

STATE OF CANNABIS
15 KEY US MARKETS

2023

ANNUAL REPORT

ABOUT

THE CANNABIS CHAMBER OF COMMERCE

The Cannabis Chamber of Commerce is a national non-profit trade association comprised of local market-based chapters, led by licensed operators and leading cannabis industry professionals. The Cannabis Chamber was formed to promote our common interests by facilitating introductions and creating opportunities for compliant B2B activities. Our driving purpose is to foster development in the compliant industry while helping unite retailers, manufacturers, cultivators, distributors, and testing labs with ancillary service providers and other resources that offer valued business opportunities for our members.

All cannabis businesses effectively operate at a local level in the markets they serve. The industry needs more quality events and channels for businesses to connect with potential new partners and find new opportunities- And the path to help support growth into new markets. The infrastructure we have developed creates unique opportunities for developing brands to benefit from our resources and national marketing, while taking advantage of our reach into the most important markets in the US. We are dedicated to supporting growth throughout the broader compliant cannabis industry with our local signature networking mixers, educational events, job fairs, industry training, and chamber resources. We combine the best benefits of regional & state organizations with the reach and influence of a national organization, to create an association that offers increased value for everyone.

The goal is to grow together for a greater opportunity for us all. We hope you will join our efforts and become a member to help us accomplish something greater for everyone involved in the developing cannabis ecosystem.



GUIDING PRINCIPLES & CORE VALUES

A. Mission Statement:

For Cannabis Industry Leaders, by Cannabis Industry Leaders

B. Vision Statement:

To be a meaningful asset to our members and the broader compliant cannabis industry by facilitating valuable business connections, delivering meaningful resources, and supporting quality business events, while advancing the compliant cannabis industry on the national and global stage.

C. Core Values:

- Integrity: We uphold honesty, ethical practices, and environmental responsibility in our involvement with our team, business partners, and industry connections.
- Leadership: The time to lead is now. We inspire each other to achieve and grow through a shared vision and passion. ·
- Service: We are here to serve. We serve our members, our communities, and the regulated cannabis industry.
- Community: We are in this together, and by working together we can "do better". The developing cannabis industry offers more than just opportunities for business, it presents a rare chance to create a better industry- An industry with a focus on sustainability, consciousness, justice, and recognition for the accomplishments of the members in our community.
- Compassion: We stand with our community, but also stand to support our community. This means supporting and caring for those who are suffering with medical needs that can be assisted with cannabis products, in addition to those who are working tirelessly to create cannabis products.

EXPERIENTIAL REGIONAL NETWORKING EVENTS



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for the year

GOLD
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\$2500 one-time payment
for the year

PLATINUM
\$500/ month
\$5000 one-time payment
for the year

INDIVIDUAL
\$20/ month
\$200 one-time payment
for the year

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50% Discount: 1 Event Booth in Any Region		✓		
Free Access to 1 Event Booth in Any Region			✓	
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Email introduction to Your Company in our New Member announcements	✓	✓	✓	
All Regions email introduction to Your Company in our New Member announcements				✓
1 Post on all Social Media accounts (Instagram, Facebook, Twitter & LinkedIn)				✓
Placement of Your Logo on Our Website	✓	✓	✓	
Free Access: All Events in Your Region (up to 4 guests)	✓	✓		
Free Access: All Events in All Regions (up to 4 guests)		✓		
Free Access: All Events in All Regions (up to 8 guests)			✓	
Free Access: Monthly Virtual Educational Workshops & Speed Networking	✓	✓	✓	✓
Local Government and Community Representation	✓	✓	✓	
Get access to and can be added in our exclusive Member Discounts Program	✓	✓	✓	✓
Your Company Bio, Logo, and Contact Information added to our Member Directory (optional)	✓	✓	✓	✓

**WHAT DO YOU GET FOR
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SUMMARY: SIMON MENKES (AB FINWRIGHT) & BRIAN ROSS (ROSS LEGAL)

FOREWORD FROM THE CHAIR OF THE BOARD OF DIRECTORS

Over the past 15 years, I have watched the foundations of our industry build energy and excitement as the landscape continues to unfold. The ongoing development of cannabis is leading to a mature global market, even in the face of an economy that has been wrought with significant challenges.

The advancement of our emerging market has attracted top leadership from some of the largest companies in the world, including significant leaders from the logistics, finance and other more conservative industries. Cannabis is now regarded as a legitimate growth sector, even under the damper of the current federal regulation. We are slowly moving through a major inflection point that is leading to federal legalization. But the recent contraction in established recreational states has begun to shape clear expectations of what a mature cannabis market can offer- With recognition that there is a brighter future ahead when we see smarter regulation in the form of reasonable tax rates and greater enforcement against black market operators.

The Cannabis Chamber of Commerce was formed to create tangible economic value for the businesses in the cannabis ecosystem, while fighting for prudent regulation & enforcement. Built by leaders in the industry, our organization functions to support the broader community as a steward of the growing cannabis economy. Our purpose is to foster business opportunities and a more successful cannabis marketplace for everyone.

As a leading national non-profit trade association in the cannabis industry, we are thankful for the opportunity to serve you and the many other businesses & professionals working together to create something greater in our community. Our organization is guided by top industry professionals who volunteer in our regional markets across the US. Together, we have collaborated to develop this white paper as our gift to the community we serve. We hope this report will demonstrate the kind of industry leadership we offer, the type of organization we work to be, and the value proposition we offer our members.

We appreciate the opportunity to share this report, and hope it offers insights that are a value to you and your colleagues.

Sincerely,



Chris Boudreau
Chair of the Board of Directors

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Biography: Amanda Reiman, PhD is a social ethnobotanist and has been studying the relationship between cannabis, people and greater society for over 20 years. She is the Chief Knowledge Officer for New Frontier Data, an analytics company serving the legal cannabis industry. Dr. Reiman earned her PhD in Social Welfare from the University of California.



Brian Ross

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Biography: Brian Ross is a business lawyer and former litigator who represents emerging and mid-stage companies in Internet, software, cannabis, hemp and other fast-moving industries. Brian is currently a partner in the Los Angeles-based boutique law firm, Ross Legal. Brian was honored by the San Fernando Valley Business Journal with the 2019 Trusted Advisors Attorney of the Year Award. Brian Ross represents clients in the cannabis, technology and other industries. After a career at national law firms and serving as in-house general counsel for three companies, Brian is now a partner in the LA-based law firm, Ross Legal. He is an author, frequent speaker, and recipient of the 2019 Trusted Advisors Attorney of the Year Award from the San Fernando Valley Business Journal



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Biography: I am the Founder and CEO of CC Security Solutions ("CCSS"), a cannabis security and risk management solutions company dedicated to the legal cannabis industry. Prior to founding CCSS, my professional background involved serving for 12+ years as a law enforcement officer with both the San Francisco and Oakland Police Departments. We implement solutions to meet changing industry needs. CCSS is my passion.



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Christopher Parrington represents cannabis companies in respect of deals, regulatory work, and litigation throughout the United States, including Minnesota and Montana where he is licensed. Mr. Parrington has the knowledge, understanding, and experience necessary to advise clients on compliance with state laws and local government rules and regulations relating to cannabis.

ZUBER LAWLER



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Senior executive in banking by early 30's, and then went on to build my own multi-regional and multi-state cannabis businesses in retail, delivery, and wholesale distribution. Have additionally consulted for a range of clients, including a multi-national public company. Now founder & CEO of a AI automated all-in-one solution for customer success.



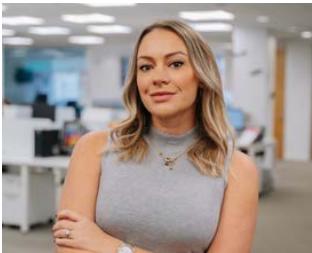
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Biography: Emily Watkins is a designer and creative professional, specializing in data design and visualizations. With 15+ years of experience in graphic design, Emily has spent the last 8 years focusing on the cannabis industry - designing and producing over 120 data analysis reports, digesting cannabis data into efficient, understandable and engaging formats. She is the Director of Brand & Creative for New Frontier Data, an analytics company serving the legal cannabis industry.



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Biography: Raza Lawrence has focused on representing clients in the cannabis industry since 2009. He has extensive experience representing cannabis clients in licensing deals and regulatory work, mergers and acquisitions, internal and governmental investigations, intellectual property matters, and civil and criminal cases in state and federal courts.

ZUBER LAWLER



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Lawrence M Cagigal is the founder and CEO for The Cagigal Group has been a noteworthy leader in the cannabis accounting space since emerging on the scene in 2018.

His passion and main areas of focus are implementing proper accounting systems for the Cannabis industry and is widely known for his love to rehabilitate broken accounting situations that weren't provided these valuable tools. When not working he enjoys spending time with his friends and family and totally spoiling his nieces and nephews when not traveling.

The Cagigal Group

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Liesl Bernard is the founder and CEO of the industry's premier cannabis staffing firm—CannabizTeam. Above all, she is passionate about people and helping companies create a competitive advantage by recruiting exceptional talent. She has over 20 years of global executive search and placement experience. Prior to launching CannabizTeam and CannabizTemp, she was working with Fortune 500 companies.



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Biography: At the global law firm of Duane Morris LLP, Michael represents public and private entities in all aspects of their business affairs and practices in the areas of mergers and acquisitions and securities law and provides general corporate counseling. As part of his national cannabis practice, Michael also leads the Firm's New York cannabis efforts.



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Biography: In addition to serving as a team lead for the Duane Morris Cannabis industry group focused on strategic, regulatory and litigated matters, Paul Josephson is a constitutional and regulatory litigator with decades of experience in the transportation, infrastructure, gaming and real estate sectors. He solves complex business problems for CEOs, elected officials, and agency heads. He is typically called on in matters involving significant public interests, highly regulated industries, or novel legal issues. He received his B.A. from the University of Michigan and his J.D. from George Washington University.



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Biography: Rachel Wright, CPA MST is a founder and managing partner of AB FinWright, LLP, a woman-owned, veteran-owned CPA firm serving the cannabis industry and international clients. Rachel is a proactive business leader and innovative problem-solver with 10+ years of cannabis industry experience working with hundreds of operators in the US and abroad.

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Ryan Kiesel

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Ryan is a former member of the Oklahoma House of Representatives and served as the Executive Director of the ACLU of Oklahoma for nearly a decade. Ryan's political and legal leadership have led to landmark legal opinions and sweeping policy changes, including an effort that culminated in the largest release of inmates from prison on a single day in the nation's history. Ryan can be heard weekly on the KOSU/NPR podcast This Week in Oklahoma Politics.

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Biography: Robert Hoban is a corporate and M&A attorney, who sits at the center of the world's largest commercial cannabis industry network. He is a leader of Clark Hill's AmLaw-leading Cannabis Industry Group. As the cannabis industry has commercialized, Bob is widely credited for creating the class of lawyers now known as "cannabis attorneys."



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Biography: Simon Menkes, CPA, is a Trusted Advisor at AB FinWright LLP with a specialty in cannabis, technology, finance, construction and real estate. He has co-authored numerous articles in the cannabis sphere, a number of which have been featured on Bloomberg.com and other leading-edge publications.



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Biography: Xavier JaiIlet is a cannabis industry professional that has worked in a variety of roles, including retail, manufacturing, extraction, and ancillary services. He currently manages Clark Hill's cannabis industry group and provides business development and licensing consulting services to Clark Hill's cannabis clients.



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Biography: Sander C. Zagzebski is a corporate, securities, M&A, and private equity lawyer representing strategic and financial investors, buyers and sellers in public and private transactions that focuses primarily on transactions in the cannabis industry. He also advises corporate boards, independent committees, and other corporate stakeholders on corporate governance, takeover planning and defense, and securities matters.

