in the prior year.

Contractual Obligations and Other Commitments and Contingencies

The following table summarizes the Company's future contractual obligations as of June 30, 2021:

(in thousands)	Commitments Due by Period				
Contractual Obligations	**Total**	**Remainder of 2021**	**2022 - 2023**	**2024 - 2025**	**Thereafter**
Term notes[1]	$ 79,624	$ —	$ 38,000	$ 41,624	$ —
Sellers' Notes[2]	37,770	23,484	14,286	—	—
Finance arrangements[3]	18,871	1,020	4,225	4,477	9,149
Operating leases[4]	454,756	11,589	48,525	51,333	343,309
Total	$ 591,021	$ 36,093	$ 105,036	$ 97,434	$ 352,458

(1) Principal payments due under term notes payable.

(2) Consists of amounts owed for acquisitions or other purchases. Certain cash payments include an interest accretion component.

(3) Reflects our contractual obligations to make future payments under non-cancelable operating leases that did not meet the criteria to qualify for sale-leaseback treatment.

(4) Reflects our contractual obligations to make future payments under non-cancelable operating leases.

Other Commitments

In December 2020, the Company submitted an amended state application to acquire BCCO, LLC, a medical dispensary license holder in Ohio for 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 as part of the purchase price at closing. The Company expects the transaction to close in August 2021 and has adequate cash on hand to consummate the proposed transaction.

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.

Capital Expenditures

We anticipate capital expenditures, net of tenant improvement allowances, of approximately $50,000 during the remainder of 2021. This includes new projects we expect to initiate, as well as payments related to projects that began in 2020. We anticipate completing the build-outs of the greenhouse at our Barry, Illinois cultivation facility, the cultivation and processing facility in Lansing, Michigan, the phase 2 expansion at our Athol, Massachusetts cultivation facility, and the initial phase of the expansion of our Franklin, New Jersey cultivation and processing facility. Spending at our cultivation and processing facilities includes both construction and the purchase of capital equipment such as extraction equipment, heating, ventilation, and air conditioning (HVAC) equipment, manufacturing equipment and general maintenance capital expenditures. We expect to complete the build-outs of three total additional dispensaries across Massachusetts, New Jersey, and Michigan that are expected to open in late 2021 or early 2022. Dispensary-related capital expenditures include anticipated costs to rebrand all dispensaries to the Ascend retail brand and general maintenance of the locations.

As of June 30, 2021, our construction in progress ("CIP") balance was $32,983 and relates to capital spending on projects that were not yet complete. This balance includes $16,489 related to the construction of a greenhouse at our Barry, Illinois cultivation facility, the first phase of which is expected to be completed in late 2021. Additionally, $4,811 relates to the expansion of our New Jersey cultivation facility and $4,601 relates to the phase 2 build out at our Athol, Massachusetts cultivation facility. The remaining balance of approximately $7,082 relates to the six licensed dispensaries that were not yet open as of June 30, 2021.

Off-Balance Sheet Arrangements

As of the date of this filing, we do not have any off-balance-sheet arrangements, as defined by applicable regulations of the Securities and Exchange Commission, that have, or are reasonably likely to have, a current or future effect on the results of our operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

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 paid AGP a quarterly fee of $100. Pursuant to the terms of the agreement, the MSA was terminated following the Company's IPO in May 2021. Upon termination, AGP was 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 may waive, in whole or in part, such extended lock-up thereto if AWH's Board 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.

We recognized expenses related to the MSA of $2,024 and $2,124 during the three and six months ended June 30, 2021, respectively, and $100 and $200 during the three and six months ended June 30, 2020, respectively, that are included in "General and administrative expenses" on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements. A total of $2,024 and $100 of these fees are included in "Accounts payable and other accrued expenses" on the unaudited Condensed Consolidated Balance Sheets in the Financial Statements as of June 30, 2021 and December 31, 2020, respectively.

Additionally, $1,000 of the Company's convertible notes were with related party entities that are managed by one of the founders of the Company.

Other Matters

Corporate Conversion and Initial Public Offering

Following the Conversion on April 22, 2021, the Company has authorized 750,000 shares of Class A common stock with a par value of $0.001 per share, 100 shares of Class B common stock with a par value of $0.001 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, "Equity," in the Financial Statements for additional details.

Immediately prior to the completion of the Conversion, the Company was authorized to issue Common Units, Preferred Units, and Restricted Common Units, all with no par value. Preferred Units collectively included Series Seed Preferred Units, Series Seed+ Preferred Units, and Real Estate Preferred Units, unless otherwise specified. These share classes are included within "Additional Paid-In Capital" in the unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity in the Financial Statements on an as-converted to historical common units basis.

