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 September 30, 2022

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 November 9, 2022, there were 188,523,230 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 Quarterly Report on 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 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 our Annual Report on Form 10-K for the year ended December 31, 2021 and in other reports we may file from time to time with the United States 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 statements, 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)	September 30, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 91,393	$ 155,481
Accounts receivable, net	13,376	7,612
Inventory	92,064	65,588
Notes receivable	5,542	4,500
Other current assets	16,717	24,831
Total current assets	219,092	258,012
Property and equipment, net	268,456	239,656
Operating lease right-of-use assets	109,085	103,958
Intangible assets, net	186,426	59,271
Goodwill	43,566	42,967
Deferred tax assets, net	1,754	—
Other noncurrent assets	18,835	19,572
TOTAL ASSETS	$ 847,214	$ 723,436
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 56,952	$ 45,454
Current portion of debt, net	19,467	27,940
Operating lease liabilities, current	2,431	2,665
Income taxes payable	54,143	36,184
Other current liabilities	4,503	5,152
Total current liabilities	137,496	117,395
Long-term debt, net	290,969	230,846
Operating lease liabilities, noncurrent	229,838	197,295
Deferred tax liabilities, net	—	1,423
Other non-current liabilities	14,842	—
Total liabilities	673,145	546,959
Commitments and contingencies (Note 15)		
Stockholders' Equity		
Preferred stock, $0.001 par value per share; 10,000 shares authorized, none issued and outstanding as of September 30, 2022 and December 31, 2021 (Note 12)	—	—
Class A common stock, $0.001 par value per share; 750,000 shares authorized; 187,904 and 171,521 shares issued and outstanding at September 30, 2022 and December 31, 2021 (Note 12)	188	171
Class B common stock, $0.001 par value per share, 100 shares authorized; 65 issued and outstanding at September 30, 2022 and December 31, 2021 (Note 12)	—	—
Additional paid-in capital	425,979	362,555
Accumulated deficit	(252,098)	(186,249)
Total stockholders' equity	174,069	176,477
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 847,214	$ 723,436

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

(in thousands, except per share amounts)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Revenue, net	$ 111,238	$ 94,382	$ 293,827	$ 243,886
Cost of goods sold	(74,602)	(53,428)	(200,776)	(138,749)
Gross profit	36,636	40,954	93,051	105,137
Operating expenses				
General and administrative expenses	34,159	29,341	100,959	85,099
Settlement expense	—	—	5,000	36,511
Total operating expenses	34,159	29,341	105,959	121,610
Operating profit (loss)	2,477	11,613	(12,908)	(16,473)
Other (expense) income				
Interest expense	(8,434)	(12,376)	(23,711)	(56,601)
Other, net	273	44	527	206
Total other expense	(8,161)	(12,332)	(23,184)	(56,395)
Loss before income taxes	(5,684)	(719)	(36,092)	(72,868)
Income tax expense	(11,178)	(12,307)	(29,757)	(33,278)
Net loss	$ (16,862)	$ (13,026)	$ (65,849)	$ (106,146)
Net loss per share attributable to Class A and Class B common stockholders — basic and diluted (Note 12)	$ (0.09)	$ (0.08)	$ (0.36)	$ (0.75)
Weighted-average common shares outstanding — basic and diluted	187,697	169,879	181,833	142,221

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Nine Months Ended September 30, 2022				
	Class A and Class B Common Stock				
(in thousands)	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
December 31, 2021	171,586	$ 171	$ 362,555	$ (186,249)	$ 176,477
Vesting of equity-based payment awards	4,131	4	(4)	—	—
Equity-based compensation expense	—	—	14,306	—	14,306
Taxes withheld under equity-based compensation plans, net	(1,260)	(1)	(4,941)	—	(4,942)
Net loss	—	—	—	(27,815)	(27,815)
March 31, 2022	174,457	$ 174	$ 371,916	$ (214,064)	$ 158,026
Shares issued in acquisitions or asset purchases	12,900	13	42,944	—	42,957
Vesting of equity-based payment awards	138	—	—	—	—
Equity-based compensation expense	—	—	4,170	—	4,170
Issuance of warrants	—	—	2,639	—	2,639
Net loss	—	—	—	(21,172)	(21,172)
June 30, 2022	187,495	$ 187	$ 421,669	$ (235,236)	$ 186,620
Vesting of equity-based payment awards	570	1	(1)	—	—
Equity-based compensation expense	—	—	4,545	—	4,545
Taxes withheld under equity-based compensation plans, net	(96)	—	(234)	—	(234)
Net loss	—	—	—	(16,862)	(16,862)
September 30, 2022	187,969	$ 188	$ 425,979	$ (252,098)	$ 174,069

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

	Nine Months Ended September 30, 2021					
		Class A and Class B Common Stock				
(in thousands)	Historical LLC Units	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
December 31, 2020	106,082	—	$ —	$ 67,378	$ (63,592)	$ 3,786
Vesting of restricted common units	1,033	—	—	—	—	—
Equity-based compensation expense	50	—	—	2,487	—	2,487
Reserve for equity issued in litigation settlement	—	—	—	27,431	—	27,431
Net loss	—	—	—	—	(48,223)	(48,223)
March 31, 2021	107,165	—	$ —	$ 97,296	$ (111,815)	$ (14,519)
Release of reserve for equity issued in litigation settlement	—	—	—	(27,431)	—	(27,431)
Equity issued in litigation settlement	5,025	—	—	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
Conversion of convertible notes upon initial public offering	—	37,388	37	137,718	—	137,755
Beneficial conversion feature associated with conversion of preferred units upon initial public offering	—	3,420	3	27,358	—	27,361
Vesting of equity-based payment awards	1,176	3,155	3	(3)	—	—
Equity-based compensation expense	—	—	—	1,711	—	1,711
Repurchase of warrants	—	—	—	(4,156)	—	(4,156)
Net loss	—	—	—	—	(44,897)	(44,897)
June 30, 2021	—	168,829	$ 168	$ 345,864	$ (156,712)	$ 189,320
Issuance of common stock	—	1,986	2	3,748	—	3,750
Vesting of equity-based payment awards	—	195	—	—	—	—
Equity-based compensation expense	—	—	—	3,993	—	3,993
Net loss	—	—	—	—	(13,026)	(13,026)
September 30, 2021	—	171,010	$ 170	$ 353,605	$ (169,738)	$ 184,037

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Nine Months Ended September 30, 2022	2021
Cash flows from operating activities		
Net loss	$ (65,849)	$ (106,146)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	25,824	16,692
Amortization of operating lease assets	1,014	1,034
Non-cash interest expense	4,466	41,506
Equity-based compensation expense	17,662	8,191
Equity issued in litigation settlement	—	27,431
Deferred income taxes	(3,725)	(1,889)
Loss on sale of assets	450	649
Other	8,069	3,799
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	(5,763)	(2,309)
Inventory	(34,754)	(31,703)
Other current assets	4,734	(6,099)
Other noncurrent assets	235	(7,026)
Accounts payable and accrued liabilities	8,564	8,505
Other current liabilities	(650)	612
Lease liabilities	(521)	676
Income taxes payable	17,959	23,783
Net cash used in operating activities	(22,285)	(22,294)
Cash flows from investing activities		
Additions to capital assets	(62,959)	(70,918)
Investments in notes receivable	(2,391)	(2,185)
Collection of notes receivable	245	245
Proceeds from sale of assets	39,225	930
Acquisition of businesses, net of cash acquired	(24,890)	(13,630)
Purchase of intangible assets	(43,781)	—
Net cash used in investing activities	(94,551)	(85,558)
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	65,000	259,500
Repayments of debt	(2,289)	(78,413)
Repayments under finance leases	(23)	—
Debt issuance costs	(4,998)	(8,731)
Taxes withheld under equity-based compensation plans, net	(4,942)	—
Repurchase of warrants	—	(4,156)
Net cash provided by financing activities	52,748	254,265
Net (decrease) increase in cash, cash equivalents, and restricted cash	(64,088)	146,413
Cash, cash equivalents, and restricted cash at beginning of period	155,481	58,097
Cash, cash equivalents, and restricted cash at end of period	$ 91,393	$ 204,510

The accompanying notes are an integral part of the condensed consolidated financial statements.

ASCEND WELLNESS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(CONTINUED, UNAUDITED)

(in thousands)	Nine Months Ended September 30, 2022	2021
Supplemental Cash Flow Information		
Interest paid	$ 17,100	$ 14,618
Income taxes paid	15,505	11,400
Non-cash investing and financing activities		
Capital expenditures incurred but not yet paid	7,324	7,656
Issuance of shares for intangible assets	42,957	—
Warrants issued with notes payable	2,639	—
Taxes withheld under equity-based compensation plans, net	234	—
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
Shares issued for share-settled debt	—	3,750

The accompanying notes are an integral part of the condensed consolidated financial statements.

1. THE COMPANY AND NATURE OF OPERATIONS

Ascend Wellness Holdings, Inc., which operates through its subsidiaries (collectively referred to as "AWH," "Ascend," "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, Michigan, Ohio, Massachusetts, New Jersey, and Pennsylvania. 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. The historical consolidated financial statements prior to the Conversion date are those of Ascend Wellness Holdings, LLC and its subsidiaries.

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. On May 4, 2021, the Company completed an Initial Public Offering ("IPO") of its Class A common stock. See Note 12, "Stockholders' Equity," for additional details.

Shares of the Company's 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® Best Market (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 interim 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) in our Annual Report on Form 10-K for the year ended December 31, 2021 (the "Annual Report"), as filed with the United States Securities and Exchange Commission ("SEC") and with the relevant Canadian securities regulatory authorities under its profile on the System for Electronic Document Analysis and Retrieval ("SEDAR"). Except as noted below, there have been no material changes to the Company's significant accounting policies and estimates during the nine months ended September 30, 2022.

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.

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.

Use of Estimates

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.

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.

Liquidity

As reflected in the Financial Statements, the Company had an accumulated deficit as of September 30, 2022 and December 31, 2021, as well as a net loss for the three and nine months ended September 30, 2022 and 2021, and negative cash flows from operating activities during the nine months ended September 30, 2022 and 2021, which are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of these Financial Statements has been alleviated due to: (i) cash on hand and (ii) continued growth of sales 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.

Cash and Cash Equivalents and Restricted Cash

As of September 30, 2022 and December 31, 2021, we did not hold significant restricted cash or cash equivalents.

Fair Value of Financial Instruments

During the nine months ended September 30, 2022 and 2021, 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 an individual and combined basis. EPS and weighted-average shares outstanding for the three and nine months ended September 30, 2022 and 2021 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 and prior year include incremental shares of common stock issuable upon the exercise of warrants, unvested restricted stock awards, and unvested restricted stock units, in addition to stock options that are outstanding in the current year. At September 30, 2022 and 2021, 15,069 and 10,827 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

Debt

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. ASU 2020-06 became effective for us on January 1, 2022 and did not have a significant impact on our consolidated financial statements upon adoption.

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. ASU 2021-04 became effective for us on January 1, 2022 and did not have a significant impact on our consolidated financial statements upon adoption.

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 Financial Statements.

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 guidance was effective upon issuance as of March 12, 2020 and may be adopted as reference rate reform activities occur through December 31, 2022. We have not yet applied any of the expedients and exceptions and do not expect this guidance to have a material impact 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 September 30,		Nine Months Ended September 30,	
(in thousands)	2022	2021	2022	2021
Retail revenue	$ 82,793	$ 63,517	$ 221,639	$ 167,076
Wholesale revenue	51,466	41,526	131,513	111,341
	134,259	105,043	353,152	278,417
Elimination of inter-company revenue	(23,021)	(10,661)	(59,325)	(34,531)
Total revenue, net	$ 111,238	$ 94,382	$ 293,827	$ 243,886

The liability related to the loyalty program we offer dispensary customers at certain locations was $658 and $518 at September 30, 2022 and December 31, 2021, respectively, and is included within "Other current liabilities" on the accompanying unaudited Condensed Consolidated Balance Sheets. The Company recorded $447 and $374 in allowance for doubtful accounts as of September 30, 2022 and December 31, 2021, respectively. Write-offs were not significant during the three and nine months ended September 30, 2022 and 2021.

4. ACQUISITIONS

Business Combinations

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 are included in the Financial Statements from the date of the acquisition.

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 Acquisitions

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. Effective October 1, 2021, the Company completed the acquisition of BCCO, LLC ("BCCO"), a medical dispensary license holder in Ohio. Additionally, effective December 22, 2021, the Company completed the acquisition of Ohio Cannabis Clinic, LLC ("OCC"), a medical dispensary license holder in Ohio.

During the nine months ended September 30, 2022, we recorded a measurement period purchase accounting adjustment of $51 related to the OCC acquisition for the final working capital adjustment, with a related impact to goodwill. Additionally, during the three and nine months ended September 30, 2022, we recorded a measurement period adjustment to goodwill of $548 related to the BCCO acquisition for a pre-acquisition deferred tax liability due to finalization of certain income-tax related items. No significant adjustments were recorded in finalizing the purchase price allocation for Hemma during the nine months ended September 30, 2022.

Financial and Pro Forma Information

The following table summarizes the revenue and net (loss) income related to Hemma, BCCO, and OCC that is included in our consolidated results for the three and nine months ended September 30, 2022.

	Three Months Ended September 30, 2022		
(in thousands)	**Hemma**	**BCCO**	**OCC**
Revenue, net	$ 130	$ 1,852	$ 1,349
Net (loss) income	(379)	478	153

	Nine Months Ended September 30, 2022		
(in thousands)	**Hemma**	**BCCO**	**OCC**
Revenue, net	$ 577	$ 5,513	$ 4,072
Net (loss) income	(1,619)	1,256	511

Our results of operations for the three and nine months ended September 30, 2021 include $126 of revenue for each period and $204 and $305, respectively, of net loss related to Hemma.

Pro forma financial information is not presented for Hemma, BCCO, or OCC as such results are immaterial, individually and in aggregate, to both the current and prior periods.

Asset Acquisitions

The Company determined the acquisitions below did not meet the definition of a business and are therefore accounted for as asset acquisitions. When the Company acquires assets and liabilities that do not constitute a business or variable interest entity ("VIE") of which the Company is the primary beneficiary, the cost of each acquisition, including certain transaction costs, is allocated to the assets acquired and liabilities assumed on a relative fair value basis. Contingent consideration associated with the acquisition is generally recognized only when the contingency is resolved.