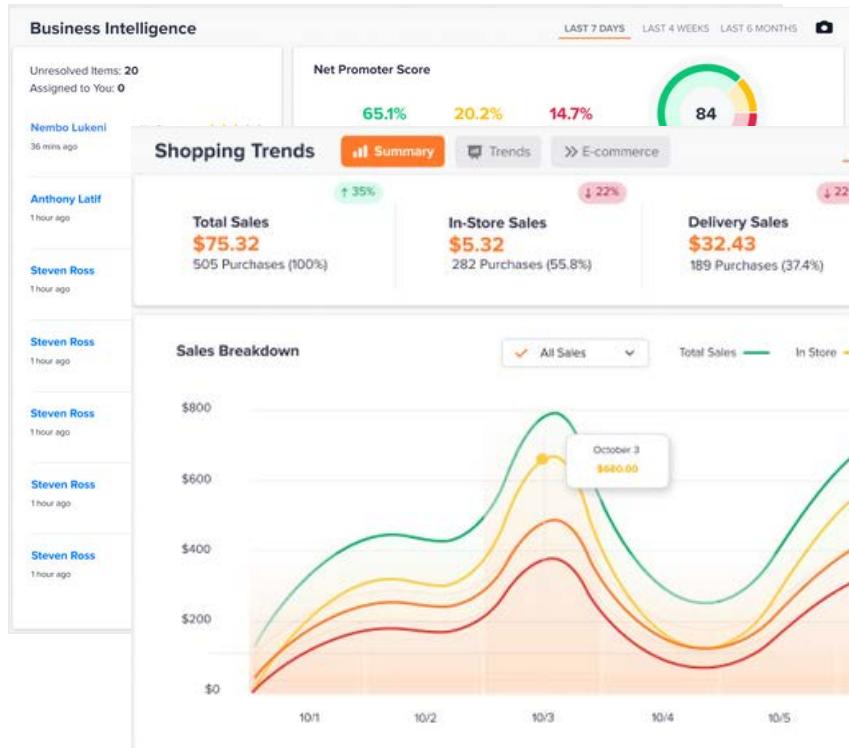


Legal Disclaimer:

This white paper has been created by The Cannabis Chamber of Commerce and the aforementioned contributors as a way to support the broader cannabis community. Nothing in this document is intended to give legal advice and there is no representation intended by the report.

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PRELUDE:

MARKETPLACE INSIGHTS

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INTRODUCTION

Understanding the modern cannabis consumer is an important landscape to consider when developing policy. Who consumers are, how they use and obtain cannabis and what their motivations for use are can help inform regulators and result in policies that reflect current behavior rather than previous assumptions. The following information from the 2023 Consumer Survey from New Frontier Data is meant to level set the policy conversation as well as provide insights.

HOW MANY PEOPLE LIVE IN LEGAL STATES?

Currently, nearly half of the total U.S. population lives in a state with access to adult use cannabis. An additional 26% live in medical only states, leaving only 26% of the population in states with no legal access. This equates to 247.9M people living in a place with some access to legal cannabis.

WHO ARE CURRENT CANNABIS CONSUMERS?

Current cannabis consumers, defined as those who have consumed in the past year and plan to consume again are made up of 46% women and 54% men. Fifty seven percent are under the age of 45. Sixty three percent are White and although 36% identify as liberal, 28% consider themselves independent and 29% identify as conservative. This underscores that cannabis use and legalization is a bi-partisan issue. Thirty eight percent of current consumers have children under 18 at home and 60% have children of any age. Seventy one percent make under \$100K a year, which likely reflects the younger age of cannabis consumers and 38% hold a bachelor's degree or higher.

- Expected adult-use legalization
- Expect medical use legalization

Potential Legalization Timeline

- Expected adult-use sales begin
- Expected medical use sales begin



Note: Year shown for new markets is the expected year of legalization. New Frontier Data estimates a sales start date of +2 years from legalization for newly legalized medical markets, and +1 years from adult-use markets with preexisting medical markets. South Dakota is the sole exception, assumed to have an adult-use sales start date of +2 years from legalization.

Chart provided by New Frontier Data



Current Percentage of Americans Living in Legal Cannabis Markets

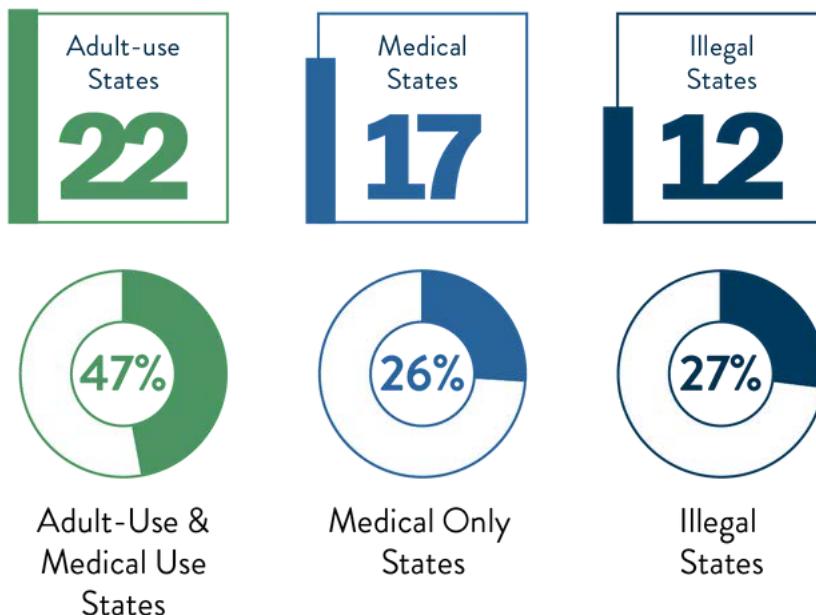


Chart provided by New Frontier Data

Potential Percentage of Americans Living in Legal Cannabis Markets

If all potential states legalize respective markets by 2030

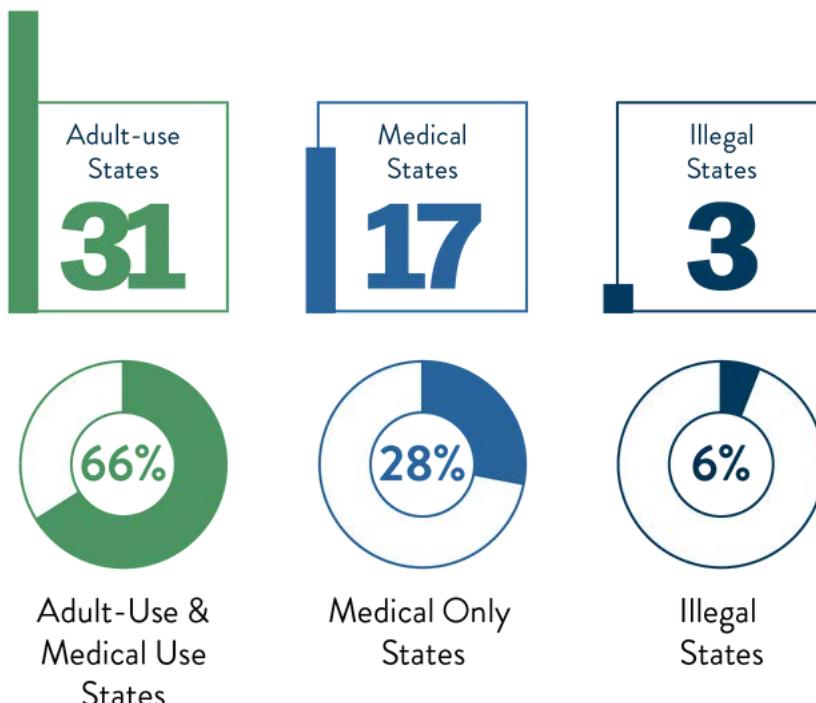


Chart provided by New Frontier Data



WHAT ABOUT MEDICAL USE?

Forty three percent of consumers say their use is "exclusively" or "primarily" medical. However, fifty three percent say that they consume cannabis for both medical and recreational purposes. And while those consuming for medical benefit reside in all state market types, 75% of self-identified medical consumers say they are treating a specific medical condition diagnosed by a doctor, with chronic pain, migraines, PTSD and arthritis being the most treated conditions. Pain, anxiety, depression, insomnia and inflammation are the most common symptoms being treated with cannabis.

WHAT ARE CONSUMER MOTIVATIONS WHEN CONSUMING CANNABIS?

When considering why people choose cannabis, 83% report using it as a form of unwinding (relaxation, stress or anxiety relief) and 61% use it to help them fall and/or stay asleep. Forty eight percent report using pain management. Seventy percent of consumers say that they consume cannabis to meet a specific objective. For those who use multiple forms of cannabis, 45% choose different forms based on the activity they are engaging in, and 37% say they use various products to create different moods.

HOW DO CONSUMERS OBTAIN CANNABIS AND WHAT DO THEY LOOK FOR IN A PRODUCT AND/OR DISPENSARY?

When deciding which products to purchase, potency and the effect the product will create are most important to consumers, even more important than price. Seventy two percent of consumers say that potency is "extremely" or "very" important, compared with 67% on effect and 64% on price. Which company made the product, and the packaging are the least important to consumers. As expected, those who live in legal states are most likely to source from brick-and-mortar dispensaries, while those in illicit markets are more likely to source from friends and dealers.



Like the rise in use of non-flower products, increased access to regulated stores has also likely influenced sourcing, as brick-and-mortar dispensaries were the primary source for 34% of consumers in 2022 and 43% of consumers in 2023. When deciding which dispensary to go to, product quality and selection were most important to consumers, followed by price and knowledgeable staff. Disappointingly, whether the business was woman, BIPOC or veteran owned was least important to consumers. When considering frequency of acquisition, 42% of consumers obtain cannabis at least once a week and 62% say they typically spend \$20-\$99 each time they purchase cannabis.

CONCLUSION

As cannabis becomes less of a vice and more of a consumer-packaged wellness product, we will continue to see the impacts of normalization. Use of non-flower products, clear intentions for use, and using various products depending on environment and desired mood, all point to a growing sophistication among consumers. However, the stated importance of potency and effect suggests that consumers are still working to find what works best for them while avoiding side effects like over-intoxication. Most consumers use cannabis to unwind, and the rise of products like cannabis beverages may support alcohol replacements while medical use may focus more on pain management and sleep to reduce the use of pain and sleep medication. Cannabis consumers span the political spectrum, and use rates are not impacted by prohibitionist policies. Regulators and others should recognize that this is a bi-partisan issue and that maintaining prohibition does not deter use.



PRELUDE:

EMPLOYMENT DATA

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CANNABIS INDUSTRY EMPLOYMENT TRENDS AND PROJECTIONS:

2023 is an especially good time to work in cannabis. Fueled by millions of new consumers, record sales of \$33 billion and the increasing acceptance of cannabis health and recreational benefits, the cannabis industry continues to create thousands of new jobs at a time when many other industries are experiencing layoffs and budget cuts. Over the past year, salaries in cannabis rose on average by 5%, with compensation for senior executives increasing by as much as 10% YOY.

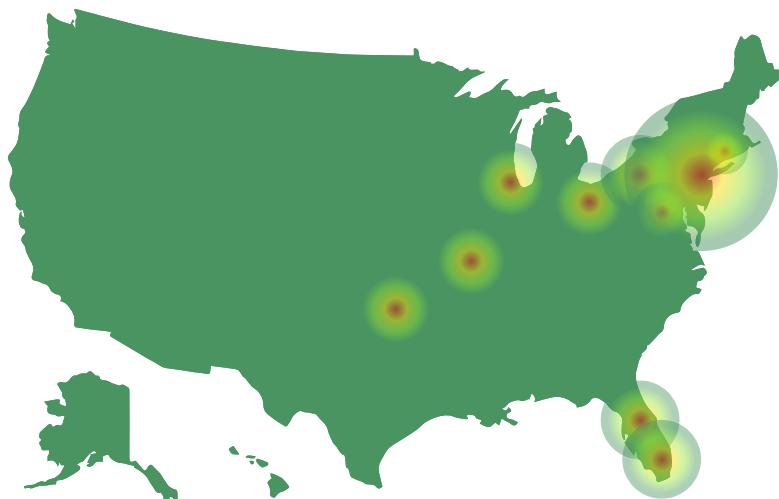
Job growth will continue this remarkable decade-long expansion phase for the US cannabis industry. As five new high population adult-use states come online (CT, NJ, NY MD, and MO) and a handful of medical-only states (FL, OK, OH, and PA), continue their remarkable recent growth, it is expected that over 108,000 new cannabis jobs will be added across the country in 2023. Achieving this benchmark would bring total cannabis jobs to over 600,000 nationwide by 2024.

The industry is experiencing continuing challenges in some mature West Coast markets in 2023, resulting from pricing, oversupply, and insufficient access to capital. We are confident, however, that the growth in the Midwest and East Coast markets will drive overall national job and salary growth for the year.

OTHER INDUSTRY TRENDS:

- Top talent is migrating from the mature western markets to the Midwest and East Coast. Expanded adult-use legalization plus hundreds of new licenses are driving job growth in New York (108,000 total cannabis jobs projected), New Jersey (36,000), Illinois (29,000), Connecticut (22,500), Maryland (18,000), and Missouri (16,200).
- Cannabis companies that need support to get up to speed in new markets will turn to temp staffing. Also, businesses in mature markets will turn to temp employees for cost-cutting and efficiency. Top temp jobs in 2023: financial /accounting, HR, marketing and E-commerce, compliance, testing chemists, packaging, manufacturing, and cultivation technicians.
- Cannabis businesses are using consultants and fractional executives more for guidance, fresh perspectives, and business strategy analysis in all verticals including Finance/Accounting, Legal Consultants, Marketing/Branding, Manufacturing Operations and Cultivation. Looking at the workforce overall, 37% of employers use consulting and contract staff.
- The Continued Strength of Medical Cannabis: The medical cannabis industry continues to grow exponentially in key states generating an estimated 90,000 total cannabis jobs. Total cannabis sales in just four states accounted for \$6 billion in 2022: FL (\$2B gross sales), PA (\$1.7B), OH (\$1.3B), and OK (\$1B).