On May 4, 2021, the Company completed the IPO of its Class A common stock, in which it issued and sold 10,000 shares of Class A common stock at a price of $8.00 per share. On May 7, 2021, the underwriters exercised their over-allotment option in full and the Company sold 1,500 additional shares of Class A common stock at a price of $8.00 per share. The Company received total net proceeds of $86,065 after deducting underwriting discounts and commissions and certain direct offering expenses paid by us.

In conjunction with the Company's IPO, 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. 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 non-cash interest charge of $27,361. Each Series Seed Preferred Unit and Series Seed+ Preferred Unit converted into shares of Class A common stock on a one-for-one basis. As discussed in Note 11, "Debt," in the Financial Statements the AWH Promissory Notes, plus accrued interest, converted into 28,478 shares of Class A common stock and the 2021 AWH Convertible Promissory Notes, plus accrued interest, converted into 8,910 shares of Class A common stock.

As of June 30, 2021, a total of 9,994 restricted common shares had been issued under an equity incentive plan, of which 7,990 were vested. The Company recognized $1,711 and $4,198 as compensation expense in connection with the restricted common shares during the three and six months ended June 30, 2021, respectively.

This expense is included in “General and administrative expenses” on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements and includes additional compensation charges of approximately $733 recognized with the closing of the IPO related to restricted common shares that became fully vested at that time due to acceleration clauses. During the three and six months ended June 30, 2020, the Company recognized $85 and $270, respectively, as compensation expense in connection with the Company’s previous incentive units that were outstanding at that time. As of June 30, 2021, total unrecognized compensation cost related to incentive units was $432, which is expected to be recognized over the weighted-average remaining vesting period of 0.6 years.

In July 2021, the Company adopted a new stock incentive plan (the “2021 Plan”), pursuant to which 17,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. Following the adoption of the 2021 Plan, no additional awards are expected to be issued under the 2020 Plan.

In July 2021, the Company also adopted an employee stock purchase plan (the “2021 ESPP”), pursuant to which 4,000 shares of Class A common stock are reserved for issuance thereunder, subject to certain adjustments and other terms. As of the date of this filing, no shares have been issued under the 2021 ESPP.

Warrant Cancellation Agreement

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 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 was paid in May 2021.

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 $10,381 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. Refer to Note 4, “Acquisitions,” in the Financial Statements for additional information. 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.

Sale Leaseback Transaction

On June 29, 2021, a wholly owned subsidiary of the Company entered into a definitive agreement for the sale of certain real estate and related assets of a commercial property located in New Bedford, Massachusetts to a third-party for a total purchase price is $350, subject to certain adjustments. The closing is subject to certain conditions, including entering into an operating lease with the third-party. The Company anticipates this transaction will be accounted for either a sale leaseback transaction or a finance liability, depending on the final lease terms.

Legal Matters

Legal Settlement

In September 2019, FPAW Michigan, LLC (“FPAW”), a VIE of the Company at the time then nominally owned by Frank Perullo, co-founder of the Company, through FPAW Michigan 2, Inc. and the Company entered into two agreements to purchase real estate holding companies owning six properties in Michigan that were zoned or to be zoned for the sale of medical or adult use cannabis. As indicated above, the Company accounted for FPAW Michigan 2, Inc. as a VIE, as the Company had the obligation to absorb losses and the right to receive the benefits from the VIE. The acquisition of these properties would allow AWH to expand its operations in Michigan as part of its initial growth strategy. At the time the agreements were signed, the Michigan cannabis market remained in the early stages of development, with adult use sales in the state not commencing until December 2019. While the contracts were being negotiated in 2019, AWH and the parties entered into lease agreements under which FPAW

was permitted to occupy the properties. Operations commenced at one property in September 2020 and at a second property in March 2021. Following the execution of the original agreements in September 2019, three of the six properties to be acquired under the original agreements were deemed not suitable for the intended business purposes due to regulatory developments. Due to the lack of suitability of three of the properties, lower than expected revenue and margins due to increased competition, higher operating costs than anticipated, and lack of vertical integration while FPAW and the Company continued to develop its Michigan cultivation facility, FPAW and AWH and the counterparties reengaged in negotiations relating to the commercial transaction, though such negotiations ended unsuccessfully in September 2020.