When the Company acquires assets and liabilities that do not constitute a business but meet the definition of a VIE of which the Company is the primary beneficiary, the purchase is accounted for using the acquisition method described above for business combinations, except that no goodwill is recognized. To the extent there is a difference between the purchase consideration, including the estimated fair value of contingent consideration, plus the estimated fair value of any non-controlling interest and the VIE's identifiable assets and liabilities recorded and measured at fair value, the difference is recognized as a gain or loss. A non-controlling interest represents the non-affiliated equity interest in the underlying entity. Transaction costs are expensed.

Story of PA

On April 19, 2022, the Company acquired Story of PA CR, LLC ("Story of PA"). Total consideration for the acquisition of the outstanding equity interests in Story of PA was $53,127, consisting of 12,900 shares of Class A common stock with a fair value of $42,957 and cash consideration of $10,170. Story of PA received a clinical registrant permit from the Pennsylvania Department of Health on March 1, 2022. Through a research collaboration agreement with the Geisinger Commonwealth School of Medicine ("Geisinger"), a Pennsylvania Department of Health-Certified Medical Marijuana Academic Clinical Research Center, the Company intends to open a cultivation and processing facility and up to six medical dispensaries throughout the Commonwealth of Pennsylvania. The Company will help fund clinical research to benefit the patients of Pennsylvania by contributing $30,000 to

Geisinger over the next two years (of which $15,000 was funded in April 2022), and up to an additional $10,000 over the next ten years.

The total acquisition cost was $100,203, as summarized in the table below, and was allocated to the license intangible asset acquired. The license will be amortized in accordance with the Company's policy once operations commence.

(in thousands)		
Equity consideration[1]	$	42,957
Cash consideration		10,170
Geisinger funding commitment[2]		40,000
Other liabilities assumed[3]		5,130
Forgiveness of bridge loan[4]		1,349
Transaction costs		595
Cost of initial investment		2
Total	$	100,203

(1) Comprised of 12,900 shares of Class A common stock with a fair value of $42,957 at issuance.

(2) Of the total funding commitment, $15,000 was paid in April 2022 and $15,000 is due in April 2023 and is included within "Accounts payable and other accrued liabilities" on the unaudited Condensed Consolidated Balance Sheet at September 30, 2022. An additional $10,000 is due annually from the third anniversary of the transaction through the tenth anniversary based on a percentage of revenue (after operations commence) and is included within "Other non-current liabilities" on the unaudited Condensed Consolidated Balance Sheet at September 30, 2022.

(3) Liabilities related to two consulting agreements assumed in the transaction. A total of $2,772 related to one agreement was paid during the second quarter of 2022. A total of $944 due under the second agreement was paid during the nine months ended September 30, 2022 and a total of $1,414 is due, in quarterly payments, through June 2023 and is included within "Accounts payable and other accrued liabilities" on the unaudited Condensed Consolidated Balance Sheet at September 30, 2022.

(4) Refer to Note 6, "Notes Receivable," for additional information on the bridge loan agreement.

Ohio Patient Access

On August 12, 2022, the Company entered into a definitive agreement (the "Ohio Agreement") that provides the Company the option to acquire 100% of the equity of Ohio Patient Access LLC ("OPA"), the holder of a license that grants it the right to operate three medical dispensaries in Ohio, which operations have not yet commenced. The Ohio Agreement is subject to regulatory review and approval. Once the regulatory approval is received, the Company may exercise the option, and the exercise is solely within the Company's control. The Company may exercise the option until the fifth anniversary of the agreement date or can elect to extend the exercise period for an additional year. Under the Ohio Agreement, the Company will also acquire the real property of the three dispensary locations. In conjunction with the Ohio Agreement, the parties also entered into a support services agreement under which the Company will provide management and advisory services to OPA for a set monthly fee. The parties also entered into a working capital loan agreement under which the Company may, at its full discretion, loan OPA up to $10,000 for general working capital needs.

The purchase price per the Ohio Agreement consists of total cash consideration of $22,300. The Ohio Agreement also includes an earn-out provision of $7,300 that is dependent upon the commencement of adult-use cannabis sales in Ohio. The sellers may elect to receive the earn-out payment as either cash or shares of the Company's Class A common stock, or a combination thereof. If the sellers elect to receive any or all of the payment in shares, the number of shares issued will be equal to the earn-out payment amount, or portion thereof, divided by the thirty-day volume weighted average price of the Class A shares immediately preceding the date the earn-out provision is achieved. If the sellers elect to receive Class A shares for the earn-out, those shares would be issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended.

The Company determined OPA is a VIE and the Company became the primary beneficiary as of the signing date; therefore, OPA is consolidated as a VIE. To account for the initial consolidation of OPA, management applied the acquisition method discussed above. The total estimated fair value of the transaction consideration was determined to be $24,132 and consists of the fair value of the cash consideration of $19,290 plus the estimated fair value of the contingent consideration of $4,842. Of the total cash consideration, $11,300 was funded at signing pursuant to note agreements. The $11,000 payment that is due at final closing was recorded net of a discount of $3,010 based on the estimated payment date utilizing the Company’s incremental borrowing rate. This discounted payment is included within “Long-term debt, net” on the accompanying unaudited Condensed Consolidated Balance Sheet at September 30, 2022; refer to Note 11, “Debt,” for additional information. The estimated fair value of the contingent consideration was determined utilizing an income approach based on a probability-weighted estimate of the future payment and is included within “Other non-current liabilities” on the accompanying unaudited Condensed Consolidated Balance Sheet at September 30, 2022. The Company determined the fair value of any noncontrolling interest is *de minimis*.

The license intangible asset acquired was determined to have an estimated fair value of $21,684 and the three properties had an estimated fair value of $2,448, which was determined using a market approach based on the total transaction consideration. The license acquired will be amortized in accordance with the Company’s policy once operations commence. Direct transaction expenses of $224 are included in “General and administrative expenses” on the accompanying unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2022. Refer to Note 8, “Variable Interest Entities,” for additional information regarding the Company’s VIEs.

Illinois Licenses

In August 2022, the Company entered into definitive agreements to acquire two additional licenses in Illinois. Neither of these licenses were associated with active operations at signing and the transfer of each license is subject to regulatory review and approval.

One transaction was entered on August 11, 2022 for total cash consideration of $5,500. The Company accounted for this transaction as an asset acquisition and allocated the cash consideration as the cost of the license acquired. Of the total cash consideration, $3,000 was paid at signing and $2,500 is due at final closing and is included as a sellers’ note within “Current portion of debt, net” on the accompanying unaudited Condensed Consolidated Balance Sheet at September 30, 2022; refer to Note 11, “Debt,” for additional information. Direct transaction expenses were immaterial.

The second transaction was entered on August 12, 2022 for total cash consideration of $5,600. The Company accounted for this transaction as an asset acquisition and allocated the cash consideration as the cost of the license acquired. The consideration will be paid at final closing and is included as a sellers’ note within “Current portion of debt, net” on the accompanying unaudited Condensed Consolidated Balance Sheet at September 30, 2022. Direct transaction expenses were immaterial.

The licenses acquired will be amortized in accordance with the Company’s policy once the related operations commence.

5. INVENTORY

The components of inventory are as follows:

(in thousands)	September 30, 2022	December 31, 2021
Materials and supplies	$ 17,968	$ 8,899
Work in process	41,984	28,235
Finished goods	32,112	28,454
Total	$ 92,064	$ 65,588

Total compensation expense capitalized to inventory was $14,406 and $10,860 during the three months ended September 30, 2022 and 2021, respectively, and $39,961 and $25,381 during the nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022 and December 31, 2021, $11,483 and $8,571, respectively, of compensation expense remained capitalized as part of inventory.

6. NOTES RECEIVABLE

(in thousands)	September 30, 2022	December 31, 2021
MMNY - working capital loan(1)	$ 2,422	$ 2,422
Marichron - note receivable(2)	1,500	1,500
Marichron - working capital loan(2)	969	78
Other(3)	651	500
Total	$ 5,542	$ 4,500

(1) On February 25, 2021, the Company entered into a working capital advance agreement with MedMen NY, Inc. ("MMNY"), an unrelated third party, in conjunction with an Investment Agreement (as defined in Note 15, "Commitments and Contingencies"). 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 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 for certain specified reasons, three business days following such termination. The Company is pursuing collection of the amounts due under this working capital advance agreement through its legal proceedings against MMNY. Refer to Note 15, "Commitments and Contingencies," for additional information.

(2) In April 2019, the Company issued a $1,500 promissory note to Marichron Pharma LLC ("Marichron"), an unrelated third party, with a stated interest rate of 12% per year. The Company also entered into a working capital line of credit with Marichron, allowing for maximum borrowings of $1,000. The promissory note and working capital line of credit were issued in conjunction with a unit purchase option agreement that the parties entered into during 2019 and were issued to provide Marichron with additional funding for operations while awaiting state approval of the transaction. The Company submitted a license transfer application to the state in June 2022, which was approved in September 2022. Following the approval, the Company exercised its option under the unit purchase agreement and acquired Marichron effective October 14, 2022, as further described in Note 18, "Subsequent Events" and the total amounts outstanding were settled at closing.

(3) In November 2021, the Company issued a bridge loan to Story of PA that provided for maximum borrowings of up to $16,000 with an interest rate of 9% per annum, which had an outstanding balance of $500 at December 31, 2021. Repayment was due at maturity in November 2023 or upon an event of default (as defined in the bridge loan agreement). In April 2022, the Company acquired the outstanding equity interests of Story of PA (refer to Note 4, "Acquisitions") and settled the balance of $1,349 due under the bridge loan as additional consideration at closing.

In May 2022 the Company issued a secured promissory note to a retail dispensary license holder in Massachusetts providing up to $3,500 of funding (the "Massachusetts Note"), of which $651 is outstanding as of September 30, 2022. The Massachusetts Note accrues interest at a fixed annual rate of 11.5%. Following the opening of the borrower's retail dispensary, the principal amount is due monthly through the maturity date of May 25, 2026. The borrower may prepay the outstanding principal amount, plus accrued interest thereon. Borrowings under the Massachusetts Note are secured by the assets of the borrower. The borrower is partially owned by an entity that is managed, in part, by one of the founders of the Company.

Additionally, a total of $4,220 is outstanding at September 30, 2022 related to a promissory note issued to the owner of a property the Company is leasing, of which $161 and $4,059 is included in “Other current assets” and “Other noncurrent assets,” respectively, on the unaudited Condensed Consolidated Balance Sheet. At December 31, 2021, $4,337 was outstanding, of which $156 and $4,181 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 September 30, 2022 for the amounts due under notes receivable. No impairment losses on notes receivable were recognized during the nine months ended September 30, 2022 or 2021.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

(in thousands)	September 30, 2022	December 31, 2021
Leasehold improvements	$ 150,861	$ 103,976
Furniture, fixtures, and equipment	57,940	49,058
Buildings	56,888	45,663
Construction in progress	35,260	60,986
Land	6,505	1,302
Property and equipment, gross	307,454	260,985
Less: accumulated depreciation	38,998	21,329
Property and equipment, net	$ 268,456	$ 239,656

Total depreciation expense was $6,405 and $4,100 during the three months ended September 30, 2022 and 2021, respectively, and $18,079 and $10,560 during the nine months ended September 30, 2022 and 2021, respectively. Total depreciation expense capitalized to inventory was $4,657 and $2,851 during the three months ended September 30, 2022 and 2021, respectively, and $13,629 and $7,185 during the nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022 and December 31, 2021, $4,367 and $2,070, respectively, of depreciation expense remained capitalized as part of inventory.

In June 2022, the Company entered into a master lease agreement under which we may lease equipment pursuant to individual lease agreements, up to $15,000 in aggregate. The table above includes equipment rented under these finance leases with a gross value of $982 and accumulated amortization of $26 as of September 30, 2022. Refer to Note 10, “Leases,” for additional information regarding our lease arrangements.

During the nine months ended September 30, 2022, we recognized a loss of $874 related to the sale of three properties, net of a $72 gain on sale recognized during the nine months ended September 30, 2022, which is included within “General and administrative expenses” on the unaudited Condensed Consolidated Statement of Operations, and wrote-off a total of $410 of accumulated depreciation.

8. VARIABLE INTEREST ENTITIES

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 stockholders 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.

The following tables present the summarized financial information about the Company's consolidated VIEs that are included in the unaudited Condensed Consolidated Balance Sheets as of September 30, 2022 and December 31, 2021 and in the unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2022 and 2021, as applicable. 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 VIEs.

	September 30, 2022		December 31, 2021
(in thousands)	Ascend Illinois	Ohio Patient Access	Ascend Illinois
Current assets	$ 74,682	$ —	$ 111,118
Other noncurrent assets	181,800	24,240	171,566
Current liabilities	82,809	108	71,264
Noncurrent liabilities	113,259	—	126,397
Equity	63,519	—	41,873

	Three Months Ended September 30, 2022		Three Months Ended September 30, 2021
(in thousands)	Ascend Illinois	Ohio Patient Access	Ascend Illinois
Revenue, net	$ 68,346	$ —	$ 75,470
Net income	8,834	—	9,167

	Nine Months Ended September 30, 2022		Nine Months Ended September 30, 2021
(in thousands)	Ascend Illinois	Ohio Patient Access	Ascend Illinois
Revenue, net	$ 197,152	$ —	$ 198,291
Net income	22,034	—	25,590

9. INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

(in thousands)	September 30, 2022	December 31, 2021
Finite-lived intangible assets		
Licenses and permits	$ 188,268	$ 55,281
In-place leases	19,963	19,963
Trade names	380	380
	208,611	75,624
Accumulated amortization:		
Licenses and permits	(9,600)	(5,415)
In-place leases	(12,205)	(10,558)
Trade names	(380)	(380)
	(22,185)	(16,353)
Total intangible assets, net	$ 186,426	$ 59,271

Amortization expense was $1,931 and $1,678 during the three months ended September 30, 2022 and 2021, respectively, and $5,832 and $5,050 during the nine months ended September 30, 2022 and 2021, respectively. Total amortization expense capitalized to inventory was $407 during the each of the three months ended September 30, 2022 and 2021 and $1,221 and $1,016 during the nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022 and December 31, 2021, $778 and $502, respectively, of amortization expense remained capitalized as part of inventory.

No impairment indicators were noted during the nine months ended September 30, 2022 or 2021 and, as such, we did not record any impairment charges during either period.

Goodwill

(in thousands)	
Balance, December 31, 2021	$ 42,967
Adjustments to purchase price allocation[1]	599
Balance, September 30, 2022	$ 43,566

[1] During the nine months ended September 30, 2022, we recorded measurement period purchase accounting adjustments related to certain of our 2021 acquisitions. See Note 4, “Acquisitions,” for additional information.