PROJECTED JOBS



Cannabis jobs are predicted to grow steadily in the next three years. Here are the projected jobs in rising cannabis markets when they are fully established.

1. Missouri – 16,200
2. Maryland – 18,000
3. Oklahoma – 18,000
4. Connecticut – 22,500
5. Ohio – 23,400
6. Illinois – 29,000
7. Pennsylvania – 30,600
8. Florida – 36,000
9. New Jersey – 36,000
10. New York – 108,000

Source – Cannabizteam Executive Search and Staffing – Salary Guide 2023



PRELUDE:

MANAGING RISK

Cannabis Compliant Security Solutions

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CANNABIS SECURITY & CANNABIS RISK MANAGEMENT: CONFRONTING THE STATUS QUO

The legal cannabis market is filled with many well-known business challenges and opportunities; however, two keys for business success in the cannabis industry – security and risk management – are not as well-known or understood among industry newcomers and seasoned professionals. Two critical realities regarding licensed cannabis operators ("LCOs") operating in the legal cannabis industry must be better understood and converted into opportunities.

First, most LCOs today operate with broken security models. In general, these models are very expensive, easily breached, operate as a disconnected patchwork, are often non-compliant, and they are often managed by personnel inexperienced with security. Second, most LCOs essentially have no risk management programs, and are paying considerable insurance premiums for extraordinarily limited insurance coverage. We generally refer to this state of being today as the cannabis security and risk management "Status Quo".

Municipalities are suffering too. Abandoned cannabis facilities, licenses and license applications due to crime and the lack of law enforcement support have further reduced taxes and fees, disrupted social equity programs, and increased liability for LCOs, including potential personal liability. The legal commercial cannabis community, operators, investors and others have expressed their growing discontent and lack of confidence in city officials addressing a number of cannabis industry challenges and issues, especially those related to crime, law enforcement support, and LCO liability.

A Broad Array of Security Challenges

LCOs face a broad range of challenges with respect to cannabis security and risk management programs; in fact, we have seen these challenges time and again with LCOs across the state of California and in other legal markets. Broadly, the three most important are costs, compliance and liability.

- Costs – Security and risk management programs annually cost LCOs literally anywhere from tens to hundreds of thousands of dollars more than they should;
- Compliance – Many of these security systems are non-compliant with state and local regulations; and
- Liability – Non-compliance and ineffective security systems result in additional liability for LCOs, including premises and negligent security liability, as well as potential personal liability for executive management, directors, investors and/or owners.

Regardless of license type (e.g., dispensary, indoor cultivation, distributor, etc.), or whether an LCO is a new market entrant or has been operating in the industry for a long time, their security challenges are essentially similar.

A few examples of these challenges include: very expensive guard services; vendor overbillings; commissioned based recommendations and sales of costly and non-compliant fortifications and systems procured by non-security professionals; video monitoring systems not functioning or not being monitored; unlicensed electricians and other subcontractors; vendors not paying their subcontractors, and; no product or service warranties.[_](#)

Additionally, LCOs face both known and unknown challenges related to vendor underperformance, poor response times, lack of communication, security matters consuming disproportionate LCO staff time versus daily priorities, and as is the case with any patchwork multi-vendor system, they will each point fingers at others being the root cause of any problem. In sum, LCOs are generally frustrated by and do not have answers for these security challenges, especially given the above described “Status Quo”.

CANNABIS RISK MANAGEMENT

To explore risk management in the cannabis industry more deeply, it would help to quickly explain risk management in a broader sense. In sum, a "risk management program" is a term used to refer to overall risk management frameworks, principles, strategies, plans, designs, and so on. There are generally three different types of risk management programs: (1) traditional risk management (generally focused on safety and security or preventing an event or incident from reoccurring); (2) enterprise risk management (forward-looking across the entire enterprise), and various forms of (3) functional area risk management, such as cybersecurity, IT, operations, governance, financial, and others.

Existing risk management programs do not apply to the cannabis industry; and in fact, they may not apply for the foreseeable future. This is because the cannabis industry has multiple conflicts with traditional business practices. Below are reasons and examples why mainstream risk management programs are not applicable to cannabis:

- 1.** The industry is federally illegal;
- 2.** Interstate banking is prohibited;
- 3.** Many banks, insurance providers and other types of service providers will not accept LCOs as clients, especially those with interstate operations, given concerns about federal penalties and actions being taken against them;
- 4.** Most medium-to-larger municipalities mandate that LCOs only operate in "green zones" which are generally located in the most dangerous areas with the highest crime rates, and a low law enforcement presence; "green zones" are notorious "target rich" environments for bad actors; they generally operate as one crew, or in packs of crews, utilizing radios and lookouts in coordinated raids;



Compliance

-
- 5.** Licensing rules and regulatory requirements are diverse, even within a particular state, as it is with California;
 - 6.** The unlicensed cannabis market continues to flourish with very limited enforcement and protections for LCOs;
 - 7.** Third-party product and vendor service provider contracts mostly do not provide for reasonable allocations of risk/liability between LCOs and such vendors;
 - 8.** The cannabis industry itself remains rated as one of the highest risk industries, resulting in correspondingly high insurance premiums (considered prohibitively expensive by many)
 - 9.** Most cannabis insurance – including property and certain other policies – contain multiple exclusions, carve outs and specialized requirements for cannabis activities, security, and incidents (the net effect of which is LCOs have very limited insurance coverage and extraordinarily limited recoveries when incidents occur); and
 - 10.** There is a general lack of transparency between insurance carriers with respect to sharing copies and details of third-party loss control risk assessment and inspection results (if such inspections actually occur by carrier policy or via a regulatory requirement) leaving LCOs largely in the dark regarding security matters and other areas for improvement, compliance and claims negotiation when security incidents do occur.

The cannabis industry must embrace a new paradigm for cannabis risk management for the foreseeable future, creating and applying techniques and tools in new ways. Based on our experience serving LCOs primarily throughout California, and in other markets (NY, NJ, FL and TX). We believe the core principles of a cannabis risk management program must be tactical and targeted at security, safety, regulatory compliance, and insurance, especially when considering the examples above, with a special emphasis on overcoming various "green zone" security and risk management challenges.





We also believe the objectives of such a tactical and targeted approach should be to significantly decrease total costs, reduce the risk of security breaches, and substantially decrease liability for LCOs, including potential personal liability for executive management, directors, and investors.

SECURITY BEYOND STATE REGULATIONS: PRACTICAL REALITIES

What constitutes cannabis security, and what does a cannabis insurance policy really cover?

Cannabis insurance policies and cannabis security are very much interrelated and interdependent; thus, they must be managed proactively and must complement each other.

For far too long “security” in the cannabis space has been traditionally and simply defined as “cameras, alarms, security plans and regulations.” Similarly, “insurance” in the cannabis space is generally viewed as a check-the-box requirement, such as one required under a lease agreement, or something mandated by a Board of Directors.

We see this all the time. Insurance brokers and underwriters are keenly aware of the risks of LCOs operating in “green zones” among other risk factors inherent to cannabis.

Regarding security, we often see LCOs “racing to the bottom.” Many accept security proposals based solely on price (cheaper the better), or worse, the cannabis operator bypasses security professionals entirely and attempts to piece together and manage a multi-vendor, store-bought security system.

Other LCOs do not push back and redline vendor contracts, or they blindly accept commission-based consultant recommendations on security system components without understanding that there are many other factors to consider when designing effective security solutions beyond a security plan, etc. – ultimately leading to much more expensive and less effective security.

Regarding cannabis insurance coverage, many LCOs accept whatever policy proposal and premium pricing their insurance broker can obtain without understanding, reviewing and/or negotiating the security requirements. Some neither understand or explore alternative risk transfer solutions, or obtain copies of third-party loss control inspection reports. They also do not reconcile lease-related security requirements with insurance security requirements, leading to a much more expensive system and greater liability.

Unfortunately, many LCOs, their Boards of Directors, and investors are caught unaware and miss the opportunity to obtain much more cost effective and efficient security solutions.



CONFRONTING AND DISRUPTING THE STATUS QUO:

The Role of the Consultant and Integrator

The job of the security and risk management consultant is to look beyond the regulations and be proactive as possible in their approach to helping LCOs reduce total costs and liability related to cannabis security and insurance. That starts with thoroughly understanding the landscape – and the actual experiences, facts and circumstances related to each LCO client or prospect.

Consultants and integrators generally specialize in a particular aspect or component of cannabis security or cannabis risk management. Their core competency might be guard services, video monitoring, or preparing cannabis license applications. Each of these capabilities are needed products or services. Unfortunately, they are not multi-vendor solutions, however, addressing multiple or groups of LCO objectives and challenges.

When we refer to looking beyond the regulations, thoroughly understanding the landscape, and evaluating actual cannabis security and risk management problems related to an LCO client or prospect, we strongly believe more solutions are needed – not stand alone products or services.

More partnerships, alliances, vendor independent teaming agreements and other forms of collaboration between and among consultants, integrators, vendors and services providers will be required in the future with one of the partners ultimately being liable and accountable for the implemented LCO solution.

We believe, implementing customizable managed services offerings and service models to confront and disrupt the Status Quo with the security solution provider serving as a "general contractor" – or the proverbial "one throat to choke " is the future of "cannabis security". These offerings and service models include managing all third-party vendors and service providers.

There are two primary objectives to this strategy. First, preserve overarching cannabis security and risk management objectives for the LCO, including budgetary objectives. Second, maintaining the flexibility to manage multi-vendor "solutions' ', including the deployment of new cost-saving technologies, and implementing alternative risk transfer solutions.

INTRODUCTION

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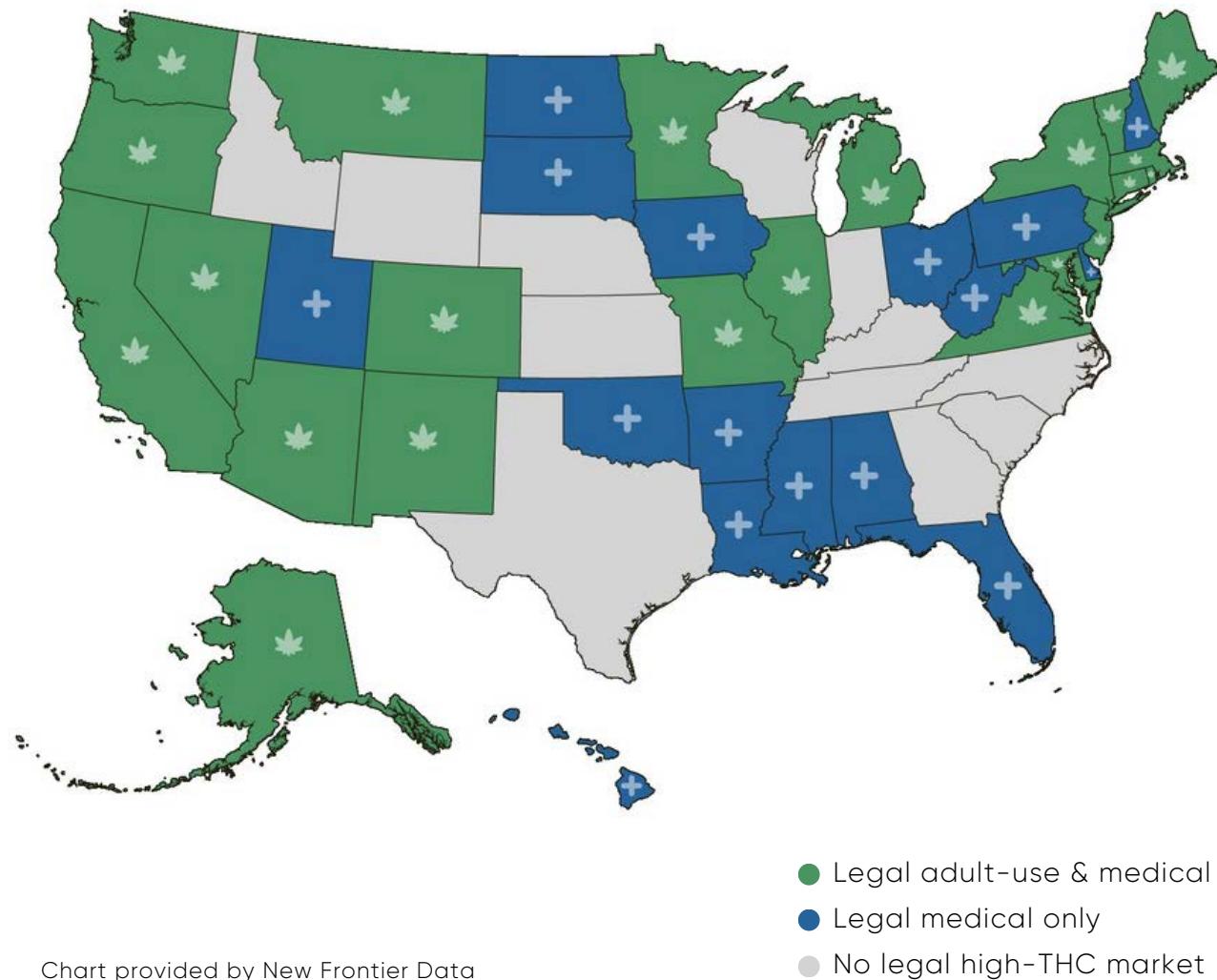
A HISTORY OF CANNABIS FOR NEWER INDUSTRY PROFESSIONALS

Cannabis has a long and storied history as a pharmaceutical; as far back as 2800 BC, cannabis was used to treat a vast array of health problems and was listed in Chinese Emperor She Nung's (regarded as the father of Chinese medicine) pharmacopoeia. Therapeutic references have also been found in the texts of the Indian Hindus, Assyrians, Greeks, and Romans, with cannabis indicated for such health problems as arthritis, depression, inflammation, pain, lack of appetite and asthma.