On December 4, 2020, the counterparties to the agreements mentioned above, TVP, LLC, TVP Grand Rapids, LLC, and TVP Alma, LLC (collectively, the "TVP Parties"), filed a complaint in the Circuit Court of the State of Michigan, County of Oakland, asserting claims against FPAW and AWH. The case number for the action was 2020-184972-CB. The TVP Parties alleged that FPAW and AWH had breached the two agreements entered into in September 2019. The TVP Parties asked the court to grant specific performance of the contracts with AWH and FPAW, 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. AWH and FPAW believed there existed valid defenses to the demand for specific performance due to the lack of suitability of three of the six properties subject to the original transaction agreements.

As the litigation proceeded, the Company and FPAW engaged in settlement discussions with the counterparties and determined that settling the dispute so the Company could focus on growing its Michigan business was in the best interest of the Company and FPAW and a better use of Company and FPAW resources and time than continuing to defend the lawsuit and incurring additional litigation fees and expenses. Following such negotiations, on April 14, 2021, the TVP Parties, FPAW and AWH entered into a settlement agreement (the "Settlement Agreement"), which 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. 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"). The total cash payments are approximately $2,000 less than would have otherwise been payable under the agreements. The value of the shares issued have increased significantly between September 2019 when the agreements were initially entered into and the date of the Settlement Agreement. The Escrow Units converted into shares of Class A common stock upon the Conversion in the same manner as all other common units of AWH. 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 parties intend to work to identify at least two additional sites that will be suitable for future Ascend retail locations, which properties the Company would lease pursuant to market rental terms. The Company and FPAW determined that identifying and developing additional properties that would be suitable for operating cannabis dispensaries was of greater value to the Company than acquiring and subsequently disposing of the other three parcels, as the value of such properties once they were no longer suitable for the Company's original business purposes was not of material value to the Company. The Put Option is required to be exercised by the TVP Parties within three years of the date of the Settlement Agreement. FPAW and AWH are entitled to use the subject properties until such time as the Put Option is exercised. FPAW

currently operates dispensaries at two of the properties and expects to open a dispensary at the third property by the end of 2021.

Of the total settlement liability, $5,480 is included within “Accounts payable and accrued expenses” on the accompanying unaudited Condensed Consolidated Balance Sheet in the Financial Statements as of June 30, 2021 and the fair value of the share issuance of $27,431 is reflected within “Reserve for equity issued in litigation settlement” and “Equity issued in litigation settlement” on the unaudited Condensed Consolidated Statement of Changes in Stockholders’ Equity in the Financial Statements. The fair value of the three properties to be acquired per the settlement of $5,400 is recorded within “Other noncurrent assets” in the Financial Statements as of June 30, 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 in the Financial Statements. The settlement charge is not expected to be deductible for tax purposes.

The Company reported losses related to FPAW of approximately $3,100 and $6,429 during the three and six months ended June 30, 2021, respectively, and there is no guarantee that the Company’s Michigan operations will become profitable in the future. Cultivation operations commenced in April 2021, and the Company anticipates that revenue and profitability in Michigan will improve as a result of vertical integration. Once vertically integrated, the Company will be able to produce products for sale at our owned dispensaries at a significantly lower cost compared to the cost associated with acquiring product on the wholesale market from third parties. Additionally, the Company opened new dispensaries in September 2020 (which began adult use sales in December 2020) and March 2021, which the Company expects to positively contribute to the Company's 2021 results. The Company also intends to identify additional attractive locations for future retail locations in Michigan. However, despite these developments, Michigan may continue to be a difficult market for us in 2021, as it is more competitive than the other markets in which the Company operates because Michigan does not limit the number of dispensaries or the size of cultivation facilities. As of the date of this Quarterly Report on Form 10-Q, there are over 300 dispensaries in Michigan and due to the significant retail competition in this market, we expect our sales per retail location and gross margins in this market to be below our average across the portfolio.