10. LEASES

The Company leases land, buildings, equipment, and other capital assets which it uses 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**	**September 30, 2022**	**December 31, 2021**
Lease assets			
Operating leases	Operating lease right-of-use assets	$ 109,085	$ 103,958
Finance leases	Property and equipment, net	956	—
Total lease assets		$ 110,041	$ 103,958
Lease liabilities			
Current liabilities			
Operating leases	Operating lease liabilities, current	$ 2,431	$ 2,665
Finance leases	Current portion of debt, net	184	—
Noncurrent liabilities			
Operating leases	Operating lease liabilities, noncurrent	229,838	197,295
Finance leases	Long-term debt, net	676	—
Total lease liabilities		$ 233,129	$ 199,960

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

(in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Operating lease costs				
Capitalized to inventory	$ 7,649	$ 5,040	$ 21,485	$ 14,154
General and administrative expenses	686	1,316	1,945	3,906
Total operating lease costs	$ 8,335	$ 6,356	$ 23,430	$ 18,060
Finance lease costs				
Amortization of leased assets[1]	$ 26	$ —	$ 26	$ —
Interest on lease liabilities	13	—	13	—
Total finance lease costs	$ 39	$ —	$ 39	$ —

[1] Included as a component of depreciation expense within “General and administrative expenses” on the accompanying unaudited Condensed Consolidated Statements of Operations.

At September 30, 2022 and December 31, 2021, $6,348 and $4,393, respectively, of lease costs remained capitalized in inventory. We recognized a gain of $145 during the nine months ended September 30, 2022 related to lease terminations, which is included in “General and administrative expenses” on the unaudited Condensed Consolidated Statement of Operations.

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

(in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Total short-term and variable lease costs	$ 1,404	$ 839	$ 3,873	$ 1,665

Sublease income generated during the three and nine months ended September 30, 2022 and 2021 was immaterial.

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

(in thousands)	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 22,987	$ 16,310
Operating cash flows from finance leases	13	—
Financing cash flows from finance leases	23	—
ROU assets obtained in exchange for new lease obligations		
Operating leases	$ 35,774	$ 41,498
Finance leases	883	—

The following table summarizes the weighted-average remaining lease term and discount rate:

	September 30, 2022	December 31, 2021
Weighted-average remaining term (years)		
Operating leases	15.3	15.8
Finance leases	3.9	—
Weighted-average discount rate		
Operating leases	14.8 %	12.7 %
Finance leases	13.2 %	—

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 September 30, 2022 are as follows:

(in thousands)	Operating Lease Liabilities	Finance Lease Liabilities
Remainder of 2022	$ 8,260	$ 71
2023	33,837	286
2024	34,789	286
2025	35,768	286
2026	36,382	168
Thereafter	478,227	—
Total lease payments	627,263	1,097
Less: imputed interest	394,994	237
Present value of lease liabilities	$ 232,269	$ 860

As of September 30, 2022, 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 $3,100.

Lease Amendments

In March 2022, we amended the leases related to our Athol, Massachusetts and Lansing, Michigan cultivation facilities to increase the tenant improvement allowance for each, which resulted in increased rent amounts. We accounted for the amendments as lease modifications and remeasured each ROU asset and lease liability as of the amendment dates. The modifications resulted in a total additional tenant improvement allowance of $19,300, a reduction of $22,483 to total ROU assets, and a reduction of $3,183 to total lease liabilities.

Sale Leaseback Transactions

In February 2022, the Company sold and subsequently leased back one of its capital assets in New Jersey for total proceeds of $35,400, excluding transaction costs. The transaction met the criteria for sale leaseback treatment. The lease was recorded as an operating lease and resulted in a lease liability of $33,707 and an ROU asset of $29,107, which was recorded net of a $4,600 tenant improvement allowance.

In June 2022, the Company sold and subsequently leased back two of its capital assets in Pennsylvania for total proceeds of $3,825, excluding transaction costs. Each transaction met the criteria for sale leaseback treatment. The leases were recorded as operating leases and resulted in a total lease liability and ROU asset of $2,102. Each of the lease agreements provide for a capital expenditure allowance of up to $3,000. The rent payments due under each lease will increase by a percentage of the capital expenditure allowance as funding occurs, and, therefore, each lease will be reassessed and remeasured as a modification upon such funding. During the three months ended September 30, 2022, we received a total of $3,215 under the capital expenditure allowance that was recorded as a tenant improvement allowance and resulted in $1,663 of additional lease liabilities based on the modified lease terms and a net gain of $279 during the three and nine months ended September 30, 2022, which is included in "General and administrative expenses" on the unaudited Condensed Consolidated Statement of Operations.

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 2022	2023	2024	2025	2026	Thereafter	Total
Cash payments due under financing liabilities	$ 529	$ 2,143	$ 2,206	$ 2,271	$ 2,338	$ 6,811	$ 16,298

11. DEBT

(in thousands)	September 30, 2022	December 31, 2021
2021 Credit Facility[1]	$ 275,000	$ 210,000
Sellers' Notes[2]	28,152	39,116
Finance liabilities[3]	17,750	17,750
Finance leases[4]	860	—
Total debt	$ 321,762	$ 266,866
Current portion of debt	19,492	27,980
Less: unamortized deferred financing costs	25	40
Current portion of debt, net	$ 19,467	$ 27,940
Long-term debt	302,270	238,886
Less: unamortized deferred financing costs	11,301	8,040
Long-term debt, net	$ 290,969	$ 230,846

(1) On August 27, 2021, the Company entered into a credit agreement with a group of lenders (the "2021 Credit Agreement") that provided for an initial term loan of $210,000 (the "2021 Credit Facility"), which was borrowed in full. The 2021 Credit Agreement provided for an expansion feature that allowed the Company to request an increase in the 2021 Credit Facility up to $275,000 if the then-existing lenders (or other lenders) agreed to provide such additional term loans. During the second quarter of 2022, the Company borrowed an additional $65,000 pursuant to the expansion feature (the "2022 Loans") for total borrowings of $275,000 under the 2021 Credit Facility.

The 2021 Credit Facility matures on August 27, 2025 and does not require scheduled principal amortization payments. Borrowings under the 2021 Credit Facility bear interest at a rate of 9.5% per annum, payable quarterly and, as to any portion of the term loan that is prepaid, on the date of prepayment. The 2021 Credit Agreement permits the Company to request an extension of the maturity date for 364 days, subject to the lenders' discretion.

We incurred initial financing costs of $8,806 and additional financing costs of $7,606 related to the 2022 Loans, which includes warrants issued to certain lenders to acquire 3,130 shares of Class A common stock that had a fair value of $2,639 at issuance (refer to Note 12, "Stockholders' Equity," for additional information). The financing costs are being amortized to interest expense over the term of 2021 Credit Facility using the straight-line method which approximates the interest rate method. The 2022 Loans were funded by a combination of new and existing lenders. Borrowings from the existing lenders were accounted for as a modification of existing debt, with the exception of one lender that was considered an extinguishment. We recognized a loss on extinguishment of $2,180 as a component of interest expense during the nine months ended September 30, 2022, comprised of the write-off of $337 related to the lender's initial term loan and $1,843 related to the lender's new loan, which included the estimated fair value of the warrants issued to the lender.

The 2021 Credit Agreement requires mandatory prepayments from proceeds of certain events, including the proceeds of indebtedness that is not permitted under the agreement and asset sales and casualty events, subject to customary reinvestment rights. The Company may prepay the 2021 Credit Facility at any time, subject to a customary make-whole payment or prepayment penalty, as applicable. Once repaid, amounts borrowed under the 2021 Credit Facility may not be re-borrowed.

The Company is required to comply with two financial covenants under the 2021 Credit Agreement. The Company may not permit its liquidity (defined as unrestricted cash and cash equivalents pledged under the 2021 Credit Facility plus any future revolving credit availability) to be below $20,000 as of the last day of any fiscal quarter. Additionally, the Company may not permit the ratio of Consolidated EBITDA (as defined in the 2021 Credit Agreement) to consolidated cash interest expense for any period of four consecutive fiscal quarters to be less than 2.50:1.00. The Company has a customary equity cure right for each of these financial covenants. The Company is in compliance with these covenants as of September 30, 2022.

The 2021 Credit Agreement requires the Company to make certain representations and warranties and to comply with customary covenants, including restrictions on the payment of dividends, repurchase of stock, incurrence of indebtedness, dispositions, and acquisitions. The 2021 Credit Agreement also contains customary events of default including: non-payment of principal or interest; violations of covenants; bankruptcy; change of control; cross defaults to other debt; and material judgments. The 2021 Credit Facility is guaranteed by all of the Company's subsidiaries and is secured by substantially all of the assets of the Company and its subsidiaries.

(2) Sellers' Notes consist of amounts owed for acquisitions or other purchases. During the nine months ended September 30, 2022, we repaid $24,839 to the former owners of two entities that we previously acquired, which is included in "Current portion of debt, net" on the unaudited Condensed Consolidated Balance Sheet at December 31, 2021. A total of $8,000, with an interest rate of 13% per annum, remains due to the former owners of one entity that we previously acquired and is included on the unaudited Condensed Consolidated Balance Sheets under the caption "Current portion of debt, net" at September 30, 2022 and Long-term debt, net" at December 31, 2021. Additionally, as further described in Note 4, "Acquisitions," a total of $8,100 of sellers' notes related to the acquisition of two additional licenses in Illinois is included in "Current portion of debt, net" at September 30, 2022 and $8,060 related to the OPA acquisition is included in Long-term debt, net at September 30, 2022. The $11,000 OPA sellers' note was recorded net of a discount of $3,010 that was calculated utilizing the Company's estimated incremental borrowing rate based on the anticipated close date. This discount will be accreted to interest expense over the expected term.

Additionally, at September 30, 2022, $3,992 remains due under the purchase of a previous non-controlling interest, of which $3,208 and $784 is included in "Current portion of debt, net" and "Long-term debt, net" respectively on the unaudited Condensed Consolidated Balance Sheet. At December 31, 2021, $3,140 and $3,136 is included in "Current portion of debt, net" and "Long-term debt, net" respectively.

(3) Finance liabilities related to failed sale leaseback transactions. See Note 10, "Leases," for additional information.

(4) Liabilities related to finance leases. See Note 10, "Leases," for additional information.

Debt Maturities

During the nine months ended September 30, 2022, we repaid $24,839 of sellers' notes related to two previous acquisitions and $2,289 of sellers' notes related to the former owners of a previous non-controlling interest.

At September 30, 2022, the following cash payments are required under our debt arrangements:

(in thousands)	Remainder of 2022	2023	2024	2025	2026	Total
Sellers' notes[(1)]	$ 853	$ 19,243	$ —	$ —	$ 11,000	$ 31,096
Term note maturities	—	—	—	275,000	—	275,000

(1) Certain cash payments include an interest accretion component. The timing of certain payments may vary based on regulatory approval of the underlying transactions.

Interest Expense

Interest expense during the three and nine months ended September 30, 2022 and 2021 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2022	2021	2022	2021
Cash interest	$ 6,847	$ 4,623	$ 17,677	$ 11,948
Accretion	1,053	610	2,288	9,148
Loss on extinguishment of debt[(1)]	—	6,637	2,180	6,637
Interest on financing liability[(2)]	521	506	1,553	1,507
Interest on finance leases	13	—	13	—
Non-cash interest related to beneficial conversion feature[(3)]	—	—	—	27,361
Total	$ 8,434	$ 12,376	$ 23,711	$ 56,601

(1) The amounts recorded for the 2021 periods include $1,656 of pre-payment fees and additional cash interest payments and $4,981 of non-cash components, including the write-off of unamortized deferred financing costs.

(2) Interest on financing liability related to failed sale leaseback transactions. See Note 10, "Leases," for additional details.

(3) See Note 12, "Stockholders' Equity," for additional details.

12. STOCKHOLDERS' EQUITY

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.

Holders of each share of Class A common stock are 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 May 4, 2026, the final conversion date. 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 any such transferred shares. 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.

Immediately prior to 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. In conjunction with the 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.

On May 4, 2021, the Company completed an 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 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 and the contingency was resolved, 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. Additionally, the then-outstanding convertible promissory notes, plus accrued interest, converted into a total of 37,388 shares of Class A common stock.

The following table summarizes the total shares of Class A common stock and Class B common stock outstanding as of September 30, 2022 and December 31, 2021:

(in thousands)	September 30, 2022	December 31, 2021
Shares of Class A common stock	187,904	171,521
Shares of Class B common stock	65	65
Total	187,969	171,586

Warrants

The following table summarizes the warrants activity during the nine months ended September 30, 2022:

	Number of Warrants *(in thousands)*	Weighted-Average Exercise Price	Weighted-Average Remaining Exercise Period *(years)*	Aggregate Intrinsic Value *(in thousands)*[(1)]
Outstanding, December 31, 2021[(2)]	3,531	$ 4.00	2.0	$ 9,216
Granted[(3)]	3,130	3.10		
Expired	(796)	4.00		
Outstanding, September 30, 2022	5,865	$ 3.52	3.0	$ —

(1) Based on the amount by which the closing market price of our Class A common stock exceeds the exercise price on each date indicated.

(2) 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 (the "Historical Warrants"). The Historical Warrants are equity-classified instruments, are subject to customary anti-dilution adjustments, are stand-alone instruments, and are not part of the terms of the notes with which they were originally issued (as applicable). The Historical Warrants had an estimated total fair value of $237 at issuance, which was calculated using a Black-Scholes model. The fair value per Historical Warrant ranged from $0.02 to $0.10 and significant assumptions used in the calculation included volatility ranging from 69.2% to 108.4% and risk-free rates ranging from 0.17% to 2.17%.

(3) In June 2022, in connection with the 2022 Loans (refer to Note 11, "Debt"), the Company issued warrants to purchase up to 3,130 shares of Class A common stock (the "2022 Warrants"). Each warrant is exercisable for one share of Class A common stock at an exercise price of $3.10 per share. The 2022 Warrants are immediately exercisable and have a four year term. The 2022 Warrants had a total estimated fair value of $2,639 at issuance, which was calculated using a Black-Scholes model. The fair value per 2022 Warrant was $0.84 and significant assumptions used in the calculation included volatility of 70% and a risk-free rate of 3.0%. Cashless exercise is permitted only if there is no effective registration statement registering the resale of the shares issued upon exercise. The Company will have the option to require the holders to exercise the 2022 Warrants if, after the first anniversary of the issuance, the 30-day volume-weighted average price of the Company's Class A common stock exceeds $6.50 per share. The 2022 Warrants are equity-classified instruments, are subject to customary anti-dilution adjustments, are stand-alone instruments, and are not part of the notes with which they were issued.