In the United States, cannabis was a common drug in a physician's arsenal throughout the 1800's. Recreational use flourished at the same time, with many cities sporting oriental-style hashish parlors where compressed cannabis buds were smoked. Cannabis was considered a "fashionable narcotic", with Harper's Magazine describing a New York City hashish-house in 1883 as being frequented by both men and women of "the better classes".

With our country's industrialization, however, many Americans began to view alcohol and recreational cannabis as a danger to society, contributing to family violence, political corruption, and a lazy, thrifless workforce. Initially, states enacted laws in the early 1900's to classify cannabis as a poison, obtainable only through a doctor's prescription, making its non-medical possession a crime. (Interestingly, the first state to do this was California, which also became the first state to re-legalize the medical use of cannabis with the Compassionate Use Act of 1996.) Finally, the Controlled Substances Act of 1970 listed cannabis as a Schedule I drug having high potential for abuse and no accepted medical use. The Act made all cannabis possession illegal.

Legalized States





FLASH FORWARD TO 2023, WITH BUSINESS IMPLICATIONS

The United States, and indeed much of the world, has re-embraced cannabis for its medicinal properties, its recreational attractions, and its lack of potential for abuse. As DEA (Drug Enforcement Administration) Chief Administrative Law Judge Francis L. Young stated in his unsuccessful 1988 petition to have cannabis removed from the list of Schedule I drugs, "Marijuana, in its natural form, is one of the safest therapeutically active substances known to man." He further concluded, "The evidence in this record clearly shows that marijuana has been accepted as capable of relieving the distress of great numbers of very ill people, and doing so with safety under medical supervision. It would be unreasonable, arbitrary and capricious for DEA to continue to stand between those sufferers and the benefits of this substance in light of the evidence in this record."

At this time, 22 states allow the adult-use sale of cannabis products while 16 more have legalized medicinal-sale-only, for a majority total of 38 states. With cannabis still a Schedule I substance and federally illegal, and with this status unlikely to change in the near future, choosing to go into business in the cannabis sphere is not a simple decision. Banking is not as complicated as it once was, but it is expensive. Significant challenges include heavy state and local taxes and a federal taxation system that doesn't allow cannabis companies to deduct most business expenses other than Cost of Goods. This, combined with competition from a proliferation of illegal companies that sell cut-rate product and pay no state or federal taxes at all, creates a difficult environment for legal businesses to flourish.

HOW THIS WHITE PAPER CAN SERVE YOU

The Cannabis Chamber of Commerce is here to increase business opportunities for you, the cannabis entrepreneur. Our goal for this report is to provide meaningful insights about the respective opportunities and challenges within the major US cannabis markets.

To that end, some of our members have dug deep, using their state-specific expertise to create detailed write-ups on each of the 15 featured states. If you are considering opening a cannabis business within one of those states, you will find a wealth of information including that particular state's history with cannabis, licensing concerns, social equity aspects unique to that state, tax considerations, employment info and more.

In addition, we have three "Prelude" articles which cover market insights, employee data, and security warnings particular to cannabis businesses.

READING FOR DIFFERENTIATION: ADULT-USE/MEDICAL STATES VS. MEDICAL-ONLY STATES

Many prospective cannabis entrepreneurs may not have yet chosen the state in which they want to do business. They may have questions like, "Would it be better to begin in a medicinal-use-only state that could open up for adult-use, or should I concentrate on starting a business in a state that already has adult-use?" To that end, we have write-ups on 9 adult-use states (AZ, CA, CO, CT, IL, MT, NJ, NY and RI) and 6 medical-only states (FL, MN, MS, OK, PA and TX), so that individuals may study one or the other specific type.



INTERESTING READING IN THE END

We hope you will find our White Paper interesting reading as you peruse the history of cannabis legalization in each state and the unique ways its leaders and citizens have approached the legalization of cannabis. For example, the medical-only state of Oklahoma (population 3,959,000) has welcomed cannabis with open arms, issuing 6,975 cultivation licenses, 2,893 retail licenses, and 1,834 manufacturing licenses. This is countered by the far more cautious state of Texas which has issued only 3 cannabis business licenses for a population of 30,500,000. (Texas contemplates issuing more licenses, but none have yet been approved.)

In the final analysis, we hope you will find our 2023 National White Paper helpful as you navigate the entrepreneurial cannabis waters. The Cannabis Chamber, as well as our individual members, stands ready to assist you to be successful in any way we can. Feel free to contact our organization and/or the individual authors mentioned in our report.

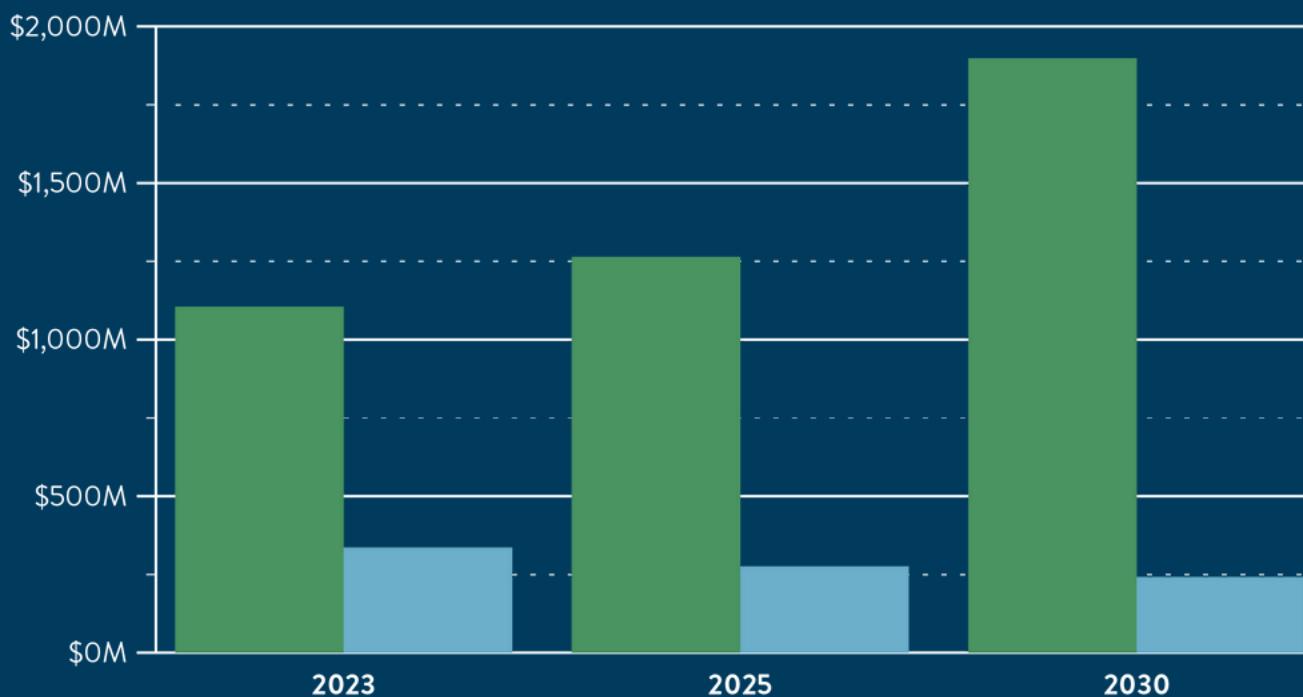
And of course, we are always ready to welcome you and your company as our newest member!

ARIZONA LEGAL MARKET OVERVIEW

Arizona Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$1.1
Billion

2023: MEDICAL MARKET

\$336
Million

Charts provided by New Frontier Data

ARIZONA

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INTRODUCTION

Until the birth of its legal cannabis industry in 2010, Arizona was known for its "Five C's", traditional industries of copper, cattle, cotton, citrus and climate^[1]. Each of the Five C's played an important role in Arizona's developing economy, bringing an influx of people for jobs in ranching, mining and agriculture, creating local real estate barons, and building expansive tourism and entertainment respites for largely out-of-state visitors.^[2]

A dozen years on from 2010, the State is consistently in the top ten (10) states in the U.S. ranked by cannabis sales revenue from medical marijuana and, more recently, adult use marijuana retail licensees.^[3] Arizona's medical and adult use licensing regimes are not, however, similar to those states whose cannabis revenues are equally high-ranking (e.g., California and Colorado); rather, Arizona's medical and adult use licensing programs are vertically integrated and limited to approximately 170 retail locations across the State serving nearly 7.5 million residents.^[4] The majority of these locations are operated by dually-licensed licensees who have both medical and adult use licenses. As a result, these locations have exceptional market values and are in high demand.

OVERVIEW OF ARIZONA'S CANNABIS PROGRAMS

Within certain limits, Arizona confers legal immunity from criminal prosecution for the cultivation, manufacture, distribution, sale, possession, and use of "marijuana," defined broadly, only if such activities are undertaken in compliance with the provisions of the Arizona Medical Marijuana Act enacted by citizens' initiative in 2010: A.R.S. §§ 36-2801 et seq., and Regulations: 9 A.A.C. 17 (Ariz.Admin.Code §§ R9-17-101 et seq.), as each is amended from time to time (collectively, the "AMMA" or "Medical Program");



and, as of November 3, 2020, in compliance with the provisions of the Smart and Safe Arizona Act also enacted by citizens' initiative: A.R.S. §§ 36-2850 et seq., and Regulations: 9 A.A.C. 18 (Ariz.Admin.Code §§ R9-18-101 et seq., as each is amended from time to time) (collectively, the "Adult Use Act"), inclusive of which are provisions granting to the AZDHS the authority to award 26 social equity licenses described below.

Unlike the AMMA, Arizona's penal code distinguishes between "cannabis" and "marijuana," defining the former as the extracted resin of the plant, classifying its manufacture, distribution, sale, possession, or use as more serious crimes, and imposing higher penalties for doing so. To some extent, the Adult Use Act intends to decriminalize "cannabis" use and possession within certain limits, but the within Arizona summary does not focus on Arizona's criminal laws concerning cannabis and marijuana.

MEDICAL MARIJUANA

The Arizona Department of Health Services ("AZDHS" or "Department") adopts and enforces the administrative rules governing Arizona's Medical Marijuana Program (the "Medical Program"). It alone has authority to issue a dispensary license (sometimes referred to as a "certificate"), require certain product packaging and testing, and inspect "dispensaries" (defined as retailers who are also wholesalers of medical marijuana) for AMMA-compliance. Revocation of the license is the ultimate penalty for Medical Program violations, although the Department has established through Regulations an administrative process subject to judicial appeal. To the author's knowledge, the Department has only infrequently filed notice to rescind and has never rescinded a dispensary license for AMMA violations.[\[5\]](#)

Under this vertically-integrated regime, the dispensary exclusively owns, produces, cultivates, manufactures, transports, and sells medical marijuana. Although a dispensary may contract with businesses to cultivate plants or extract resin for products, for example, each such contracting business must be appointed by the dispensary to perform that work on the dispensary's behalf, typically pursuant to a carefully crafted written license or contractor/subcontractor agreement. Before the dispensary or any of its contractors may operate their respective businesses, the Department's approval in the form of an "Approval to Operate" ("ATO") must be issued.[\[6\]](#) Ultimate responsibility and liability for such independent contractors' compliance with the Medical Program rests with the dispensary, whose license is subject to rescission for violations of the AMMA.