Shareholder Dispute

On May 28, 2021, Senvest Management, LLC, Hadron Capital (Cayman) LTD., and Measure8 Venture Partners, LLC (collectively, the “Claimants”), as former holders of convertible notes issued and sold by the Company (the “Convertible Notes”) pursuant to the Company’s Convertible Note Purchase Agreement, dated as of June 12, 2019 (the “2019 Convertible Note Purchase Agreement”), filed an arbitration demand, which was subsequently amended on July 28, 2021 (the “Arbitration Demand”), against the Company and its Chief Executive Officer, Abner Kurtin, before the American Arbitration Association. In their Arbitration Demand, the Claimants take issue with the April 22, 2021 amendment of the terms of the Convertible Note Purchase Agreement (the “Amended Notes Consent”), which was approved by holders of approximately 66% of the principal amount of the Convertible Notes, in excess of the simple majority required to amend the Convertible Notes. The Amended Notes Consent set the conversion price of the Convertible Notes at $2.96 per share. The Claimants allege that the Amended Notes Consent was obtained improperly and is void, and seek damages in excess of $20,000. The Company disputes the Claimants’ allegations and believes the Amended Notes Consent was properly obtained in accordance with the terms of the Convertible Notes and 2019 Convertible Note Purchase Agreement and the Amended Notes are binding on all holders of the Convertible Notes. The Company intends to vigorously defend against what it views as meritless claims.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accompanying Financial Statements are prepared in accordance with GAAP, which require us to make certain estimates in the application of our accounting policies based on the best assumptions, judgments, and opinions of our management. The Company's significant accounting policies are described in Note 2, "Basis of Presentation and Significant Accounting Policies," in the Financial Statements. There have been no significant changes to our critical accounting policies and estimates. For a description of our critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Registration Statement on Form S-1, as amended, filed with the U.S. Securities and Exchange Commission on April 26, 2021.

Recently Adopted Accounting Standards and Recently Issued Accounting Pronouncements

For information about our recently adopted accounting standards and recently issued accounting standards not yet adopted, see Note 2, "Basis of Presentation and Significant Accounting Policies," of the Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed in varying degrees to a variety of financial instrument related risks. We mitigate these risks by assessing, monitoring and approving our risk management processes.

Credit Risk

Credit risk is the risk of a potential loss to us if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at June 30, 2021 is the carrying amount of cash and cash equivalents. We do not have significant credit risk with respect to our customers. All cash and cash equivalents are placed with major U.S. financial institutions.

We provide credit to our customers in the normal course of business. We have established credit evaluation and monitoring processes to mitigate credit risk but have limited risk as the majority of our sales are transacted with cash.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations associated with financial liabilities. We manage liquidity risk through the effective management of our capital structure. Our approach to managing liquidity is to ensure that we will have sufficient liquidity at all times to settle obligations and liabilities when due.

As reflected in the Financial Statements, the Company had an accumulated deficit as of June 30, 2021 and December 31, 2020, as well as a net loss for the three and six months ended June 30, 2021 and 2020, and negative cash flows from operating activities during the six months ended June 30, 2021 and 2020, 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 our Financial Statements has been alleviated due to: (i) cash on hand, including capital raised from the Company's IPO in May 2021, 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 we will be successful in accomplishing our business plans. If we are unable to raise additional capital on favorable terms, if at all, whenever necessary, we may be forced to decelerate or curtail certain of our operations until such time as additional capital becomes available.

Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, raw materials, and other commodity prices. Strategic and operational risks may arise if we fail to carry out business operations and/or raise sufficient equity and/or debt financing. Strategic opportunities or threats may arise from a

range of factors that might include changing economic and political circumstances and regulatory approvals and competitor actions. We seek to mitigate such risks by consideration of potential development opportunities and challenges.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. Our financial debts have fixed rates of interest and therefore expose us to a limited interest rate fair value risk.

Commodities Price Risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The primary raw materials used by us aside from those cultivated internally are labels and packaging. Management believes a hypothetical 10% change in the price of these materials would not have a significant effect on our consolidated results of operations or cash flows, as these costs are generally passed through to our customers. However, such an increase could have an impact on our customers' demand for our products, and we are not able to quantify the impact of such potential change in demand on our annual results of operations or cash flows.

COVID-19 Risk

We are monitoring COVID-19 closely, and although our operations have not been materially affected by the COVID-19 outbreak to date, the ultimate severity of the outbreak and its impact on the economic environment is uncertain. Our operations are ongoing as the cultivation, processing and sale of cannabis products is currently considered an essential business by the states in which we operate with respect to all customers (except for Massachusetts, where cannabis has been deemed essential only for medical patients). In all locations where regulations have been enabled by governmental authorities, we have expanded consumer delivery options and curbside pickup to help protect the health and safety of our employees and customers. The pandemic has not materially impacted our business operations or liquidity position to date. We continue to generate operating cash flows to meet our short-term liquidity needs. The uncertain nature of the spread of COVID-19 may impact our business operations for reasons including the potential quarantine of our employees or those of our supply chain partners or a change in our designation as "essential" in states where we do business that currently or in the future impose restrictions on business operations.

ITEM 4. CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures.