No warrants were exercised during the three and nine months ended September 30, 2022.

13. EQUITY-BASED COMPENSATION EXPENSE

Equity Incentive Plans

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 had been issued under the plan as of September 30, 2022. 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, 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.

The following table summarizes the restricted common shares activity during the nine months ended September 30, 2022:

(in thousands)	**Restricted Common Shares**
Unvested, December 31, 2021	1,653
Vested	(995)
Forfeited	(16)
Unvested, September 30, 2022	642

As of September 30, 2022, total unrecognized compensation cost related to the restricted common shares was $114, which is expected to be recognized over a weighted-average remaining 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. The 2021 Plan authorized the issuance of stock options, stock appreciation rights ("SAR Awards"), restricted stock awards ("RSAs"), restricted stock units ("RSUs"), and other stock-based awards (collectively the "2021 Plan Awards"). Any 2021 Plan Awards that expire or are forfeited may be re-issued. The estimated fair value of the 2021 Plan Awards at issuance is recognized as compensation expense over the related vesting, exercise, or service periods, as applicable. As of September 30, 2022, there were 5,896 shares of Class A common stock available for grant for future equity-based compensation awards under the 2021 Plan. Activity related to awards issued under the 2021 Plan is further described below. As of September 30, 2022, no SAR Awards and no RSAs have been granted under the 2021 Plan.

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2022:

	Options Outstanding			
(in thousands, except per share amounts)	**Number of Options**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Life *(years)***	**Aggregate Intrinsic Value[(1)]**
Outstanding, December 31, 2021	—	$ —	—	$ —
Granted	2,374	$ 3.38		
Forfeited	(249)	$ 4.10		
Outstanding, September 30, 2022	2,125	$ 3.30	4.65	$ —

(1) Based on the amount by which the closing market price of our Class A common stock exceeds the exercise price on each date indicated.

No options were exercised during the nine months ended September 30, 2022 and no options are exercisable as of September 30, 2022. Total unrecognized stock-based compensation expense related to unvested options was $3,081 as of September 30, 2022, which is expected to be recognized over a weighted-average remaining period of 3.6 years.

We determine the fair value of stock options on the grant date using a Black-Scholes option pricing model. The fair value of stock options granted during the nine months ended September 30, 2022 was calculated on the date of grant using the following weighted-average assumptions:

	Nine Months Ended September 30, 2022
Risk-free interest rate	2.8 %
Expected term (years)	3.75
Dividend yield	0 %
Expected volatility	70.0 %

Using the Black-Scholes option pricing model, the weighted-average fair value of stock options granted during the nine months ended September 30, 2022 was $1.65 per share.

Restricted Stock Units

The following table summarizes the RSU activity during the nine months ended September 30, 2022:

	Number of Shares *(in thousands)*	**Weighted-Average Grant Date Fair Value per Share**
Unvested, December 31, 2021	6,329	$ 10.48
Granted	4,993	3.33
Vested[(1)]	(3,844)	6.35
Forfeited	(1,041)	6.57
Unvested, September 30, 2022	6,437	$ 7.79

(1) Includes 1,356 vested shares that were withheld to cover tax obligations and were subsequently canceled.

As of September 30, 2022, total unrecognized compensation cost related to the RSUs was $42,814, which is expected to be recognized over a weighted-average remaining period of 2.7 years.

Compensation Expense by Type of Award

The following table details the equity-based compensation expense by type of award for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2022	2021	2022	2021
RSUs[1]	$ 5,829	$ 3,727	$ 17,081	$ 3,727
Restricted Common Shares	28	266	232	4,464
Stock Options	175	—	349	—
Total equity-based compensation expense	$ 6,032	$ 3,993	$ 17,662	$ 8,191

(1) Includes RSUs issued for the 2021 annual performance bonus, which is included within “Accounts payable and accrued liabilities” on the unaudited Condensed Consolidated Balance Sheet at December 31, 2021. These RSUs vested at issuance with a value of $7,959, which reflects a change in estimate of $632 that is included as a reduction to equity-based compensation expense and is included within “General and administrative expenses” on the unaudited Condensed Consolidated Statements of Operations for the nine months ended September 30, 2022. This amount also includes $1,487 and $3,232 recognized during the three and nine months ended September 30, 2022, respectively, for the 2022 annual performance bonus, which is included within “Accounts payable and accrued liabilities” on the unaudited Condensed Consolidated Balance Sheet at September 30, 2022.

Of the total equity-based compensation expense, $2,279 and $7,517 was capitalized to inventory during the three and nine months ended September 30, 2022, respectively, and $1,406 was capitalized during each of the three and nine months ended September 30, 2021. As of September 30, 2022 and December 31, 2021, $2,278 and $4,814, respectively, remains capitalized in inventory. During the three and nine months ended September 30, 2022, we recognized $3,753 and $10,145, respectively, within “General and administrative expenses” on the unaudited Condensed Consolidated Statements of Operations and we recognized $2,891 and $10,053, respectively, within “Cost of goods sold.” During the three and nine months ended September 30, 2021, we recognized $2,587 and $6,785, respectively, within “General and administrative expenses” and we recognized $349 within “Cost of goods sold” during each of the three and nine months ended September 30, 2021.

Employee Stock Purchase 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. No shares have been issued under the 2021 ESPP as of September 30, 2022.

14. INCOME TAXES

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2022	2021	2022	2021
Loss before income taxes	$ (5,684)	$ (719)	$ (36,092)	$ (72,868)
Income tax expense	11,178	12,307	29,757	33,278
Effective tax rate	(196.7)%	(1,711.7)%	(82.4)%	(45.7)%
Gross profit	$ 36,636	$ 40,954	$ 93,051	$ 105,137
Effective tax rate on gross profit	30.5 %	30.1 %	32.0 %	31.7 %

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. As such, the effective tax rate for the three and nine months ended September 30, 2022 varies from the effective tax rate for the three and nine months ended September 30, 2021 due to the tax-effected change in nondeductible expenses under IRC Section 280E as a proportion of pre-tax loss during the period.

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.

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, and certain payments related to acquisitions, as disclosed in Note 4.

In conjunction with the OCC acquisition (see Note 4, “Acquisitions”) in December 2021, the Company entered into a supply agreement with a producer and supplier of medical marijuana products in Ohio (the “Ohio Supply Agreement”) with an initial expiration date of August 2028. Under the Ohio Supply Agreement, the Company will purchase products from the supplier that results in 7.5% of the Company’s monthly gross sales of all products in its Ohio dispensaries for the first five years, and 5% for the remaining term. The Company can establish the selling price of the products and the purchases are made at the lowest then-prevailing wholesale market price of products sold by the supplier to other dispensaries in Ohio.

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 September 30, 2022 in all material respects, 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 United States authorize medical and/or adult use cannabis production and distribution by licensed or registered entities, under United States 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 United States 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 September 30, 2022 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.

Stockholder 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 "AWH Convertible Promissory 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 at that time, 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 2019 Convertible Note Purchase Agreement (the "Amended Notes Consent"), which was approved by holders of approximately 66% of the principal amount of the AWH Convertible Promissory Notes, in excess of the simple majority required to amend the AWH Convertible Promissory Notes. The Amended Notes Consent set the conversion price of the AWH Convertible Promissory Notes at $2.96 per share. The Claimants alleged that the Amended Notes Consent was obtained improperly and is void. The Company disputed the Claimants' allegations and contended that the Amended Notes Consent was properly obtained in accordance with the terms of the AWH Convertible Promissory Notes and 2019 Convertible Note Purchase Agreement and the Amended Notes Consent was binding on all holders of the AWH Convertible Promissory Notes.

The Company, Mr. Kurtin, and the Claimants entered into a settlement agreement, dated April 29, 2022, whereby the Company agreed to pay the Claimants a total of $5,000. This amount is included within "Settlement expense" on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements for the nine months ended September 30, 2022 and was paid in May 2022.

MedMen NY Litigation

On February 25, 2021, the Company entered into a definitive investment agreement (the "Investment Agreement") with subsidiaries of MedMen Enterprises Inc. ("MedMen"), under which we would have, subject to regulatory approval, completed an investment (the "Investment") of approximately $73,000 in MedMenNY, Inc. ("MMNY"), a licensed medical cannabis operator in the State of New York. Following the completion of the transactions contemplated by the Investment Agreement, we were expected to hold all the outstanding equity of MMNY. Specifically, the Investment Agreement provided that at closing, the Company was going to pay to MedMen's senior lenders $35,000, less certain transaction costs and a prepaid deposit of $4,000, and AWH New York, LLC was going to 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 would be used to reduce the amounts owed to MMNY's senior secured lender. Following its investment, AWH would 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 for a nominal additional payment, which option the Company intended to exercise. The Investment Agreement also required AWH to make an additional investment of $10,000 in

MMNY, which investment would also be used to repay MMNY's senior secured lender, if adult-use cannabis sales commenced in MMNY's dispensaries.

The Company contends that, in December 2021, the parties to the Investment Agreement received the required approvals from the State of New York to close the transactions contemplated by the Investment Agreement, but MedMen has disputed the adequacy of the approvals provided by the State of New York. The Company delivered notice to MedMen in December 2021 that it wished to close the transactions as required by the Investment Agreement. Nevertheless, MedMen, on January 2, 2022, gave notice to the Company that MedMen purported to terminate the Investment Agreement.

Following receipt of such notice, on January 13, 2022, the Company filed a complaint against MedMen and others in the Commercial Division of the Supreme Court of the State of New York, requesting specific performance that the transactions contemplated by the Investment Agreement must move forward, and such other relief as the court may deem appropriate. On January 24, 2022, MedMen filed an answer and counterclaims against the Company. On February 14, 2022, the Company filed a first amended complaint, not only seeking specific performance but also damages related to MedMen's breaches of the Investment Agreement. On that same day, the Company also filed a motion to dismiss the counterclaims. On March 7, 2022, MedMen filed an amended answer and counterclaims against the Company. On March 28, 2022, the Company moved to dismiss MedMen's amended counterclaims. That motion remains pending.

On May 10, 2022, the Company and MedMen signed a term sheet, pursuant to which parties agreed to use best efforts to enter into a settlement agreement and enter into new or amended transactional documents. Specifically, if consummated, the agreements contemplated by the term sheet would entail, among other things, the Company paying MedMen $15,000 in additional transaction consideration, and MedMen withdrawing its counterclaims against the Company. Per the amended transaction terms contemplated in the term sheet, upon closing, the Company would receive a 99.99% controlling interest of MMNY and the Company would pay MedMen $74,000, which reflects the original transaction consideration plus an additional $11,000 per the parties' term sheet. The Company already paid $4,000 as a deposit.

The amended transaction terms contemplated in the term sheet also would have required MedMen to provide a representation and warranty that the status of the MMNY assets has not materially changed since December 31, 2021 and an acknowledgement that the representations and warranties from the Investment Agreement will survive for three months after the closing of the contemplated transactions. The Company has determined that MedMen cannot make or provide the representations and warranties MedMen would have been required to make as part of the contemplated transactions. Therefore, the Company no longer intends to consummate the contemplated transactions.

On September 30, 2022, the Company filed a motion for leave to file a second amended complaint. The second amended complaint no longer seeks specific performance that MedMen be required to close the transactions contemplated by the Investment Agreement. The second amended complaint, however, continues to seek damages against MedMen, including, but not limited to, the return of the deposit, working capital advances, and capital expenditure advances paid to MMNY by the Company as well as other damages for MedMen's failure to close the contemplated transactions. The motion remains pending. In addition, MedMen has notified the Company that MedMen anticipates seeking leave to file second amended counterclaims against the Company, but it has not yet done so.

Following the Company's decision to no longer consummate the contemplated transactions, the Company expensed a total of $1,704 of capitalized costs, primarily consisting of capital expenditures or deposits that were incurred for certain locations. This write-off is included within "General and administrative expenses" on the unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2022 and within "Other" on the unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022.

16. RELATED PARTY TRANSACTIONS

There were no significant related party transactions during the nine months ended September 30, 2022, other than as disclosed in Note 6, "Notes Receivable."

17. SUPPLEMENTAL INFORMATION

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

(in thousands)	September 30, 2022	December 31, 2021
Prepaid expenses	$ 5,993	$ 7,508
Deposits and other receivables	4,172	5,177
Construction deposits	3,180	3,263
Tenant improvement allowance	500	2,507
Other	2,872	6,376
Total	$ 16,717	$ 24,831

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

(in thousands)	September 30, 2022	December 31, 2021
Accounts payable	$ 21,731	$ 5,536
Acquisition-related liabilities	16,414	—
Fixed asset purchases	7,324	15,682
Accrued payroll and related expenses	6,442	11,760
Accrued interest	766	187
Other	4,275	6,809
Litigation settlement	—	5,480
Total	$ 56,952	$ 45,454

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2022	2021	2022	2021
Compensation	$ 16,276	$ 13,434	$ 46,592	$ 37,140
Rent and utilities	5,137	6,443	16,648	16,089
Professional services	3,408	3,158	13,573	12,945
Depreciation and amortization	3,272	2,520	9,061	7,409
Insurance	1,554	1,127	4,323	3,165
Marketing	882	783	2,505	2,188
(Gain) loss on sale of assets	(296)	649	450	649
Other	3,926	1,227	7,807	5,514
Total	$ 34,159	$ 29,341	$ 100,959	$ 85,099

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 Financial Statements. There were no events that require adjustment to or disclosure in the Financial Statements, except as disclosed.

Acquisition

Effective October 14, 2022, the Company acquired Marichron, a medical cannabis processor in Ohio, for total consideration of approximately $2,750, consisting of cash consideration of $1,750, of which $1,500 was previously funded under a promissory note, and settlement of approximately $1,000 due under a working capital loan, subject to final adjustment. Refer to Note 6, "Notes Receivable," for additional information regarding the promissory note and working capital loan.

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 nine months ended September 30, 2022 and 2021. 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 Report on Form 10-K for the year ended December 31, 2021 (the "Annual Report"), which has been filed with the United States Securities and Exchange Commission ("SEC") and with the relevant Canadian securities regulatory authorities under its profile on the System for Electronic Document Analysis and Retrieval ("SEDAR"). The Financial Statements and Annual Report were prepared in accordance with accounting principles generally accepted in the United States of America, which we refer to as "GAAP."

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. See "Forward-Looking Statements" for more information. 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 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.

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® Best Market 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.

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.