MEDICAL MARIJUANA PROGRAM NUMBERS

ACTIVE AND OPEN MEDICAL MARIJUANA DISPENSARIES

As of the writing of this summary, AZDHS has issued 137 active and open medical marijuana dispensary licenses (including dual licenses (described below) since the inception of the Medical Program in three (3) tranches: 2011 (approx. 100), 2016 (approx. 30), and 2023 (6) [\[7\]](#). The six (6) recently-issued medical marijuana licenses are required to open for business within eighteen (18) months after the license has been issued by AZDHS or face revocation/rescission of their respective license [\[8\]](#).

Licenses are issued subject to a ratio of one (1) dispensary for every ten (10) registered and open pharmacies and as of the close of 2022, there were 1,340 such pharmacies. Thus, additional allotments may occur from time to time if AZDHS determines (in the Spring of each year) that the number of licensed pharmacies has increased statewide in comparison to the year before.

A mid-2019 amendment to the AMMA required AZDHS to issue any new allotments of medical marijuana licenses to proposed dispensary locations in underserved rural areas. After years of litigation, in September 2022 the Department adopted regulations promulgating criteria for its acceptance of medical marijuana dispensary license applications for six (6) underserved rural Arizona counties that had no such license during the period of December 16 through December 30, 2022. [\[9\]](#)

Those counties designated by AZDHS were Apache, Cochise, Graham, Gila, Greenlee and Santa Cruz. Pursuant to these new Regulations,[\[10\]](#) these medical marijuana licenses would be variously restricted, including a very limited right to relocate the license elsewhere.[\[11\]](#) Additionally, AZDHS required the medical marijuana dispensary be open for business to the public within eighteen (18) months after application for the license, at the risk of license forfeiture.[\[12\]](#)

NON-PROFIT OPERATIONS

A medical marijuana dispensary must be operated on a nonprofit basis[\[13\]](#); thus, it pays no distributions or profits to and typically has no members or owners. Most dispensary nonprofits are corporations, although there are a few licensed limited liability companies and one (1) partnership. In practice, the dispensary licensee is typically managed by one (1) or more affiliated for-profit entities, usually an Arizona registered limited liability company, and the manager will enter into a management services agreement with the dispensary. Management services under this contractual arrangement include production, executive functions, employment, accounting, marketing, and intellectual property maintenance.



Under the AMMA, a dispensary may only have one (1) onsite and one (1) offsite cultivation facility, the latter being typically where resin-extraction and the manufacture of edibles, tinctures, ointments, and other edible and non-edible medical marijuana products occurs, but a licensed dispensary may obtain products from another license dispensary. [14] The dispensary is responsible for all activities relating to its cultivation, production, manufacturing, "kitchen" facilities, transports, and retail establishments in maintaining compliance with all applicable law including, without limitation, the AMMA. The ultimate risk to a dispensary (or its cultivators', producers', manufacturers', extractors', and transporters' noncompliance) is loss of the dispensary license.

MEDICAL MARIJUANA PATIENTS AND SALES

As of March 2023, Arizona reports having approximately 130,000 registered, qualified medical marijuana patients (a 50% decrease from 2019[15], largely attributed to the passage of the Adult Use Act), notwithstanding that taxes imposed upon adult use purchases are higher than for AMMA purchases[16]. As of March 2023, YTD medical marijuana tax collections were in excess of \$110 million on YTD taxable sales of nearly \$30 million.[17]

Currently, the two largest groups of medical marijuana patients are between the ages of 61-80 (11,214) and 18-30 (10,810), but significant numbers of patients clock in at 31-60 years old (nearly 21,000). The vast majority of licensed patients reside in Maricopa County (approx. 83,000), whose largest city is Phoenix, and Pima County (approx. 19,500), whose largest city is Tucson.

The most common qualifying health conditions are by far chronic pain and others including PTSD, nausea, muscle spasms and cancer. New or renewal patient applications through March 2023 totaled over 8,300, the majority from patients resides in Maricopa (5,645), Pima (1,296), and Pinal (560) counties.[18]

As of FY 2022 YTD, Arizona's medical marijuana sales were stagnant at \$500 million in sales[19]. Substantial continued growth year over year was anticipated, provided, however, that adult use sales were expected to quickly overtake the medical marijuana marketplace. Total current market value for medical marijuana sales is estimated at between \$400 - \$500 million. [20]

COVID-19 COMPLICATIONS

While many other types of retail businesses suffered a substantial drop in revenues during the 2020 – 2022 COVID-19 crisis[21], licensed medical marijuana dispensaries across the U.S. enjoyed significant increases in monthly medical marijuana transactions and pounds sold[22]. Arizona was no exception: within less than six (6) months after the first cases of COVID-19 appeared in Arizona[23], nearly 110 tons of various forms of medicinal cannabis were sold, a significant increase from 2019[24]. Arizona medical marijuana dispensaries considered their services to be “essential”, although the Governor’s stay at home order did not specifically include cannabis companies. [25]

DISPENSARY AGENT REGISTRATIONS

Only persons whom a dispensary registers with the AZDHS on the dispensary’s online portal and to whom a dispensary agent (or principal) card has been issued by the AZDHS (referred to as the “DA Card”) may work for, manage, volunteer for, transport, or have a presence in a medical marijuana dispensary and its cultivation and production facilities. Prerequisites to obtaining a DA Card include fingerprinting and exclusion for certain felonies. A.R.S. § 36-1901.

Persons, including a real estate landlord, contractors, service providers (e.g., utility workers, inspectors, and prospective employees), press agents, lenders and agents and representatives of the foregoing, visiting a medical marijuana facility must be accompanied at all times by a registered dispensary agent (“Dispensary Agent”) of the dispensary.[26]. The term “Dispensary Agent” includes employees, managers, volunteers, officers, and other principals, including dispensary board members. Of late, AZDHS has been critical of dispensaries who admit unlicensed persons such as the occasional landlord or investor into the dispensary even for brief periods of time.

PATIENT REGISTRATIONS

Qualifying patients must be licensed by AZDHS following a medical professional's certification of the patient's debilitating medical condition. Qualifying health conditions include cancer, chronic pain, Alzheimer's, Crohn's Disease, HIV/AIDS, and PTSD (there are more than a dozen such conditions for which a patient may be certified for a "Patient Card"). Typical costs to a patient for the examination and application range from \$150-\$350, but the Patient Card is good for two (2) years. Numerous doctor certification businesses opened to serve persons seeking a Patient Card.

A patient holding a Patient Card may designate another person to care for him/her/it by cultivating, producing, and dispensing to the patient his/her/its medical marijuana if the patient resides more than 25 miles from the closest dispensary. [27] A caregiver must obtain the patient's written designation to and obtain a caregiver card from AZDHS before undertaking this care. A caregiver must apply for and obtain a "Caregiver Card" and its issuance is subject to fingerprinting. Caregivers may grow a limited number of marijuana plants on behalf of a limited number of patients. Caregivers may receive no compensation from their patients, but may receive reimbursement for their reasonable costs and expenses. No caregiver, with or without a patient's approval, nor any patient, may sell or distribute marijuana to anyone; marijuana in excess of the patient's needs may be contributed to a dispensary or must be destroyed. [28]

ISSUANCE OF NEW DISPENSARY LICENSES

Unlike other states, Arizona's Medical Program limits the number of medical marijuana dispensary licenses to one (1) license for every ten (10) open, registered pharmacies (see above). [29] In April 2023, AZDHS issued six (6) medical marijuana licenses whose locations have been limited to underserved rural Counties in the State. Otherwise, AZDHS is not currently accepting applications for, nor issuing, new medical marijuana dispensary licenses

TRANSFERABILITY OF THE DISPENSARY LICENSE

COVID-19's crushing business and social implications did not dampen market interest in Arizona's medical marijuana (or adult use marijuana) licenses. In Arizona's Medical Program, the dispensary license alone controls the cultivation, manufacture, production, transport, and retail and wholesale distribution of medical marijuana. The dispensary license is non-transferable and non-assignable,[30] although the AMMA does not define either term, and it is not yet established by case law or regulatory interpretation whether non-transferability precludes the lease, license, use, mortgage, pledge, or other transfer of all or part of the ownership, use, or possessory rights of the dispensary license. However, transfer and assignment are permitted where both of the medical and adult use licenses are transferred to the same entity.[31]

In fact, the managing or controlling entities of a medical marijuana dispensary licensee (or even the owners of the foregoing) may transfer their interests in the control of a dispensary in a "change of control" transaction. Many dispensaries are managed by their affiliated for-profit entities and such affiliates receive a substantial fee for management activities, typically on a monthly basis. Although the dispensary license is not "transferable", there is no prohibition in the AMMA on a change of control of the board or other manager of the licensee. Thus, to effectuate a change in dispensary control, its board of directors will, first, appoint new board members and officers of the target licensee who have obtained DA Cards from AZDHS and, next, the current or 'old' board members and officers will resign from such positions on the closing of the change of control transaction. Concurrently, a new manager will assume management responsibility over the dispensary and a new board of directors appointed by the assignee/transferee will direct the licensee's operations and management.

There have been numerous change of control transactions since the AMMA's enactment in 2010, the author having conducted several dozen of such changes. The Arizona market for acquisitions and dispositions continues to be robust, fueled by acquirers from outside Arizona as well as regional dispensary license-holders interested in expanding their local footprint. These change of control transactions now fall within the range of \$10M-\$30M for a single dispensary.

OTHER APPROVALS INCLUDING ZONING

In addition to obtaining an AZDHS license to dispense medical marijuana, an Arizona medical marijuana dispensary must obtain various zoning permits and ATOs described above. An ATO is the AZDHS' authorization to open and operate the dispensary and/or its cultivation, production, and manufacturing facilities, following an AZDHS-conducted inspection. 9 A.A.C. 17-305.

County and municipal zoning laws often mandate that a dispensary or related medical marijuana facility (e.g., its cultivation or production facility) be physically located at least a specified distance from certain other uses (e.g., 500 or 1,000 feet from a residence, school, place of worship or public park) and also limit the presence of a medical marijuana facility to certain zoning districts (e.g., industrial or commercial). Most also require a special use permit ("SUP") with marijuana-specific stipulations (e.g., additional security measures, prohibition on emissions, and the issuance of environmental permits) for any medical marijuana facility, which SUP is often only granted following a public hearing on an annual basis. Local opposition could stall or prevent the issuance of the requisite SUP. These laws are critical to the determination of the location or relocation of a dispensary or its related facilities.

LABORATORY TESTING OF MEDICAL MARIJUANA

Arizona Senate Bill 1494, which became law effective August 27, 2019, provides new protections for medical marijuana patients. As of November 1, 2020, all dispensaries are required to have their medical marijuana tested by an independent third-party laboratory that has a national or international accreditation and that is certified by AZDHS to analyze marijuana cultivated for medical use. [\[32\]](#)

Various AZDHS-promulgated security, recordkeeping, and verification regulations will apply. Owners of such labs must show no familial or financial proximity to dispensaries, dispensary-affiliates, and caregivers. [\[33\]](#) Additionally, a lab must provide AZDHS copies of its policies and procedures describing security measures and inventory control procedures to be used in the lab (e.g., electronic monitoring, restricted access, and intrusion protection). Testing protocols include marijuana THC potency and the presence of pesticides, solvents, heavy metals, and microbes.

IMPORT/EXPORT

A licensed medical marijuana dispensary may buy from and sell medical marijuana biomass and products to another Arizona dispensary.^[34] Patients may only buy their medicine from an Arizona licensed dispensary. No marijuana may be imported from or exported to another state or country.

ADULT-USE MARIJUANA

Although a citizen-led effort to legalize recreational cannabis-use for adults failed by a small margin in 2016, a public initiative known as the "Smart and Safe Arizona Act" (referred to herein as the "Adult Use Act") passed by a margin of 20% on November 3, 2020.^[35] The Adult Use Act permitted the then-current 130 medical marijuana dispensary licensees to apply early (January 19 through March 19, 2021) for an adult-use license to be operated from the same location as the dispensary's medical marijuana business. All medical marijuana licensees applied for the adult use license and many applications were granted within twenty-four (24) hours of their application.