As of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer evaluated our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, and due to the material weakness in internal controls described below, our Principal Executive Officer and Principal Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and (2) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosure.

As previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021, the Company's management identified a material weakness related to the maintenance and updating of vendor records in connection with the accounts payable cycle that occurred during the three months ended March 31, 2021. The material weakness did not result in a material misstatement of the Company's financial statements included in this report, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021, or in other periodic filings. Management took immediate action to remediate the material weakness, including enhancing and better defining cash disbursement controls to prevent and timely detect unauthorized cash disbursements. We continue to test the controls implemented during the second quarter to assess whether such

controls are operating effectively. While there can be no assurance, we believe this material weakness will be remediated during the third quarter of 2021. Notwithstanding the identified material weakness as of June 30, 2021, the Company's management believes that the financial statements, and the notes thereto, included in this Quarterly Report on Form 10-Q present fairly in all material respects our financial position, results of operations, and cash flows for the periods presented.

b. Changes in Internal Control Over Financial Reporting.

Other than as described above, there have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

A discussion of our litigation matters occurring in the period covered by this report is found in Note 15, "Commitments and Contingencies," to the Financial Statements in this Form 10-Q.

ITEM 1A. RISK FACTORS.

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in Part II, Item 1A, of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Use of Proceeds from our Initial Public Offering of Common Stock

On May 4, 2021, we completed the initial public offering of our Class A common stock pursuant to a Registration Statement on Form S-1 (File No. 333-254800) (the "Registration Statement") which was declared effective on April 28, 2021 and a Supplemented PREP Prospectus dated April 28, 2021 (the "Canadian Prospectus," and together with the Registration Statement, the "Offering Documents"). Under the Offering Documents, we sold 10.0 million shares of our Class A common stock at a price of $8.00 per share and granted the underwriters an option to sell an additional 1.5 million shares of Class A common stock pursuant to an over-allotment option which they had 30 days to exercise, and which they did exercise in full on May 7, 2021. Total proceeds were approximately $86.1 million, net of underwriting discounts and commissions and other direct offering expenses paid by us. We incurred other expenses related to the initial public offering of approximately $1.5 million. All of the underwriting discounts and other expenses were direct or indirect payments to persons other than: (i) our directors, officers, or any of their associates; (ii) persons owning ten percent (10%) or more of our common stock; or (iii) our affiliates. There has been no material change in the planned use of proceeds as described in the Offering Documents and our Form 10-Q for the quarter ended March 31, 2021.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS

(a) EXHIBIT INDEX

Exhibit No.	Description of Exhibit
4.1	Ascend Wellness Holdings, Inc. 2021 Stock Incentive Plan (incorporated by reference to Exhibit 4.2 of the Registrant’s Registration Statement on Form S-8, filed with the SEC on July 9, 2021)
4.2	Ascend Wellness Holdings, Inc. 2021 Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.3 of the Registrant’s Registration Statement on Form S-8, filed with the SEC on July 9, 2021)
31.1*	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32‡	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Label Linkbase Document
101.PRE*	Inline XBRL Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

‡ Document has been furnished, is not deemed filed and is not to be incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing.

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.

	Ascend Wellness Holdings, Inc.
August 13, 2021	/s/ Daniel Neville Daniel Neville Chief Financial Officer (Principal Financial Officer)
August 13, 2021	/s/ Roman Nemchenko Roman Nemchenko Senior Vice President, Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)

I, Abner Kurtin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ascend Wellness Holdings, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) 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) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

    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(s) 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 the 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 over financial reporting 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.

August 13, 2021

/s/ Abner Kurtin
Abner Kurtin
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(a) OR 15d-14(a)

I, Daniel Neville, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ascend Wellness Holdings, 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) 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) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];

   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(s) 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 the 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 over financial reporting 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.

August 13, 2021

/s/ Daniel Neville
Daniel Neville
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

**CERTIFICATIONS PURSUANT TO SECURITIES EXCHANGE ACT OF 1934
RULE 13a-14(b) OR 15d-14(b) AND
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 Ascend Wellness Holdings, Inc. (the “Company”) for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Abner Kurtin, Chief Executive Officer of the Company, and Daniel Neville, Chief Financial Officer of the Company, each certifies for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the United States Code, that:

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

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

August 13, 2021

/s/ Abner Kurtin
Abner Kurtin
Chief Executive Officer
(Principal Executive Officer)

August 13, 2021

/s/ Daniel Neville
Daniel Neville
Chief Financial Officer
(Principal Financial Officer)