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, “Stockholders’ Equity,” in the Financial Statements for additional details.

Since our formation, we have expanded our operational footprint, primarily through acquisitions, and currently have direct or indirect operations or financial interests in six United States geographic markets: Illinois, Michigan, Ohio, Massachusetts, New Jersey, and Pennsylvania. We currently employ approximately 1,900 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 five out of the six states in which we operate with expansion plans underway to achieve vertical integration in all six 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. As of September 30, 2022, we produce our consumer packaged goods in five manufacturing facilities with 238,000 square feet of current operational canopy and total current capacity of approximately 119,000 pounds annually. We are undergoing expansions that we hope to complete by the end of 2022, which are expected to increase our cumulative canopy to approximately 244,000 square feet with an estimated total annual production capacity of approximately 122,000 pounds post build-out. As of September 30, 2022, our product portfolio consists of 413 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 September 30, 2022, we have 22 open and operating retail locations and opened one additional location in October 2022. We expect to open two additional retail locations by the end of 2022. 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.

Recent Developments

Business Developments

AWH continues to expand and further develop its business and operations. During and subsequent to the quarter, we:

- entered into a definitive agreement with Ohio Patient Access (“OPA”) providing the option to acquire three medical dispensaries in Ohio, as further described below;
- entered into definitive agreements to acquire two additional licenses in Illinois, as further described below;
- commenced medical sales at our Fort Lee, New Jersey dispensary in August and expect adult-use sales will begin during the fourth quarter, commenced adult-use sales at our Montclair, New Jersey in August, and added 25,000 square feet of canopy at our New Jersey cultivation facility; and
- continued the build out of our Pennsylvania cultivation facility, opened our Scranton, Pennsylvania dispensary in October 2022, and continued the build out of our dispensary in Wayne, Pennsylvania that is expected to open during the fourth quarter.

Acquisition of Story of PA

On April 19, 2022, we acquired Story of PA CR, LLC (“Story of PA”). Total consideration for the acquisition of the outstanding equity interests in Story of PA was $53,127, consisting of 12,900 shares of Class A common stock with a fair value of $42,957 and cash consideration of $10,170. Story of PA received a clinical registrant permit from the Pennsylvania Department of Health on March 1, 2022. Through a research collaboration agreement with the Geisinger Commonwealth School of Medicine (“Geisinger”), a Pennsylvania Department of Health-Certified Medical Marijuana Academic Clinical Research Center, we intend to open a cultivation and processing facility and up to six medical dispensaries throughout the Commonwealth of Pennsylvania. We will help fund clinical research to benefit the patients of Pennsylvania by contributing $30,000 to Geisinger over the next two years (of which $15,000 was funded in April 2022), and up to an additional $10,000 over the next ten years.

The transaction was accounted for as an asset acquisition and the total acquisition cost of $100,203 was allocated to the license intangible asset acquired. The total acquisition cost includes the consideration transferred for the equity interests in Story of PA, the research funding commitment, other liabilities assumed in the transaction, and certain transaction costs. Refer to Note 4, “Acquisitions,” in the Financial Statements for additional information.

Through this transaction, AWH entered its sixth market in the United States. We opened our first dispensary in the state in Scranton in October 2022 and continued the build-out of our second dispensary in Wayne that is expected to open during the fourth quarter. The Company remains focused on the building out the cultivation facility and siting locations for the four additional dispensaries.

Acquisition of Ohio Patient Access

On August 12, 2022, the Company entered into a definitive agreement (the “Ohio Agreement”) that provides the Company the option to acquire 100% of the equity of Ohio Patient Access LLC (“OPA”), the holder of a license that grants it the right to operate three medical dispensaries in Ohio, which operations have not yet commenced. The Ohio Agreement is subject to regulatory review and approval. Once the regulatory approval is received, the Company may exercise the option, and the exercise is solely within the Company’s control. The Company may exercise the option until the fifth anniversary of the agreement date or can elect to extend the exercise period for an additional year. Under the Ohio Agreement, the Company will also acquire the real property of the three dispensary locations. In conjunction with the Ohio Agreement, the parties also entered into a support services agreement under which the Company will provide management and advisory services to OPA for a set monthly fee. The parties also entered into a working capital loan agreement under which the Company may, at its full discretion, loan OPA up to $10,000 for general working capital needs. The Company determined OPA is a variable interest entity (“VIE”) and the Company became the primary beneficiary as of the signing date; therefore, OPA is consolidated as a VIE. Refer to Note 8, “Variable Interest Entities,” in the Financial Statements for additional information regarding the Company’s VIEs.

The Ohio Agreement also includes an earn-out provision of $7,300 that is dependent upon the commencement of adult-use cannabis sales in Ohio. The sellers may elect to receive the earn-out payment as either cash or shares of the Company’s Class A common stock, or a combination thereof. Refer to Note 4, “Acquisitions,” in the Financial Statements for additional information.

The total estimated fair value of the transaction consideration was determined to be $24,132 and consists of the fair value of the cash consideration of $19,290 plus the estimated fair value of the contingent consideration of $4,842. Of the total cash consideration, $11,300 was funded at signing pursuant to note agreements. The $11,000 payment that is due at final closing was recorded net of a discount of $3,010 based on the estimated payment date utilizing the Company’s incremental borrowing rate. This discounted payment is included within “Long-term debt, net” on the unaudited Condensed Consolidated Balance Sheet in the Financial Statements at September 30, 2022; refer to Note 11, “Debt,” in the Financial Statements for additional information. The contingent consideration is included within “Other non-current liabilities” on the unaudited Condensed Consolidated Balance Sheet in the Financial Statements at September 30, 2022.

The license intangible asset acquired was determined to have an estimated fair value of $21,684 and the three properties had an estimated fair value of $2,448. Direct transaction expenses of $224 are included in “General and administrative expenses” on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements for the three and nine months ended September 30, 2022. Refer to Note 4, “Acquisitions,” in the Financial Statements for additional information related to this transaction.

Through this transaction, the Company will expand its footprint in Ohio to five dispensaries. The three additional dispensaries are expected to be built-out over the next year.

Illinois Licenses

In August 2022, the Company entered into definitive agreements to acquire two additional licenses in Illinois. Neither of these licenses were associated with active operations at signing and the transfer of each license is subject to regulatory review and approval.

One transaction was entered on August 11, 2022 for total cash consideration of $5,500. The Company accounted for this transaction as an asset acquisition and allocated the cash consideration as the cost of the license acquired. Of the total cash consideration, $3,000 was paid at signing and $2,500 is due at final closing and is included as a sellers’ note within “Current portion of debt, net” on the unaudited Condensed Consolidated Balance Sheet in the Financial Statements at September 30, 2022; refer to Note 11, “Debt,” in the Financial Statements for additional information. Direct transaction expenses were immaterial.

The second transaction was entered on August 12, 2022 for total cash consideration of $5,600. The Company accounted for this transaction as an asset acquisition and allocated the cash consideration as the cost of the license acquired. The consideration will be paid at final closing and is included as a sellers’ note within “Current portion of debt, net” on the unaudited Condensed Consolidated Balance Sheet in the Financial Statements at September 30, 2022. Direct transaction expenses were immaterial.

The licenses acquired will be amortized in accordance with the Company’s policy once the related operations commence. Refer to Note 4, “Acquisitions,” in the Financial Statements for additional information related to these transactions.

Operational and Regulation Overview

We believe our operations are in material compliance with all applicable state and local laws, regulations, and licensing requirements in the states in which we operate. However, cannabis is illegal under United States federal law. Substantially all of our revenue is derived from United States cannabis operations. For information about risks related to United States cannabis operations, refer to Item 1A., "*Risk Factors*," of the Annual Report.

Key Financial Highlights

- Revenue increased by $16,856, or 18%, during Q3 2022, as compared to Q3 2021, primarily driven by growth from our existing business, including the commencement of adult-use sales at two of our New Jersey dispensaries, as well as new site openings and acquisitions.
- Operating profit decreased by $9,136 during Q3 2022, as compared to Q3 2021, primarily driven by lower gross profit margin.
- Net decrease in cash and cash equivalents of $64,088 during the nine months ended September 30, 2022, primarily driven by net cash used in investing activities, including payments related to acquisitions, and net cash used to support working capital needs and operating activities, partially offset by proceeds received under our credit facility.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2022 Compared with the Three Months Ended September 30, 2021

	Three Months Ended September 30,					
($ in thousands)	2022		2021		Increase / (Decrease)	
Revenue, net	$	111,238	$	94,382	$ 16,856	18%
Cost of goods sold		(74,602)		(53,428)	21,174	40%
Gross profit		36,636		40,954	(4,318)	(11)%
Gross profit %		*32.9 %*		*43.4 %*		
Operating expenses						
General and administrative expenses		34,159		29,341	4,818	16%
Operating profit		2,477		11,613	(9,136)	(79)%
Other (expense) income						
Interest expense		(8,434)		(12,376)	(3,942)	(32)%
Other, net		273		44	229	520%
Total other expense		(8,161)		(12,332)	(4,171)	(34)%
Loss before income taxes		(5,684)		(719)	4,965	691%
Income tax expense		(11,178)		(12,307)	(1,129)	(9)%
Net loss	$	(16,862)	$	(13,026)	$ 3,836	29%

Revenue

Revenue increased by $16,856, or 18%, during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. Revenue across our legacy locations increased by $14,131, which includes the benefit of the commencement of adult-use sales at one of our New Jersey dispensaries that began in April 2022 and a second location that began in August 2022. Additionally, new dispensaries that opened during late 2021 and early 2022 contributed $1,944 to our revenue growth and we recognized $3,205 of incremental revenue from acquisitions. The current period also benefited from an increase in wholesale volume sold, but was partially offset by pricing pressure across the markets in which we operate and an increase in intercompany sales that combined resulted in a decrease of $2,424 in net revenue related to our wholesale operations. As of September 30, 2022, we had 413 SKUs for our cultivation products, compared to 199 SKUs as of September 30, 2021.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by $21,174, or 40%, during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. Cost of goods sold represents 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 September 30, 2022 was driven by expansion of our operations, including $2,126 of incremental costs from acquisitions. Gross profit for the three months ended September 30, 2022 was $36,636, representing a gross margin of 32.9%, compared to gross profit of $40,954 and gross margin of 43.4% for the three months ended September 30, 2021. The decrease in gross margin was primarily driven by $4,049 of write-downs of certain inventory items within our Michigan business. Additionally, we recognized lower margins in our wholesale operations due to pricing pressure and a shift in product mix, partially offset by improved utilization and production at our Massachusetts and New Jersey cultivation facilities due to increased production.

General and Administrative Expenses

General and administrative expenses increased by $4,818, or 16%, during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. The increase was primarily related to:

- a $2,842 increase in compensation expense, including $1,166 of higher equity-based compensation expense, resulting from higher headcount of approximately 1,900 employees as of September 30, 2022, compared to approximately 1,400 as of September 30, 2021 to support our expanded operations;
- a $1,704 expense related to the write-off of certain previously capitalized costs associated with the New York transaction (refer to *"Management's Discussion and Analysis of Financial Condition and Results of Operations–Legal Matters–MedMen NY Litigation"* for additional information);
- a $752 increase in depreciation and amortization expense due to $499 of incremental depreciation expense due to a larger average balance of fixed assets in service and $253 of incremental amortization of licenses;
- $427 of higher insurance expenses; and
- a $297 increase in charitable donations, including our corporate match of donations to the Last Prisoner Project, a cannabis criminal justice-focused nonprofit organization.

These increases were partially offset by a $1,306 decrease in rent and utilities and related overhead expenses due to more productive assets being utilized in the current year compared to the prior year and a $296 gain from certain lease modifications, as compared to a $649 loss on sale of assets in the prior year.

Interest Expense

Interest expense decreased by $3,942, or 32%, during the three months ended September 30, 2022, as compared to the three months ended September 30, 2021. The decrease was primarily driven by the absence of a $6,637 net loss on extinguishment of previously outstanding debt that we recognized in the prior year, partially offset by higher cash interest expense in the current year associated with additional borrowings under our credit facility. During the three months ended September 30, 2022, the Company had a weighted-average outstanding debt balance of $315,648 with a weighted-average interest rate of 9.5%, excluding finance leases, compared to a weighted-average debt balance of $181,425 during the three months ended September 30, 2021 with a weighted-average interest rate of 10.8%.

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. During the three months ended September 30, 2022 the Company had operations in six U.S. geographic markets: Illinois, Michigan, Ohio, Massachusetts, New Jersey, and Pennsylvania, which have state tax rates ranging from 6% to 11.5%. 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. There have been no material changes to income tax matters in connection with the normal course of our operations during the current year.

Income tax expense was $11,178, or 30.5%, of gross profit, during the three months ended September 30, 2022, as compared to $12,307, or 30.1%, of gross profit, during the three months ended September 30, 2021. The effective tax rate on gross profit for the three months ended September 30, 2022 was impacted by higher penalties and interest due on federal tax payments in the current year as compared to the prior year, but benefited from higher relative cost of goods sold.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2022 Compared with the Nine Months Ended September 30, 2021

	Nine Months Ended September 30,			
($ in thousands)	2022	2021	Increase / (Decrease)	
Revenue, net	$ 293,827	$ 243,886	$ 49,941	20%
Cost of goods sold	(200,776)	(138,749)	62,027	45%
Gross profit	93,051	105,137	(12,086)	(11)%
Gross profit %	*31.7 %*	*43.1 %*		
Operating expenses				
General and administrative expenses	100,959	85,099	15,860	19%
Settlement expense	5,000	36,511	(31,511)	(86)%
Total operating expenses	105,959	121,610	(15,651)	(13)%
Operating loss	(12,908)	(16,473)	(3,565)	(22)%
Other (expense) income				
Interest expense	(23,711)	(56,601)	(32,890)	(58)%
Other, net	527	206	321	156%
Total other expense	(23,184)	(56,395)	(33,211)	(59)%
Loss before income taxes	(36,092)	(72,868)	(36,776)	(50)%
Income tax expense	(29,757)	(33,278)	(3,521)	(11)%
Net loss	$ (65,849)	$ (106,146)	$ (40,297)	(38)%

Revenue

Revenue increased by $49,941, or 20%, during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. Revenue from our legacy locations increased by $39,927, which includes the benefit of the commencement of adult-use sales at one of our New Jersey dispensaries that began in April 2022, and new dispensaries that opened during late 2021 and 2022 contributed $5,051 to our revenue growth. Additionally, we recognized incremental revenue from acquisitions of $10,036, which includes $451 related to the Ohio cultivation site that we acquired during the second quarter of 2021. The current period also benefited from an increase in wholesale volume sold, but was partially offset by pricing pressure across the markets in which we operate and an increase in intercompany sales that combined resulted in a decrease of $5,073 in net revenue related to our wholesale operations. As of September 30, 2022, we had 413 SKUs for our cultivation products, compared to 199 SKUs as of September 30, 2021.