In mid-April, 2021 AZDHS issued 13 adult use only licenses to "marijuana establishments" located in rural, underserved counties such as Cochise, Greenlee, Graham and Santa Cruz. This tranche of adult use only licenses was intended to fill gaps of marijuana availability in outlying Arizona caused by the relocation of the 2011 and 2016 licenses from rural to metropolitan areas. The Adult Use Act prohibited these adult use only licenses from relocating out of the license's rural county location except to another location in the same county.

The Adult Use Act also directed AZDHS to establish a social equity ownership program for certain persons and entities to apply for an adult use license based upon the applicant's (or its owner's/owners') alleged discriminatory treatment by law enforcement of the foregoing's marijuana possession during the U.S.' 'War on Drugs' or various other criteria. A.R.S. §§ 36-2854 et seq. Thus, the Adult Use Act required AZDHS to issue 26 adult use (but not dual (medical and adult use)) licenses to persons whose person, family, or community was disproportionately and negatively affected by the War on Drugs. [36]

Applications for social equity licenses were accepted by AZDHS during the period of December 1 through December 14, 2021. Over 1,500 applications were received, each applicant paying a \$4,000 fee. To qualify, an applicant entity (individual applicants were not acceptable applicants) must include one or more principals/owners holding at least 51% of the entitlements of ownership, i.e., profits and voting, as social equity qualifiers ("SEQ"). Additionally, the principals/owners (referred to as "PO/BM's"): (i) were mandated by AZDHS to take various courses offered by AZDHS on running a marijuana business, (ii) had to meet certain financial, criminal, demographic and relational requirements, and (iii) had to attest to not having entered into a contract that would negate the SEQs' ownership entitlements.

These applicants did not need to designate a retail location, unlike all of the earlier application tranches. Numerous MSO's (multi-state operators) partnered with these qualifying SEQs to provide capital and business expertise if the applicant was issued a social equity license. On April 8, 2022 the Department awarded those 26 licenses via lottery conducted by Henry & Horne LLP.[37] These social equity licenses may be revoked in the event the licensee does not open for business within eighteen (18) months after the license was issued (mid-October 2023). [38]

ADULT USE PROGRAM NUMBERS

ACTIVE AND OPEN ADULT USE DISPENSARIES

As of the writing of this summary, AZDHS has issued approximately 170 marijuana establishment licenses (including the 130 dual licenses (described above) in two (2) tranches: 2021 (143) and 2022 (26) since the inception of the Adult Use Program. AZDHS lists all of the open and operating adult use licensees here. [39] Licenses are issued subject to a ratio of one (1) dispensary for every ten (10) registered and open pharmacies and as of the close of 2022, there were 1,340 such pharmacies.

Thus, additional allotments may occur from time to time if AZDHS determines (in the Spring of each year) that the number of licensed pharmacies has increased statewide in comparison to the year before. Under the Adult Use Act, an adult use establishment licensee may have one (1) onsite cultivation facility, one (1) offsite cultivation facility, and one (1) manufacturing facility, the latter being where resin-extraction and the manufacture of edibles, tinctures, ointments, and other edible and non-edible marijuana products occurs. An establishment licensee may obtain products from another licensee.[40]

The establishment licensee is responsible for all activities relating to its cultivation, production, manufacturing, "kitchen" facilities, transports, and retail establishments in maintaining compliance with all applicable law including, without limitation, the Adult Use Act (and the AMMA with respect to the medical license of a dual licensee). The ultimate risk to an establishment licensee (for its cultivators', producers', manufacturers', extractors', and transporters' noncompliance) is loss of the establishment license. Ibid.

ADULT USE SALES

2022 total tax revenue from Arizona's medical and adult use sales was in excess of \$250 million.[41] Total sales from those programs exceeded \$1 billion, but adult use sales comprised 70% thereof or approximately \$70 million.[42]



FACILITY AGENT REGISTRATIONS

Only persons whom an adult use establishment registers with the AZDHS on the establishment's online portal and to whom a facility agent (or principal) card has been issued by the AZDHS (referred to as the "FA Card") may work for, manage, volunteer for, transport, or have a presence in an adult use establishment and its cultivation and production facilities. Prerequisites to obtaining an FA Card include fingerprinting and exclusion for certain felonies. A.R.S. § 36-2855.

Persons, including a real estate landlord, contractors, service providers (e.g., utility workers, inspectors, and prospective employees), press agents, lenders and agents and representatives of the foregoing, visiting an adult use establishment facility must be accompanied at all times by a registered dispensary agent ("Facility Agent") of the licensee.[\[43\]](#) The term "Facility Agent" includes employees, managers, volunteers, officers, and other principals, including persons registered as dispensary agents of a medical marijuana licensee.[\[44\]](#)

TRANSFERABILITY OF THE ESTABLISHMENT LICENSE

The establishment license is transferable, provided that both medical and adult use licenses remain in the same licensee name and both operate at the same location.[\[45\]](#) A dual licensee may convert its medical marijuana licensed entity into a for-profit entity upon notice to AZDHS. [\[46\]](#)

OTHER APPROVALS INCLUDING ZONING

In addition to obtaining an AZDHS license to dispense adult use marijuana, an Arizona establishment must obtain various zoning permits and the AZDHS' authorization to open ("ATO") and operate the dispensary and/or its cultivation, production, and manufacturing facilities, following an AZDHS-conducted inspection. 9 A.A.C. 18-304. County and municipal zoning laws often mandate that an establishment and related facilities (e.g., its cultivation or production facility) be physically located at least a specified distance from certain other uses (e.g., 500 or 1,000 feet from a residence, school, place of worship or public park) and also limit the presence of a marijuana facility to certain zoning districts (e.g., industrial or commercial).

Most also require a special use permit ("SUP") with marijuana-specific stipulations (e.g., additional security measures, prohibition on emissions, and the issuance of environmental permits) for any marijuana facility, which SUP is often only granted following a public hearing on an annual basis. Local opposition could stall or prevent the issuance of the requisite SUP. These laws are critical to the determination of the location or relocation of an establishment or its related facilities.

LABORATORY TESTING OF ADULT USE MARIJUANA

The Adult Use Act enacted testing protections for adult use marijuana consumers. All establishments are required to have their marijuana tested by an independent third-party laboratory that has a national or international accreditation and that is certified by AZDHS to analyze marijuana cultivated for consumer use. [47].

Various AZDHS-promulgated security, recordkeeping, and verification regulations will apply. Owners of such labs must show no familial or financial proximity to dispensaries, dispensary-affiliates, and caregivers. [48] Additionally, a lab must provide AZDHS copies of its policies and procedures describing security measures and inventory control procedures to be used in the lab (e.g., electronic monitoring, restricted access, and intrusion protection). Testing protocols include marijuana THC potency and the presence of pesticides, solvents, heavy metals, and microbes.

IMPORT/EXPORT

A licensed adult use marijuana establishment may buy from and sell medical marijuana biomass and products to other Arizona marijuana licensees.^[49] No marijuana may be imported from or exported to another state or country.

CONCLUSIONS

Ever opportunistic, Arizona's medical and adult use marijuana programs present numerous business ventures for persons/entities desiring to enter into or expand within Arizona's growing market. Some of these opportunities include the acquisition of control of a dispensary or establishment, equity or debt financing, purchase or management of real estate serving marijuana facilities, the provision of services, cultivation of marijuana, manufacture and production of lotions, edibles, extracts and other marijuana derivatives, and various product or equipment contracts. Unlike early adopter states California and Colorado, the Department tightly regulates the number of licenses available, thereby ensuring their high value.

[1] The author suggests that years ago Arizona economic historians should have publicized a sixth "C", i.e., the "Canyon" or "Grand Canyon", a 277 mile (446 km) long, up to 18 miles (29 km) wide, and with a depth of over a mile (1,857 meters) wide, steep-sided canyon carved by the Colorado River that exposes nearly two (2) billion years of Earth's geological history.

https://en.wikipedia.org/wiki/Grand_Canyon. The Canyon was the center of various Native American cultures, including the Anasazi. It is the realm of numerous flora and fauna not located elsewhere in the State. Ibid.

[2] <https://azlibrary.gov/collections/digital-arizona-library-dazl/arizona-almanac/5-cs#:~:text=Arizona's%20Five%20C's%20are%3A%20Copper,agriculture%2C%20ranching%2C%20and%20mining>.

[3] <https://mjbizdaily.com/us-cannabis-sales-by-state/>.

[4] <https://www.census.gov/quickfacts/AZ>.

[5] Only a few notices of pending rescission have been issued by the Department during the approximate thirteen (13) years of the Medical Program or the approximate three (3) years of the Adult Use Program. Violations under the former have included the hiring of numerous illegal aliens to work at a dispensary licensee's cultivation facility, for which the dispensary licensee paid a fine of approximately \$200,000.00 to cure the violation.

[6] 9 A.A.C. 17-305.

[7] Given certain prohibitions written into the AMMA, the Department shall not disclose "confidential information" concerning medical marijuana dispensary licensees. A.R.S. §§ 36-2810. AZDHS has taken the position that this Section of the AMMA does not require it to disclose such licensees, thus limiting the breadth of information accessible to the author on such licensees.

[8] See footnote following.

[9] <https://www.azdhs.gov/documents/licensing/medical-marijuana/az-medical-marijuana-rules.pdf?v=20220908>.

[10] <https://www.azdhs.gov/documents/licensing/medical-marijuana/az-medical-marijuana-rules.pdf>.

[11] Ibid.

[12] Ariz.Admin.Code § R9-17-310.

[13] <https://www.azleg.gov/viewdocument/?docName=https://www.azleg.gov/ars/36/02801.htm>.

[14]

<https://www.azdhs.gov/documents/licensing/medical-marijuana/az-medical-marijuana-rules.pdf>.

[15]

<https://www.azdhs.gov/documents/licensing/medical-marijuana/reports/2023/mm-mar23.pdf>. The March 2023 Monthly Report on the Arizona Medical Marijuana Program is issued by the Arizona Department of Health Services, Licensing Division. All of the statistics cited in this paragraph are from this Report.

[16] According to the Arizona Department of Revenue, Office of Economic Research and Analysis, Arizona's transaction privilege tax ("TPT") on medical marijuana is 5.6%, whereas adult use purchases are subject to the TPT plus an excise tax of 16%.

[17]

https://azdor.gov/sites/default/files/media/OERA_MJ_202303_byPeriodCovered.pdf.

[18] Ibid.

[19] <https://www.azmirror.com/blog/arizonans-spent-more-than-1-4-billion-on-marijuana-in-2022-driven-by-recreational-sales/>.

[20] <https://www.azmirror.com/blog/arizonans-spent-more-than-1-4-billion-on-marijuana-in-2022-driven-by-recreational-sales/>.

[21] <https://www.cdc.gov/museum/timeline/covid19.html>.

[22] <https://www.pharmaceutical-technology.com/comment/cannabis-industry-blossom-pandemic/>.

[23] <https://hightimes.com/news/arizona-officials-note-spike-medical-marijuana-sales-amid-covid-pandemic/>.

[24] <https://www.azmirror.com/2022/08/29/with-recreational-cannabis-sales-soaring-arizonas-medical-marijuana-industry-is-struggling-to-adapt/#:~:text=In%202020%2C%20the%20COVID%2D19,retail%20end%20of%20the%20business>.

[25] <https://mjbdaily.com/states-that-have-allowed-marijuana-businesses-to-remain-open-during-coronavirus-pandemic/>; A.R.S. §§ 36-2801 et seq.

[26] Ibid.

[27] A.R.S. § 36-2804.02; 9 A.A.C. 17-202.

[28] Ibid.

[29] A.R.S. § 36-2804 (C).

[30] 9 A.A.C. 17-306 (A).

[31] 9 A.A.C. 17-324 (B) (3).

[32] A.R.S. §36-2806 (l); A.A.C. Regulations: 9 A.A.C. 17 (Ariz.Admin.Code §§ R9-17-101 et seq.).

[33] Ibid.

[34] A.A.C. Regulations, § R9-17-310.

[35] A.R.S. §§ 36-2850 et seq., and Regulations: 9 A.A.C. 18 (Ariz.Admin.Code §§ R9-18-101 et seq.).

[36] A.R.S. § 36-2854.

[37]

<https://www.azdhs.gov/licensing/marijuana/social-equity/index.php#allocation>.

[38] 9 A.A.C. 18-304.

[39] <https://azcarecheck.azdhs.gov/s/>.

[40] 9 A.A.C. 18-308.

[41] <https://www.azfamily.com/2023/04/20/legal-marijuana-generates-over-255-million-tax-revenue-arizona/>.

[42]

https://azdor.gov/sites/default/files/media/OERA_MJ_202303_byPeriodCovered.pdf.

[43] A.R.S. § 36-2858.

[44] A.R.S. § 36-2855.

[45] A.R.S. § 36-2858 and R9-18-305 and R9-18-306.

[46]

[47] A.R.S. §36-2858; A.A.C. Regulations: 9 A.A.C. 18 (Ariz.Admin.Code §§ R9-18-401 et seq.).

[48] 9 A.A.C. 18-309.

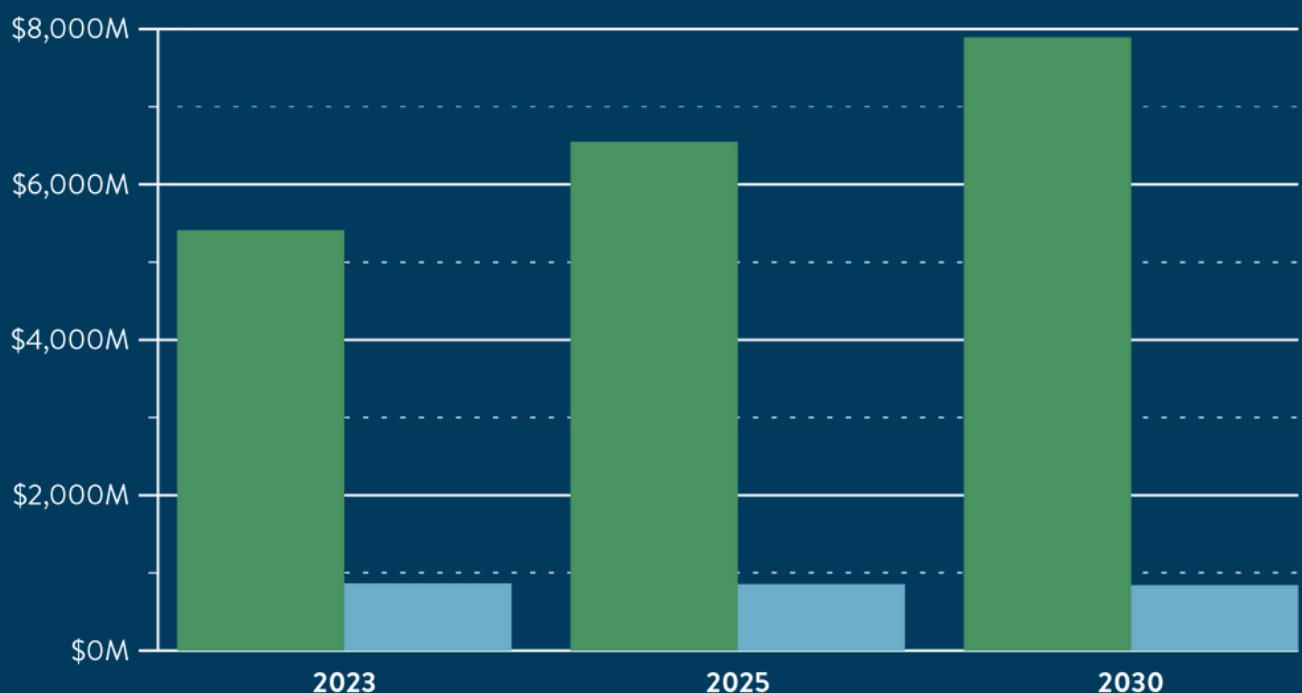
[49] A.A.C. Regulations, § R9-17-310.

CALIFORNIA LEGAL MARKET OVERVIEW

California Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$5.4
Billion

2023: MEDICAL MARKET

\$865
Million

Charts provided by New Frontier Data

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CALIFORNIA – AN OVERVIEW

California has been known as the "Golden State" since its role in the 1840s gold rush.^[1] But during the cannabis green rush, the state became famous for the "Emerald Triangle," a northern trinity of counties where small farmers have produced top-notch cannabis for decades.^[2] Since medical decriminalization in the mid-1990s, cannabis production, distribution and sales have blossomed up and down the state. Although California's legacy farmers and other cannabis operators face significant challenges, the state still represents one of the largest cannabis markets in the U.S., with substantial opportunities for innovation and growth.

CALIFORNIA'S GREEN HISTORY

Throughout the modern era of cannabis prohibition, a handful of Western states have led the country's regulatory reform efforts, but in many ways, California was the first. As far back as 1972, just two years after federal enactment of the Controlled Substances Act, California was the first state to present voters with a ballot initiative to legalize cannabis.^[3] Although that early attempt failed, a year later Berkeley voters approved one of the first, if not the first, local decriminalization initiatives.^[4] Since then, the state has never looked back.

In 1996, voters approved Proposition 215, making California the first U.S. state to decriminalize cannabis for medical use.^[5] But for the next 20 years, the state's cannabis industry was largely unregulated, which led to a proliferation of gray market patient collectives and cooperatives, as well as countless illicit operators. Finally in 2015, the state legislature enacted a series of comprehensive medical use laws.



In 2016, voters approved Proposition 64, a ballot initiative to tax and regulate recreational use. In 2017, these laws were consolidated into the "Medicinal and Adult-Use Cannabis Regulation and Safety Act" (MAUCRSA), which is now enshrined in California law along with the remnants of Prop 215.[\[6\]](#)

Three state agencies initially were charged with regulating the different segments of the cannabis supply chain, from cultivation through product manufacturing, business-to-business distribution, laboratory testing, storefront retail and delivery, microbusinesses (vertically integrated operations), and temporary cannabis events. These three agencies each adopted their own sets of regulations, which were quickly approved to meet MAUCRSA's January 1, 2018 deadline for the launch of California's regulated market.[\[7\]](#)

During 2018, the state issued "temporary" licenses to operators, as a bridge until they could apply for and receive a "provisional" license starting in 2019, on the path toward eventually graduating to an "annual" license by demonstrating full compliance with California's rigorous Environmental Quality Act (CEQA).

In 2021, the state's cannabis regulatory power was consolidated from three agencies into one, the Department of Cannabis Control (DCC). The DCC began its work of consolidating the rules into one set of regulations, supporting legal operators, enforcing against illicit operators, and educating the public about health and safety.

However, from the start, California's transition to a regulated market has been a rocky one. One of the greatest structural hurdles has been California's locally driven, dual approval approach to licensing. While every cannabis business requires a state license to operate, local authorization is also required. But California is comprised of 482 cities and 58 counties, and each local jurisdiction is entitled under MAUCRSA to either allow or ban commercial cannabis activity, in infinite variations. (Home grows for non-commercial, personal use may not be fully prohibited, but they may be subject to "reasonable regulations."[\[8\]](#))

Five years into California's regulated market, about half of the state's municipalities still "opt out" of commercial cannabis licensing, while several locales that have opted in are still struggling to roll out their licensing programs.[\[9\]](#) As a result, vast areas of the state continue to prohibit retailers from setting up shop within their borders (and often cultivators and manufacturers as well). In these "cannabis deserts," patients and consumers are unable to easily access safe, tested, regulated cannabis, although access to delivery is one small measure of relief. While local jurisdictions may enact an ordinance to prevent retailers from establishing operations, they may not prevent retailers based in other jurisdictions from using the public roads to enter their jurisdiction and make deliveries.[\[10\]](#)

However, there remains overall a widespread lack of retail outlets for the industry's products. This imbalance of supply and demand, along with other persistent issues like high business taxes, complex regulations and inconsistent enforcement, has created a challenging environment for businesses, medical patients and recreational consumers. And these challenges have had the unintended (but not unexpected) effect of strengthening the illicit market, which exists to serve unmet demand.[\[11\]](#)



MEDICAL CANNABIS – PERSONAL USE

California's medical cannabis and adult-use programs are not dramatically different in practice, but there are some distinctions, particularly from the patient perspective.

Under Prop. 215, which predates MAUCRSA, medical patients may be exempted from the personal possession limits that apply to recreational consumers.^[12] A medical patient with a valid physician's recommendation or county-issued medical marijuana ID card may use, possess and transport up to 8 ounces of dried cannabis and up to 6 mature growing plants (or 12 immature plants).^[13] And with a physician's recommendation, a patient who requires more medicine for their condition may possess any quantity, as long as it is reasonably related to their current medical needs.^[14]

The list of qualifying medical conditions to obtain an MMJ ID card in California includes: Acquired Immune Deficiency Syndrome (AIDS), Anorexia, Arthritis, Cachexia, Cancer, Chronic Pain, Glaucoma, Migraine, Nausea (severe), persistent muscle spasms, seizures, and other chronic or persistent medical symptoms that substantially limit major life activities or that may cause harm or injury if not alleviated. ^[15]

Pursuant to Prop. 215, medical patients may have access to certain higher potency products (up to 2,000 mg of THC in tinctures, capsules and topicals, as opposed to recreational-market edibles which are limited to 100mg THC total with up to 10mg per serving). And patients with a valid MMJ ID card are exempted from sales tax, but other taxes (such as excise taxes) may still apply.^[16]

RECREATIONAL CANNABIS – PERSONAL USE

Under California law, adults 21 or older may use cannabis without a medical need. Adults 21 or older may purchase cannabis from a licensed retailer, and may possess up to one ounce (28.5 grams) of cannabis and up to eight grams of concentrated cannabis (e.g., resin).[17] Adults may also gift the same quantities to other adults, but private resale is not permitted (in other words, no receipt of money or other compensation).[18]

Home grows are also available for recreational consumers. Adults 21 or older may plant, cultivate, harvest, dry and process up to six cannabis plants at their private residence, for personal use or gifting. The plants must be maintained in a locked space that is not publicly visible. And while cities and counties may not ban home grows, they may reasonably regulate them, including for example, by prohibiting outdoor cultivation.[19]

CONSUMPTION SITES

Although California now has relatively mature medical and recreational cannabis programs, consumption sites remain limited in California. Consumption within a private residence is allowed, although landlords may prohibit cannabis use at their properties. Cannabis smoking is generally prohibited wherever tobacco smoking is prohibited. And cannabis consumption is also prohibited near schools, recreational centers and other youth-oriented uses, or while riding in or driving vehicles or boats.[20]

Cannabis use may also be prohibited in the workplace. However, beginning January 1, 2024, California employers will be prohibited from discriminating against workers or candidates on the basis of cannabis use that takes place off the job and away from the workplace.[21]

LICENSING

In addition to a dual-approval (i.e., state and local) licensing system, California also has a dual use system (i.e., medical and recreational). Within this complicated program, the state makes available a wide range of commercial cannabis licenses, for operators engaging in all manner of business activities. [22]

-
- Cultivators may obtain licenses that allow a range of sizes from very small "specialty" operations through small, medium and large grows. Size is typically determined by number of plants or maximum canopy size ("canopy" is the square footage devoted to plant growth). Prop 64 imposed a five-year buffer for smaller operators starting in 2018, before the largest licenses would eventually become available in 2023. However, some well-funded businesses were able to aggregate large-scale growing operators without large licenses, through the loophole practice of "stacking" together smaller licenses. Cultivation licenses are also characterized by setting: indoor, mixed-light (greenhouse) or outdoor.[\[23\]](#) There are also cultivation license types just for "nurseries," which produce and sell seeds, seedlings (clones) and immature plants to other cultivators, who then take the plants through their final flowering and harvesting stages. "Processors" are the final variant of cultivation licenses, reserved for operators who only dry, cure, trim, package and/or make pre-rolls for other license holders, using cannabis grown by others.
 - Manufacturers may be licensed to extract cannabinoids from plant material or "biomass," using volatile solvents such as butane or hexane (with appropriate safeguards in place), non-volatile solvents like CO₂, and/or mechanical methods like pressing. Manufacturers may also infuse, package and label cannabis and cannabis products. If desired, manufacturers may forego extraction and choose an infusion-only license, making products with extracts prepared by others. Yet other manufacturers may choose to forego infusion activities, and limit themselves to packaging and labeling products. Finally, entrepreneurs who do not have their own licensed facility may choose a shared license, which allows them to infuse, package and label products within a facility shared with other shared license holders, according to a pre-set schedule.

- Licensed distributors are the hub of the cannabis supply chain. Distributors coordinate the storage and independent lab testing of cannabis and cannabis products. And only holders of distribution licenses may transport these materials between cultivators, manufacturers, distributors and retailers. Some distributors limit themselves to these activities, while others use their platform to provide complementary ancillary services such as brand promotions, sales, and customer payment collections. Until 2023, distributors were required to collect cannabis taxes from the other licensees and remit those taxes to the state, but since 2023, distributors have been relieved of that particular administrative burden.
- Independent laboratories are charged with conducting the required testing of cannabis and cannabis products before retail. Labs test for cannabinoid potency and levels of contaminants including pesticides, microorganisms, residual solvents, heavy metals, filth and other materials. They also may test for terpenes, the aromatic compounds found in cannabis and other plants. Testing labs are supposed to remain independent from industry pressures to provide advantageous test results, so holders of a testing license may not hold any other type of cannabis licenses.[\[24\]](#)
- Retailers may be licensed to operate out of a physical storefront and/or to run a consumer delivery service. And recently, another retail or microbusiness license designation has become available to allow the operation of a café/lounge destination, where adults 21 and older can enter a designated space (through a separate entrance) and engage in onsite consumption of cannabis, as well as consumption of non-infused foods and beverages (no alcohol or tobacco sales).
- Rounding out the license categories, there are microbusiness licenses available for smaller-sized operations that wish to vertically integrate cultivation, manufacturing, distribution and/or retail (they must engage in at least three of these four uses). Finally, there are licenses available for organizers of temporary cannabis events, as well as licenses for the specific cannabis events themselves.