Cost of Goods Sold and Gross Profit

Cost of goods sold increased by $62,027, or 45%, during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. Cost of goods sold represents 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 nine months ended September 30, 2022 was driven by expansion of our operations, including $7,186 of incremental costs from acquisitions. Gross profit for the nine months ended September 30, 2022 was $93,051, representing a gross margin of 31.7%, compared to gross profit of $105,137 and gross margin of 43.1% for the nine months ended September 30, 2021. The decrease in gross margin was primarily driven by lower margins at our Massachusetts and Illinois cultivation facilities as staffing increased ahead of canopy expansions, which resulted in higher production expenses in the first half of the year but lead to improved utilization during the third quarter as production increased. Additionally, we recognized $4,049 of write-downs of certain inventory items within our Michigan business and recognized lower margins across our wholesale operations due to pricing pressure and a shift in product mix.

General and Administrative Expenses

General and administrative expenses increased by $15,860, or 19%, during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. The increase was primarily related to:

- a $9,452 increase in compensation expense, including $3,360 higher equity-based compensation expense, resulting from higher headcount of approximately 1,900 as of September 30, 2022 compared to approximately 1,400 as of September 30, 2021 to support our expanded operations;
- a $1,704 expense related to the write-off of certain previously capitalized costs associated with the New York transaction (refer to *"Management's Discussion and Analysis of Financial Condition and Results of Operations–Legal Matters–MedMen NY Litigation"* for additional information);
- a $1,652 increase in depreciation and amortization expense due to $1,075 of incremental depreciation expense due to a larger average balance of fixed assets in service and $577 of incremental amortization of licenses;
- $1,158 of higher insurance expenses;
- a $628 increase in professional services, driven by higher legal expenses for ongoing litigation matters incurred during the first quarter of the current year, partially offset by the absence of a $2,000 termination fee associated with an MSA that was incurred in the prior year following our IPO; and
- a $559 increase in rent and utilities and related overhead expenses to support the expansion of our operations.

Settlement Expense

During the nine months ended September 30, 2022, we recognized an expense of $5,000 related to the settlement of a stockholder dispute (refer to *"Management's Discussion and Analysis of Financial Condition and Results of Operations–Legal Matters–Stockholder Dispute"* for additional information). During the nine months ended September 30, 2021, we recognized a settlement expense of $36,511 for a matter related to two property purchase agreements.

Interest Expense

Interest expense decreased by $32,890, or 58%, during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. The decrease was primarily due to the absence of $30,967 of non-cash interest expense that we incurred in the prior year related to our IPO. Additionally, in the prior year we recognized a $6,637 net loss on extinguishment of previously outstanding debt. The absence of these amounts was partially offset by higher cash interest expense in the current year associated with additional borrowings under our credit facility, as well as a $2,180 loss on extinguishment recognized in the current year (refer to "*Liquidity and Capital Resources*" for further information). During the nine months ended September 30, 2022, the Company had a weighted-average outstanding debt balance of $272,277 with a weighted-average interest rate of 9.5%, excluding finance leases, compared to a weighted-average debt balance of $203,692 during nine months ended September 30, 2021 with a weighted-average interest rate of 10.6%.

Income Tax Expense

Income tax expense was $29,757, or 32.0%, of gross profit, during the nine months ended September 30, 2022, as compared to $33,278, or 31.7%, of gross profit, during the nine months ended September 30, 2021. The effective tax rate on gross profit for the nine months ended September 30, 2022 was impacted by higher penalties and interest due on federal tax payments in the current year as compared to the prior year, but benefited from higher relative cost of goods sold.

NON-GAAP FINANCIAL MEASURES

We define “Adjusted Gross Profit” as gross profit excluding non-cash inventory costs, which include depreciation and amortization included in cost of goods sold, equity-based compensation included in cost of goods sold, start-up costs included in cost of goods sold, and other non-cash inventory adjustments. 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; equity-based compensation included in cost of goods sold; start-up costs; start-up costs included in cost of goods sold; transaction-related and other non-recurring expenses; litigation settlement; and gain or 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 nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
($ in thousands)	**2022**	**2021**	**2022**	**2021**
Gross Profit	$ 36,636	$ 40,954	$ 93,051	$ 105,137
Depreciation and amortization included in cost of goods sold	4,722	2,063	11,618	6,612
Equity-based compensation included in cost of goods sold	2,629	349	9,791	349
Start-up costs included in cost of goods sold[(1)]	2,610	—	10,781	—
Non-cash inventory adjustments[(2)]	4,049	335	6,365	3,799
Adjusted Gross Profit	$ 50,646	$ 43,701	$ 131,606	$ 115,897
Adjusted Gross Margin	*45.5 %*	*46.3 %*	*44.8 %*	*47.5 %*

(1) Incremental expenses associated with the expansion of activities at our cultivation facilities that are not yet operating at scale, including excess overhead expenses resulting from delays in regulatory approvals at certain cultivation facilities.

(2) Primarily consists of write-offs of expired products and obsolete packaging. Additionally, during the third quarter of 2022, we recognized a loss of $4,049 resulting from net realizable value adjustments related to certain inventory items in Michigan.

The following table presents Adjusted EBITDA for the three and nine months ended September 30, 2022 and 2021:

($ in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net loss	$ (16,862)	$ (13,026)	$ (65,849)	$ (106,146)
Income tax expense	11,178	12,307	29,757	33,278
Other (income) expense	(273)	(44)	(527)	(206)
Interest expense	8,434	12,376	23,711	56,601
Depreciation and amortization	7,994	4,583	20,679	14,021
Non-cash inventory adjustments(1)	4,049	335	6,365	3,799
Equity-based compensation	6,382	2,936	19,936	7,134
Start-up costs(2)	3,953	1,227	5,906	4,254
Start-up costs included in cost of goods sold(3)	2,610	—	10,781	—
Transaction-related and other non-recurring expenses(4)	601	2,191	8,822	9,775
(Gain) loss on sale of assets	(296)	649	450	649
Litigation settlement	—	—	5,000	36,511
Adjusted EBITDA	$ 27,770	$ 23,534	$ 65,031	$ 59,670
Adjusted EBITDA Margin	*25.0 %*	*24.9 %*	*22.1 %*	*24.5 %*

(1) Primarily consists of write-offs of expired products and obsolete packaging. Additionally, during the third quarter of 2022, we recognized a loss of $4,049 resulting from net realizable value adjustments related to certain inventory items in Michigan.

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

(3) Incremental expenses associated with the expansion of activities at our cultivation facilities that are not yet operating at scale, including excess overhead expenses resulting from delays in regulatory approvals at certain cultivation facilities.

(4) Legal and professional fees associated with litigation matters, potential acquisitions, and other regulatory matters and other non-recurring expenses. The prior year includes expenses related to the Company's IPO.

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. In May 2021, we completed an IPO of shares of our Class A common stock through which we raised aggregate net proceeds of approximately $86,065, after deducting underwriting discounts and commissions and certain direct offering expenses paid by us, and in August 2021 we entered into a credit facility under which we initially borrowed a $210,000 term loan. During the second quarter of 2022, we borrowed an additional $65,000 of term loans from certain lenders under the expansion feature of the credit facility, as further described below.

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 of September 30, 2022 and December 31, 2021, we had total current liabilities of $137,496 and $117,395, respectively, and total current assets of $219,092 and $258,012, respectively, which includes cash and cash equivalents of $91,393 and $155,481, respectively, to meet our current obligations. As of September 30, 2022, we had working capital of $81,596, compared to $140,617 as of December 31, 2021.

Approximately 95% and 97% of our cash and cash equivalents balance as of September 30, 2022 and December 31, 2021, 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.

As reflected in the Financial Statements, we had an accumulated deficit as of September 30, 2022 and December 31, 2021, as well as a net loss for the three and nine months ended September 30, 2022 and 2021, and negative cash flows from operating activities during the nine months ended September 30, 2022 and 2021, which are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of our Financial Statements has been alleviated due to: (i) cash on hand and (ii) continued growth of sales 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.

Credit Facility

In August 2021, we entered into a credit facility (the “2021 Credit Facility”) which provided for an initial term loan of $210,000. We had the ability to request an increase in the 2021 Credit Facility up to $275,000 if the existing lenders (or other lenders) agreed to provide such additional term loans. During the second quarter of 2022, we borrowed an additional $65,000 of incremental term loans through this expansion feature (the “2022 Loans”) for total borrowings of $275,000 outstanding as of September 30, 2022. The 2021 Credit Facility matures on August 27, 2025 and does not require scheduled principal amortization payments. Borrowings under the 2021 Credit Facility bear interest at a rate of 9.5% per annum, payable quarterly. The initial proceeds from the 2021 Credit Facility were used, in part, to prepay certain then-outstanding debt obligations and, together with the 2022 Loans, fund working capital and general corporate matters, including, but not limited to, growth investments, acquisitions, capital expenditures, and other strategic initiatives.

We incurred additional financing costs of $7,606 related to the 2022 Loans, which includes warrants issued to certain lenders to acquire 3,130 shares of Class A common stock that had a fair value of $2,639 at issuance (refer to Note 12, “Stockholders’ Equity,” in the Financial Statements for additional information). The financing costs are being amortized to interest expense over the term of 2021 Credit Facility using the straight-line method which approximates the interest rate method. The 2022 Loans were funded by a combination of new and existing lenders. Borrowings from the existing lenders were accounted for as a modification of existing debt, with the exception of one lender that was considered an extinguishment. We recognized a loss on extinguishment of $2,180 as a component of interest expense during the nine months ended September 30, 2022, comprised of the write-off of $337 related to the lender’s initial term loan and $1,843 related to the lender’s new loan, which included the estimated fair value of the warrants issued to the lender.

Mandatory prepayments are required following certain events, including the proceeds of indebtedness that is not permitted under the agreement, asset sales, and casualty events, subject to customary reinvestment rights. We may prepay the 2021 Credit Facility at any time, subject to a customary make-whole payment or prepayment penalty, as applicable. Once repaid, amounts borrowed under the 2021 Credit Facility may not be re-borrowed. We may request an extension of the maturity date for 364 days, which the lenders’ may grant in their discretion.

We are required to comply with two financial covenants under the 2021 Credit Agreement. Liquidity (defined as unrestricted cash and cash equivalents pledged under the 2021 Credit Facility plus any future revolving credit availability) may not be below $20,000 as of the last day of any fiscal quarter, and we may not permit the ratio of Consolidated EBITDA (as defined in the 2021 Credit Agreement) to consolidated cash interest expense for any period of four consecutive fiscal quarters to be less than 2.50:1.00. The Company has a customary equity cure right for each of these financial covenants. The Company is in compliance with these covenants as of September 30, 2022. Refer to Note 11, “Debt,” in the Financial Statements for additional information.

Cash Flows

	Nine Months Ended September 30,	
(in thousands)	**2022**	**2021**
Net cash used in operating activities	$ (22,285)	$ (22,294)
Net cash used in investing activities	(94,551)	(85,558)
Net cash provided by financing activities	52,748	254,265

Operating Activities

Net cash used in operating activities decreased slightly during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021, primarily driven by the timing of payments to suppliers and vendors, the timing and amount of income tax payments, and the timing of other working capital payments.

Investing Activities

Net cash used in investing activities increased by $8,993 during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. The increase was primarily due to the purchase of intangible assets, including the first $15,000 payment made under the Story of PA research collaboration agreement, and higher repayments of sellers’ notes related to prior year acquisitions, partially offset by cash paid for proceeds received from the sale of assets and lower cash investments in capital assets.

Financing Activities

Net cash provided by financing activities decreased by $201,517 during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. The decrease was primarily due to lower proceeds from the issuance of debt, net of repayments, in the current year and the absence of net proceeds received from our IPO in the prior year.

Contractual Obligations and Other Commitments and Contingencies

Material contractual obligations arising in the normal course of business primarily consist of long-term fixed rate debt and related interest payments, leases, finance arrangements, and amounts due for acquisitions. We believe that cash flows from operations will be sufficient to satisfy our capital expenditures, debt services, working capital needs, and other contractual obligations for the next twelve months.

The following table summarizes the Company's material future contractual obligations as of September 30, 2022:

(in thousands)	Commitments Due by Period				
Contractual Obligations	**Total**	**Remainder of 2022**	**2023 - 2024**	**2025 - 2026**	**Thereafter**
Term notes[1]	$ 275,000	$ —	$ —	$ 275,000	$ —
Fixed interest related to term notes[2]	75,941	6,585	52,250	17,106	—
Sellers' Notes[3]	31,096	853	19,243	11,000	—
Finance arrangements[4]	16,298	529	4,349	4,609	6,811
Operating leases[5]	627,263	8,260	68,626	72,150	478,227
Finance leases[5]	1,097	71	572	454	—
Other commitments[6]	16,414	—	16,414	—	—
Total	$ 1,043,109	$ 16,298	$ 161,454	$ 380,319	$ 485,038

(1) Principal payments due under our term notes payable. Refer to Note 11, "Debt", in the Financial Statements for additional information.

(2) Represents fixed interest rate payments on borrowings under the 2021 Credit Facility based on the principal outstanding at September 30, 2022. Interest payments could fluctuate based on prepayments or additional amounts borrowed.

(3) Consists of amounts owed for acquisitions or other purchases. Certain cash payments include an interest accretion component, and the timing of certain payments may vary based on regulatory approval. Refer to Note 11, "Debt", in the Financial Statements for additional information. This amount excludes the potential earn-out payment related to the OPA acquisition that has an estimated fair value of $4,842 at September 30, 2022 and is dependent upon the commencement of adult-use cannabis sales in Ohio. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information.

(4) 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. Refer to Note 10, "Leases", in the Financial Statements for additional information.

(5) Reflects our contractual obligations to make future payments under non-cancelable leases. Refer to Note 10, "Leases", in the Financial Statements for additional information.

(6) Related to the Story of PA acquisition. Refer to Note 4, "Acquisitions," in the Financial Statements for additional information. We expect to fund up to an additional $10,000 over the next ten years under the research collaboration agreement. Since the timing of the payments may vary, this amount has been excluded from the table above.

Additionally, in conjunction with the OCC acquisition (see Note 4, "Acquisitions," in the Financial Statements) in December 2021, the Company entered into a supply agreement with a producer and supplier of medical marijuana products in Ohio (the "Ohio Supply Agreement") with an initial expiration date of August 2028. Under the Ohio Supply Agreement, the Company will purchase products from the supplier that results in 7.5% of the Company's monthly gross sales of all products in our Ohio dispensaries for the first five years, and 5% for the remaining term. The Company can establish the selling price of the products and the purchases are made at the lowest then-prevailing wholesale market price of products sold by the supplier to other dispensaries in Ohio. Such purchases have been excluded from the table above, as purchases are variable based on gross sales of the respective dispensary.

As of the date of this filing, we do not have any off-balance sheet arrangements, as defined by applicable regulations of the United States 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.

Capital Expenditures

We anticipate capital expenditures, net of tenant improvement allowances, of approximately $15,000 during the remainder of 2022. Changes to this estimate could result from the timing of various project start dates, which are subject to local and regulatory approvals. Spending at our cultivation and processing facilities includes: construction; purchase of capital equipment such as extraction equipment, heating, ventilation, and air conditioning equipment, and other manufacturing equipment; general maintenance; and information technology capital expenditures. Dispensary-related capital expenditures includes construction costs for the initial build-out of each location, general maintenance costs, and upgrades to existing locations.

During the remainder of 2022, we expect to complete the second phase of expansion at our New Jersey cultivation facility, complete certain projects at our Illinois and Massachusetts cultivation facilities, and continue the build out of our Pennsylvania cultivation facility. We also anticipate the completion and opening of dispensaries in New Bedford, MA and Wayne, PA, along with the Century, MI dispensary that is expected to open in early 2023. Additionally, we anticipate certain general maintenance activities across our cultivation facilities and dispensary locations. Management expects to fund capital expenditures by utilizing cash flows from operations and reimbursements under tenant improvement allowances from sale leaseback transactions.

As of September 30, 2022, our construction in progress (“CIP”) balance was $35,260 and relates to capital spending on projects that were not yet complete. This balance includes: $12,064 related to the expansion of our New Jersey cultivation facility; $11,179 related to the build out of our Pennsylvania cultivation facility; $3,769 related to the build out of our New Bedford, Massachusetts retail location; $3,020 related to certain projects at our Illinois cultivation facility; $3,014 related to the build out of our Wayne and Scranton, Pennsylvania retail locations; $743 related to the kitchen and lab expansion at our Massachusetts cultivation facility; and $1,471 related to other projects at our dispensaries.

Other Matters

Equity Incentive Plans

As of September 30, 2022, a total of 9,994 restricted common shares had been issued under the equity incentive plan approved in 2020 (the “2020 Plan”), of which 642 were unvested as of September 30, 2022. Total unrecognized compensation cost related to the restricted common shares was $114 as of September 30, 2022, which is expected to be recognized over a weighted-average remaining 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. The 2021 Plan authorized the issuance of options, stock appreciation rights, restricted stock awards, restricted stock units (“RSUs”), and other stock-based awards (collectively the “2021 Plan Awards”). As of September 30, 2022, there were 5,896 shares of Class A common stock available for grant for future equity-based compensation awards under the 2021 Plan.

During the nine months ended September 30, 2022, the Company granted a total of 4,993 RSUs under the 2021 Plan. As of September 30, 2022, a total of 11,423 RSUs have been granted under the 2021 Plan, of which 6,437 are unvested as of September 30, 2022. Total unrecognized compensation cost related to the RSUs was

$42,814 as of September 30, 2022, which is expected to be recognized over a weighted-average remaining period of 2.7 years. Additionally, during the nine months ended September 30, 2022 the Company granted a total of 2,374 options under the 2021 Plan, of which 2,125 are outstanding as of September 30, 2022 and none of which are exercisable. The outstanding options have a remaining weighted-average contractual life of 4.7 years as of September 30, 2022, and total unrecognized stock-based compensation expense related to unvested options was $3,081, which is expected to be recognized over a weighted-average remaining period of 3.6 years.

Total equity-based compensation expense was $6,032 and $3,993 during the three months ended September 30, 2022 and 2021, respectively, and $17,662 and $8,191 during the nine months ended September 30, 2022 and 2021, respectively. Of the total equity-based compensation expense, $2,279 and $7,517 was capitalized to inventory during the three and nine months ended September 30, 2022, respectively, and $1,406 was capitalized during each of the three and nine months ended September 30, 2021. As of September 30, 2022 and December 31, 2021, $2,278 and $4,814, respectively, remains capitalized in inventory. During the three and nine months ended September 30, 2022, we recognized $3,753 and $10,145, respectively, within “General and administrative expenses” on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements and we recognized $2,891 and $10,053, respectively, within “Cost of goods sold.” During the three and nine months ended September 30, 2021, we recognized $2,587 and $6,785, respectively, within “General and administrative expenses” and we recognized $349 within “Cost of goods sold” during each of the three and nine months ended September 30, 2021. Refer to Note 13, “Equity-Based Compensation Expense,” in the Financial Statements for additional information.

In July 2021, the Company 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 September 30, 2022, no shares have been issued under the 2021 ESPP.

Sale Leaseback Transactions

In February 2022, the Company sold and subsequently leased back one of its capital assets in New Jersey for total proceeds of $35,400, excluding transaction costs. The transaction met the criteria for sale leaseback treatment. The lease was recorded as an operating lease and resulted in a lease liability of $33,707 and an ROU asset of $29,107, which was recorded net of a $4,600 tenant improvement allowance.

In June 2022, the Company sold and subsequently leased back two of its capital assets in Pennsylvania for total proceeds of $3,825, excluding transaction costs. Each transaction met the criteria for sale leaseback treatment. The leases were recorded as operating leases and resulted in a total lease liability and ROU asset of $2,102. Each of the lease agreements provide for a capital expenditure allowance of up to $3,000. The rent payments due under each lease will increase by a percentage of the capital expenditure allowance as funding occurs, and, therefore, each lease will be reassessed and remeasured as a modification upon such funding. During the three months ended September 30, 2022, we received a total of $3,215 under the capital expenditure allowance that was recorded as a tenant improvement allowance and resulted in $1,663 of additional lease liabilities based on the modified lease terms and a net gain of $279 during the three and nine months ended September 30, 2022, which is included in “General and administrative expenses” on the unaudited Condensed Consolidated Statement of Operations in the Financial Statements.

Refer to Note 10, “Leases,” in the Financial Statements for additional information regarding the Company’s leases.

COVID-19 Pandemic

There continues to be uncertainty around the COVID-19 pandemic (the “Pandemic”). The full impact of the Pandemic on our business will depend on factors such as the length of time of the Pandemic; government response at the federal, state, and local levels along with recommended actions from health authorities; the impact of new variants that may emerge; the longer-term impact of the Pandemic on the economy and consumer behavior; and the effect on our customers, employees, vendors, and other partners.

We continue to implement and evaluate actions to strengthen our financial position and support the continuity of our business and operations in the face of this Pandemic and other events. Although our operations have not been materially affected to date, the ultimate severity of the Pandemic and its impact on the economic environment remains uncertain. We continue to generate operating cash flows to meet our short-term liquidity needs.

While the Pandemic has not had a material impact on our results of operations to date, given the uncertainties associated with the Pandemic, we are unable to estimate the future impact of the Pandemic on our business, financial condition, results of operations, and/or cash flows in future periods. We believe we have sufficient liquidity available from cash and cash equivalents on hand of $91,393 as of September 30, 2022 to enable us to meet our working capital and other operating requirements, fund growth initiatives and capital expenditures, settle our liabilities, and pay scheduled interest payments on debt.

Legal Matters

Stockholder 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 "AWH Convertible Promissory 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 at that time, 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 2019 Convertible Note Purchase Agreement (the "Amended Notes Consent"), which was approved by holders of approximately 66% of the principal amount of the AWH Convertible Promissory Notes, in excess of the simple majority required to amend the AWH Convertible Promissory Notes. The Amended Notes Consent set the conversion price of the AWH Convertible Promissory Notes at $2.96 per share. The Claimants alleged that the Amended Notes Consent was obtained improperly and is void. The Company disputed the Claimants' allegations and contended that the Amended Notes Consent was properly obtained in accordance with the terms of the AWH Convertible Promissory Notes and 2019 Convertible Note Purchase Agreement and the Amended Notes Consent was binding on all holders of the AWH Convertible Promissory Notes.

The Company, Mr. Kurtin, and the Claimants entered into a settlement agreement, dated April 29, 2022, whereby the Company agreed to pay the Claimants a total of $5,000. This amount is reflected in the Financial Statements within "Settlement expense" on the unaudited Condensed Consolidated Statements of Operations for the nine months ended September 30, 2022 and was paid in May 2022.

MedMen NY Litigation

On February 25, 2021, the Company entered into a definitive investment agreement (the "Investment Agreement") with subsidiaries of MedMen Enterprises Inc. ("MedMen"), under which we would have, subject to regulatory approval, completed an investment (the "Investment") of approximately $73,000 in MedMenNY, Inc. ("MMNY"), a licensed medical cannabis operator in the State of New York. Following the completion of the transactions contemplated by the Investment Agreement, we were expected to hold all the outstanding equity of MMNY. Specifically, the Investment Agreement provided that at closing, the Company was going to pay to MedMen's senior lenders $35,000, less certain transaction costs and a prepaid deposit of $4,000, and AWH New York, LLC was going to 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 would be used to reduce the amounts owed to MMNY's senior secured lender. Following its investment, AWH would 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 for a nominal additional payment, which option the Company intended to exercise. The Investment Agreement also required AWH to make an additional investment of $10,000 in

MMNY, which investment would also be used to repay MMNY's senior secured lender, if adult-use cannabis sales commenced in MMNY's dispensaries.

The Company contends that, in December 2021, the parties to the Investment Agreement received the required approvals from the State of New York to close the transactions contemplated by the Investment Agreement, but MedMen has disputed the adequacy of the approvals provided by the State of New York. The Company delivered notice to MedMen in December 2021 that it wished to close the transactions as required by the Investment Agreement. Nevertheless, MedMen, on January 2, 2022, gave notice to the Company that MedMen purported to terminate the Investment Agreement.

Following receipt of such notice, on January 13, 2022, the Company filed a complaint against MedMen and others in the Commercial Division of the Supreme Court of the State of New York, requesting specific performance that the transactions contemplated by the Investment Agreement must move forward, and such other relief as the court may deem appropriate. On January 24, 2022, MedMen filed an answer and counterclaims against the Company. On February 14, 2022, the Company filed a first amended complaint, not only seeking specific performance but also damages related to MedMen's breaches of the Investment Agreement. On that same day, the Company also filed a motion to dismiss the counterclaims. On March 7, 2022, MedMen filed an amended answer and counterclaims against the Company. On March 28, 2022, the Company moved to dismiss MedMen's amended counterclaims. That motion remains pending.

On May 10, 2022, the Company and MedMen signed a term sheet, pursuant to which parties agreed to use best efforts to enter into a settlement agreement and enter into new or amended transactional documents. Specifically, if consummated, the agreements contemplated by the term sheet would entail, among other things, the Company paying MedMen $15,000 in additional transaction consideration, and MedMen withdrawing its counterclaims against the Company. Per the amended transaction terms contemplated in the term sheet, upon closing, the Company would receive a 99.99% controlling interest of MMNY and the Company would pay MedMen $74,000, which reflects the original transaction consideration plus an additional $11,000 per the parties' term sheet. The Company already paid $4,000 as a deposit.

The amended transaction terms contemplated in the term sheet also would have required MedMen to provide a representation and warranty that the status of the MMNY assets has not materially changed since December 31, 2021 and an acknowledgement that the representations and warranties from the Investment Agreement will survive for three months after the closing of the contemplated transactions. The Company has determined that MedMen cannot make or provide the representations and warranties MedMen would have been required to make as part of the contemplated transactions. Therefore, the Company no longer intends to consummate the contemplated transactions.

On September 30, 2022, the Company filed a motion for leave to file a second amended complaint. The second amended complaint no longer seeks specific performance that MedMen be required to close the transactions contemplated by the Investment Agreement. The second amended complaint, however, continues to seek damages against MedMen, including, but not limited to, the return of the deposit, working capital advances, and capital expenditure advances paid to MMNY by the Company as well as other damages for MedMen's failure to close the contemplated transactions. The motion remains pending. In addition, MedMen has notified the Company that MedMen anticipates seeking leave to file second amended counterclaims against the Company, but it has not yet done so.

Following the Company's decision to no longer consummate the contemplated transactions, the Company expensed a total of $1,704 of capitalized costs, primarily consisting of build out costs or deposits that were incurred for certain locations. This write-off is included within "General and administrative expenses" on the unaudited Condensed Consolidated Statements of Operations in the Financial Statements for the three and nine months ended September 30, 2022 and within "Other" on the unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022.

Subsequent Transactions

Acquisition

Effective October 14, 2022, the Company acquired Marichron Pharma LLC, a medical cannabis processor in Ohio, for total consideration of approximately $2,750, consisting of cash consideration of $1,750, of which $1,500 was previously funded under a promissory note, and settlement of approximately $1,000 due under a working capital loan, subject to final adjustment. Refer to Note 6, “Notes Receivable,” in the Financial Statements for additional information regarding the promissory note and working capital loan.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accompanying Financial Statements are prepared in accordance with GAAP, which requires 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 Item 7., “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report.

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,” to the Financial Statements.

The Company is an emerging growth company under federal securities laws and as such we are able to elect to follow scaled disclosure requirements for this filing, including an extended transition period for complying with new or revised accounting standards applicable to public companies.

REGULATORY ENVIRONMENT: ISSUERS WITH UNITED STATES CANNABIS-RELATED ASSETS

In accordance with the Canadian Securities Administration Staff Notice 51-352, information regarding the current federal and state-level United States regulatory regimes in those jurisdictions where we are currently directly and indirectly involved in the cannabis industry, through our subsidiaries and investments, is incorporated by reference from subsections “Overview of Government Regulation,” “Compliance with Applicable State Laws in the United States,” and “State Regulation of Cannabis,” under Item 1., “Business,” of the Company’s Annual Report, as filed with the Securities and Exchange Commission and with the relevant Canadian securities regulatory authorities under its profile on SEDAR.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed in varying degrees to various market risks, including changes in interest rates, prices of raw materials, and other financial instrument related risks. There have been no significant changes related to market risk, including those relating to the COVID-19 pandemic, from the disclosures in our Annual Report.

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 September 30, 2022 and December 31, 2021, as well as a net loss for the three and nine months ended September 30, 2022 and 2021, and negative cash flows from operating activities during the nine months ended September 30, 2022 and 2021, which are indicators that raise substantial doubt of our ability to continue as a going concern. Management believes that substantial doubt of our ability to continue as a going concern for at least one year from the issuance of our Financial Statements has been alleviated due to: (i) cash on hand and (ii) continued growth of sales 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.

ITEM 4. CONTROLS AND PROCEDURES.

a. Disclosure Controls and Procedures.

As of the end of the period covered by this report, our Principal Executive Officers 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 Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, our Principal Executive Officers and Principal Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were 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 United States Securities and Exchange Commission and (2) accumulated and communicated to our management, including our Principal Executive Officers and Principal Financial Officer, to allow timely decisions regarding required disclosure.

b. Changes in Internal Control Over Financial Reporting.

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 our Annual Report on Form 10-K for the year ended December 31, 2021, in response to Item 1A., "Risk Factors," of Part I of the Annual Report.

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

On August 12, 2022, the Company entered into a definitive agreement that provides the Company the option to acquire 100% of the equity of Ohio Patient Access LLC. This agreement contains an earn-out provision that the sellers may elect to receive as either cash or shares of the Company's Class A common stock, or a combination thereof. See Note 4, "Acquisitions," "Ohio Patient Access," to the Financial Statements in this Form 10-Q.

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.	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation	S-1	333-254800	3.4	April 23, 2021
3.2	Bylaws	S-1	333-254800	3.5	April 23, 2021
4.1†	Ascend Wellness Holdings, Inc. 2021 Stock Incentive Plan	S-8	333-257780	4.2	July 9, 2021
4.2†	Ascend Wellness Holdings, Inc. 2021 Employee Stock Purchase Plan	S-8	333-257780	4.3	July 9, 2021
4.3	Specimen Stock Certificate evidencing the shares of common stock	S-1	333-254800	4.1	April 15, 2021
4.4	Form of Registration Rights Agreement	S-1	333-254800	4.2	April 23, 2021
4.5	Form of Warrant Agreement between Ascend Wellness Holdings, Inc. and each of the several lenders, dated June 30, 2022	10-Q	333-254800	4.5	August 15, 2022
10.1*†	Amendment to Employment Agreement between Ascend Wellness Holdings, LLC and Abner Kurtin				
31.1*	Certification of Periodic Report by Interim Co-Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Periodic Report by Interim Co-Principal Executive Officer and Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.				
32‡	Certification of Interim Co-Chief Executive Officers 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.

† Indicates management contract or compensatory plan, contract or arrangement.

‡ 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.

+ Portions of this exhibit have been redacted in compliance with Regulations S-K Item 601(b)(2). The omitted information is not material and would likely cause competitive harm to the Company if publicly disclosed. The Company agrees to furnish an unredacted copy to the SEC upon its request.

Certain schedules and exhibits have been omitted in compliance with Regulation S-K Item 601(a)(5). The Company agrees to furnish a copy of any omitted schedule or exhibit to the SEC upon its request.

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.
November 14, 2022	/s/ Daniel Neville Daniel Neville Interim Co-Chief Executive Officer (Interim Co-Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer)
November 14, 2022	/s/ Roman Nemchenko Roman Nemchenko Executive Vice President, Chief Accounting Officer (Principal Accounting Officer)

AMENDMENT NO. 1
TO
EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 (this "Amendment") to that certain Employment Agreement, dated March 22, 2021, by and between Ascend Wellness Holdings, LLC, a Delaware limited liability company (the "Company"), and Abner Kurtin ("Executive") (the "Employment Agreement"), is made as of September 27, 2022.

W I T N E S S E T H.

WHEREAS, the Company and the Executive are parties to the Employment Agreement; and

WHEREAS, the parties hereto desire to amend the Employment Agreement as set forth herein, effective as of September 27, 2022.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. The Employment Agreement is hereby amended as follows:

   a) Section 1 of the Employment Agreement is hereby amended by deleting Section 1 in its entirety and replacing Section 1 with the following: "Employment. Subject to the terms and conditions set forth in this Agreement, the Company hereby offers, and the Executive hereby accepts, continued employment as Executive Chairman of the Company."

   b) Section 3(a) of the Employment Agreement is hereby amended by deleting Section 3(a) in its entirety and replacing Section 3(a) with the following: "During the term hereof, the Executive shall serve the Company as Executive Chairman, reporting directly to the Board of Directors of the Company (the "Board")."

   c) Section 3(b) of the Employment Agreement is hereby amended by deleting Section 3(b) in its entirety and replacing Section 3(b) with the following: "During the term hereof, the Executive shall be employed by the Company on a full-time and diligent basis and shall perform such duties and responsibilities on behalf of the Company as set forth on Exhibit B attached hereto and made a part hereof or as otherwise directed by the Board."

   d) The first sentence of Section 3(c) of the Employment Agreement is hereby amended by deleting and replacing the first sentence of Section 3(c) with the following: ["During the term hereof, for so long as the Executive is employed as the Company's Executive Chairman, the Company will nominate the Executive for re-election to the Board and the Executive shall serve in such other officer and/or director positions with any affiliate of the Company (for no additional compensation) as may be determined by the Board (excluding the Executive) from time to time.”]

e) Section 5(f)(iii) of the Employment Agreement is hereby amended by deleting Section 5(f)(iii) and replacing Section 5(f)(iii) with the following: [“any failure by the Company to nominate the Executive for re-election to the Board and to use its best efforts to have the Executive re-elected (other than as a result of a Change of Control Event, which shall be governed by this Section 5(f)(v)), or any change in the Executive’s title as Executive Chairman of the Company;”]

f) Section 5(f)(v) of the Employment Agreement is hereby amended by deleting and replacing Section 5(f)(v) with the following: “in the event of a Change of Control Event, any failure by the acquirer to (a) make an offer of employment to the Executive for a base salary, target bonus and maximum bonus opportunity amounts that are substantially comparable in the aggregate to the Executive’s Base Salary and Annual Bonus (taking into consideration both the Target Bonus and the Maximum Annual Bonus) each as of immediately prior to such sale, (b) nominate the Executive for election to the Board of the acquirer, (c) offer the Executive a position with duties, responsibilities and authority that are materially comparable to the Executive’s duties, responsibilities and authority as Executive Chairman of the Company (disregarding any duties, responsibilities and authority the Executive had as a member of the Board or as an officer or director of any affiliate of the Company) as of immediately prior to such sale”.

g) Section 19 of the Employment Agreement is hereby amended by deleting Section 19 in its entirety and replacing Section 19 with the following: “Governing Law; Venue; Dispute Resolution. This Agreement, the rights of the parties, and all claims, actions, causes of action, suits, litigation, controversies, hearings, charges, complaints or proceedings arising in whole or in part under or in connection herewith, will be governed by and construed in accordance with the domestic substantive laws of the State of New York, without giving effect to any choice of conflict of law provision or rule that would cause the application of the laws of any other jurisdiction. If the parties cannot settle any disputes, differences, controversies, or claims arising under the Employment Agreement (“Disputes”) through good faith negotiation, then such Disputes shall be referred by either party to JAMS and finally settled by confidential, binding arbitration under the Streamlined Arbitration Rules and Procedures (the “Rules”) of JAMS by a single arbitrator appointed by agreement of the parties in accordance with such Rules or, in the absence of such agreement, by JAMS in accordance with such Rules. The foregoing arbitration proceedings may be commenced by any party by written notice to the other party. The venue for any such arbitration shall be New York County, New York, and each of the parties irrevocably and unconditionally agrees to venue in New York County, New York. For the avoidance of doubt, EACH OF THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING OF ANY KIND OR NATURE IN ANY COURT OR TRIBUNAL. Each of the parties hereby agrees to maintain the nature of any Dispute, the resolution of any Dispute by discussion, arbitration or otherwise, and/or any documentation, memoranda, submissions and other materials delivered by or received from the arbitrator, a party, or any other person involved in any such arbitration strictly confidential (except as permitted in the immediately succeeding clause of this sentence); and the terms of any settlement agreement, arbitrator's award or other resolution of such Dispute, and any such documentation, memoranda, submissions and/or other materials, shall not be disclosed to any other person, except as required by law or the Rules, to a party's professional advisors, insurers, vendors, and experts engaged in connection with such Dispute, to a party's witnesses in respect of such Dispute, or as may be required to enforce any settlement agreement, arbitrator's award or other resolution of such Dispute. Each of the parties irrevocably and unconditionally agrees that the arbitrator's award shall be final and binding and that such award and any of the other provisions of this paragraph may be enforced in any court having jurisdiction over the award or any of the parties or any of his, her or its respective assets, and judgment on the award (including, without limitation, equitable remedies) granted in any arbitration hereunder may be entered in any such court. Without limiting the foregoing, each of the parties hereby agrees to exclude any right of appeal to any court on the merits of the Dispute or the resolution thereof. Each of the parties shall pay its respective arbitration-related expenses, attorneys' fees, and other costs incurred by him, her or it in connection with such arbitration, except as the single arbitrator may otherwise determine in such arbitrator's award. Nothing in this Section 19 shall prevent a party from seeking provisional remedies in a court of competent jurisdiction as a conservatory measure or in aid of arbitration. In the event of a conflict between the Rules and this paragraph, the provisions of this paragraph shall govern."

2. For avoidance of doubt, as resolved by the Company's Board of Directors on March 1, 2022 and the Compensation and Corporate Governance Committee on August 5, 2022, the Executive shall continue to receive his 2022 Base Salary via quarterly stock issuances on the terms and conditions set forth in such resolutions. For avoidance of doubt, Executive's Base Salary for any year after 2022 shall be paid in accordance with Section 4(a) of the Employment Agreement.

3. Except as specifically set forth herein, the Employment Agreement and all of its terms and conditions remain in full force and effect, and the Employment Agreement is hereby ratified and confirmed in all respects, except that on or after the date of this Amendment all references in the Employment Agreement to "this Agreement," "hereto," "hereof," "hereunder," or words of like import shall mean the Employment Agreement as amended by this Amendment.

4. Executive hereby releases any and all claims and potential claims, known and unknown, against the Company and the other Releasees (as defined below) that are releasable by law, which arose on or before the Effective Date and are directly related to the Company's issuance of a press release on September 6, 2022, Executive's appointment to the role of Executive Chairman, and the entry into this Amendment. This limited release is made by Executive for and on behalf of himself and his family, dependents, heirs, executors, administrators and assigns, and Executive hereby releases the Company and its respective

predecessors, successors, and all their past, present or future assigns, parents, subsidiaries, affiliates, insurers, and affiliated entities, together with their respective current and former officers, directors, shareholders, fiduciaries, administrators, trustees, agents, employees, and/or representatives, and their respective predecessors, successors and assigns, heirs, executors, administrators, and any and all other affiliated persons or entities, which may have an interest by or through them (collectively "Releasees"), both jointly and individually, from any and all claims, actions, arbitrations, and lawsuits of any kind relating directly to the limited subject matter of this limited release in this Section 4. For the avoidance of doubt, the parties agree that entry into this Amendment does not constitute "Good Reason" as such term is defined in the Employment Agreement.

5. Except as set forth in Section 4 hereinabove, neither party waives any claims, demands, causes of actions, fees, damages, liabilities and expenses (including attorneys' fees) of any kind whatsoever, whether known or unknown, that such party has ever had or might have against the other party, including, but not limited to, those that directly or indirectly arise out of, relate to, or are connected with, the Employment Agreement or this Amendment.

6. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original and such counterparts together shall constitute one and the same instrument.

7. The provisions of Sections 17 through 19 (inclusive) of the Employment Agreement, as amended by this Amendment, shall apply *mutatis mutandis* to this Amendment, as if set out in this Amendment in full (except that any reference to "this Agreement" shall be construed as a reference to the "Amendment").

8. This Amendment shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto. The Employment Agreement, as amended by this Amendment, embodies the entire agreement and understanding between the parties hereto and supersedes all prior agreements and understandings relating to the subject matter hereof.

[remainder of page intentionally left blank; signature page follows]

SIGNATURE PAGE TO AMENDMENT TO EMPLOYMENT AGREEMENT

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

ASCEND WELLNESS HOLDINGS, LLC

By: /s/ Robin Debiase
Name: Robin Debiase
Title: Chief People Officer

EXECUTIVE

By: /s/ Abner Kurtin
Name: Abner Kurtin

EXHIBIT B

The Executive shall perform the following duties and responsibilities on behalf of the Company:

- Chair monthly management meetings;
- Chair mid-month catch-up call with the Company's senior officers and executives;
- Chair weekly meetings with the co-chief executive officers of the Company;
- Chair meetings and discussions regarding employee compensation and benefits matters, including, without limitation, changes in any employee's salary in the amount of $50,000 or more, and bonuses, benefits, and other compensation/benefits changes outside of the annual budgeted amount;
- Chair meetings and discussions regarding the hiring, terminating, or promoting of any senior officers and executives (senior vice president and above);
- Chair capital allocation meetings, including, without limitation, meetings regarding mergers and acquisitions, re-organizations, financings, capital expenditures, and other capital allocation meetings; and
- Shall be available to the co-Chief Executive Officers and Investor Relations Executives for external meetings with investors and lenders on an as needed basis.

The Executive shall have no day-to-day operating role in the Company's operations.

The Company shall ensure that the Executive Shall be alerted promptly by email or phone call of all operating, strategic, and business decisions that are expected to have an impact on the Company's business in excess of a USD$1,000,000 difference to plan, and the Executive shall be available by email and/or phone call to receive such alerts.

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

I, Frank Perullo, 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.

November 14, 2022

/s/ Frank Perullo
Frank Perullo
Interim Co-Chief Executive Officer,
President and Co-Founder
(Interim Co-Principal Executive Officer)

CERTIFICATION OF INTERIM CO-CHIEF EXECUTIVE OFFICER AND 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.

November 14, 2022	/s/ Daniel Neville
	Daniel Neville Interim Co-Chief Executive Officer (Interim Co-Principal Executive Officer) and 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 September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Frank Perullo, Interim Co-Chief Executive Officer, President and Co-Founder of the Company, and Daniel Neville, Interim Co-Chief Executive Officer and 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.

November 14, 2022

/s/ Frank Perullo
Frank Perullo
Interim Co-Chief Executive Officer,
President and Co-Founder
(Interim Co-Principal Executive Officer)

November 14, 2022

/s/ Daniel Neville
Daniel Neville
Interim Co-Chief Executive Officer
(Interim Co-Principal Executive Officer) and
Chief Financial Officer
(Principal Financial Officer)