As noted above, the state has rolled out commercial licensing in a three-stage process of gradually increasing intensity: temporary, provisional and annual. Starting in 2019, temporary licenses were replaced with provisional licenses, which do not require full CEQA compliance but which do otherwise require regulatory compliance, including integration with the state's METRC-powered track-and-trace system, which records the movement of cannabis and cannabis products.[\[25\]](#) The near-term endgame for these California operators is attainment of full CEQA compliance and an "annual" license. However, CEQA's environmental compliance requirements are costly and complex, and an annual license has been difficult for many operators to achieve, particularly if they are not well-capitalized.[\[26\]](#)

From mid-2022 through April 3, 2023, the opportunity to obtain a new provisional state license was gradually phased out, with the last new provisionals reserved for smaller sized cultivators and social equity-qualified applicants (social equity is discussed more below). After that, any new applicants are required to apply for an annual license, and therefore may not open their doors until achieving full CEQA compliance.[\[27\]](#) Yet several local jurisdictions, including large markets like Los Angeles, are still not prepared to certify today for CEQA compliance, which keeps annual licenses out of reach for their businesses. And unless the law is amended again, existing provisional licenses soon will be phased out too. MAUCRSA currently prohibits DCC renewals of provisionals after January 1, 2025; and it further provides that no provisional license will be effective after January 1, 2026.



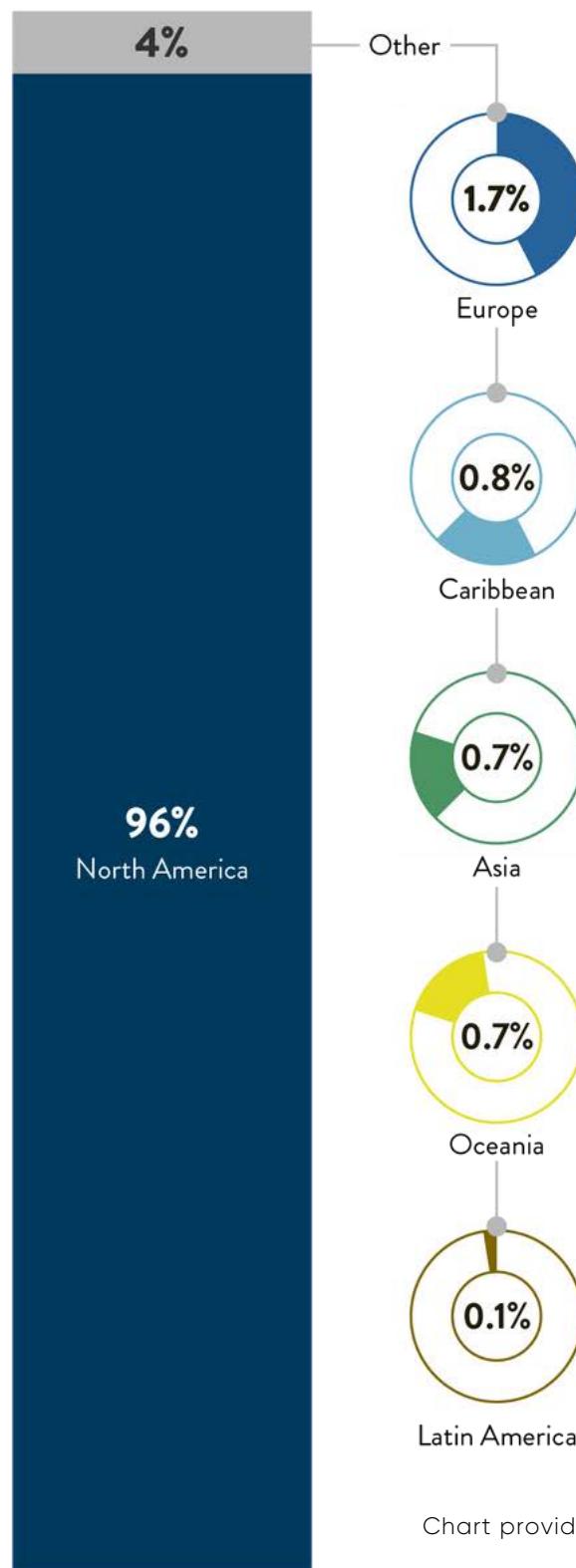


As previously noted, a state license is only half the battle. MAUCRSA requires each operator to also have local authorization to operate; and the law allows each city or county to choose to allow local operation of all, some or none of the various available cannabis business types. [28] Localities regulate the local zoning and land use requirements (in fact, state law does not specify cannabis zones). Localities may choose to phase-in permitting over time, in order to maintain tighter control over the number of licensees. They may impose requirements related to reducing exposure to secondhand smoke. They may require businesses to enter into development agreements for community reinvestment. And they may impose various other requirements that are stricter than the state law defaults, such as the distancing “setbacks” that businesses must observe when locating in relation to schools and other sensitive uses.[29]

To date, this dual approval licensing system has resulted in a haphazard patchwork of robust ecosystems, underserved communities, and cannabis deserts throughout the state. At the same time, the barriers to entry are gradually increasing for new entrepreneurs. Without an existing license, the only other option is buying or assuming control of an existing license holder. However, this is admittedly becoming a bit easier, as more and more beleaguered operators abandon the California market and their distressed assets become available for purchase, sometimes for pennies on the dollar.[30]

For license holders who are able to hold on, California still offers ample opportunities in both the medical and recreational markets. A license holder with an M-designation on their license may conduct medical commercial cannabis activity, and an A-designation allows adult-use (i.e., recreational) commercial cannabis activity. It’s relatively easy to obtain both designations (assuming local authorization), and a licensee with an M and an A on their license may conduct both medical and recreational activities within the same licensed premises.[31] And pursuant to emergency regulations that currently remain in effect, licensees may conduct businesses with other licensees irrespective of their M- or A-designations.[32]

Share of All Legal Cannabis Sales: 2022



SOCIAL EQUITY IN CALIFORNIA

While massive social equity efforts are being made by states on the East Coast on behalf of cannabis businesses, in the past, California has mostly left such programs to individual cities. Los Angeles, for example, obtained state funds totaling \$7.8 million to fund its local Social Equity Program.[\[33\]](#)

Recently though, California has beefed up its own social equity offerings with vendor compensation being paid to equity-approved businesses. In addition, state tax credits of up to \$250,000 per year are available to a broader spectrum of cannabis businesses. These and other benefits, combined with the fee waiver already made available by the state's Department of Cannabis Control, now provide exceptionally strong support to both new and existing California cannabis companies.

EQUITY FEE WAIVER

Since January 1, 2022, California's Department of Cannabis Control (DCC) has offered disadvantaged cannabis businesses an equity fee waiver that waives the yearly license fee. As many of California's other more recent social equity offerings hinge on being accepted by the DCC as an Equity Business, it's important to understand the criteria.

An Equity Business must have an equity owner that owns 50% or more of the business. Equity owners either have had a cannabis conviction or arrest, or have a household income less than or equal to 60% of the median income of the area where they live, or have lived for at least five years between 1980 and 2016 in an area disproportionately impacted by past criminal justice policies implementing cannabis prohibition. Additionally, an Equity Business must have gross revenue of \$5 million or less per year.[\[34\]](#)

In order to apply for equity status, form DCC-1601 must be filled out and submitted, along with the required documentation.[\[35\]](#)[\[36\]](#) The DCC states that you must send your completed form at least 60 days before your license expires/renews.

CDTFA VENDOR COMPENSATION

Cannabis retailers that have been approved for the DCC's Equity Fee Waiver may then apply to the CDTFA for vendor compensation. If approved, these retailers will be able to retain 20% of the excise tax they collect from their retail sales of cannabis or cannabis products (as of January 1, 2023, excise tax is 15% of the sales price of the cannabis products including delivery fees and the collection of local/city cannabis taxes). These payments are slated to run through December 31, 2025.

The CDTFA instructs applicants to logon to their online services account, locate their retailer excise tax account, and then select the More option. There, they will find the Vendor Compensation Application Link. Approval for vendor compensation hinges on proof of approval of the DCC Equity Fee Waiver.[\[37\]](#)

FTB HIGH-ROAD CANNABIS TAX CREDIT

California's Franchise Tax Board is also supporting cannabis businesses with their High-Road Cannabis Tax Credit (HRCTC), which is available for tax years beginning January 1, 2023 through December 31, 2027. Taxpayers conducting a qualified cannabis business may receive a tax credit of 25% of their qualified expenditures in the taxable year, up to a maximum of \$250,000 of credit per year.[\[38\]](#)

The FTB defines a qualified taxpayer as being a retailer or micro-business that provides full-time employees with all of the following: wages, group health insurance, and retirement or pension benefits. Also, employees must be salaried or work at least 35 hours per week and must be paid no less than 150% but no more than 350% of the state minimum wage, which as of this writing stands at \$15.50 per hour.[\[39\]](#) So, employees must be paid at least \$23.25 per hour, but not more than \$54.25 per hour. For the purposes of this calculation, wages may include amounts paid by the employer for group health insurance, childcare benefits, and employer contributions to retirement or pension plans.

The HRCTC authorizes a 25% credit on the above-listed wages and wage-related expenditures, as well as payments for safety-related equipment, training and services; and labor-management training programs; with the maximum credit set at \$250,000 per year. The FTB states that qualified taxpayers must request a tentative credit reservation for each taxable year during the month of July of the taxable year, or within 30 days of the start of their taxable year if it begins after July. The HRCTC credit reservation must be submitted online -- the link will be available from July 1, 2023 at this web page:

FTB HIGH-ROAD CANNABIS TAX CREDIT

Finally, beginning January 1, 2023 through December 31, 2027, the FTB is offering qualified cannabis businesses a tax credit of \$10,000. To qualify, the business must have been approved for the DCC's Equity Fee Waiver. The FTB notes that it will be relying on the DCC to provide it with a list of approved businesses.[\[40\]](#)

In summary, California is finally coming to the social equity table with some meaningful offerings to support cannabis businesses, especially those who have been disadvantaged by the war on marijuana. The Golden State certainly has the means to help strengthen its cannabis industry. With a Gross Domestic Product in 2022 of over \$3.4 trillion, California dwarfs the next leading state, Texas, estimated at \$2 trillion GDP, and New York, estimated at \$1.9 trillion GDP. Now, hopefully, California will also make meaningful progress to correct the state's over-taxation of licensed cannabis businesses at the same time that it takes strong steps to rein in the over \$8 billion of unlicensed cannabis activity that takes place in the state annually[\[41\]](#).

<https://www.ftb.ca.gov/file/business/industries/high-road-cannabis-tax-credit.html#tentative-credit>.





CALIFORNIA CANNABIS TAXATION

California's cannabis taxation structure has changed dramatically over the last few years so that, in many ways, it doesn't resemble what was put in place when recreational cannabis began in 2018. While there is still an excise tax and a sales tax that applies to cannabis sales, the state's cultivation tax was phased out starting July 2022. This was motivated by the state's desire to support cultivators who were struggling under high taxation.

STATE INCOME TAX

While many states subscribe to the federal model which embraces Section 280E, disallowing most deductions and credits for expenditures connected with trafficking in controlled substances, California treats cannabis companies like all other companies in regards to income tax. They allow the full range of standard deductions, including rent and sales expenses. This is one tax aspect that makes California a more "cannabis-friendly" place to do business.

STATE EXCISE TAX

Cannabis merchants are required to collect 15% of all cannabis product sales and remit the proceeds to the state. This puts California in the middle of all legal states, with Washington the high at 37% excise tax, and a number of states, including Rhode Island, Nevada and others at the lower end with 10%.
[\[42\]](#)

STATE SALES TAX

The statewide tax rate is 7.25%. In most areas of California, local jurisdictions have added district taxes that range from 0.10% to 3.00%.
[\[43\]](#) While this rate puts California among the highest 10 in the nation for sales tax, the big problem for cannabis companies is that the state requires sales tax be collected on every product plus on the cannabis excise tax as well, essentially taxing-the-tax.

Very few states require this, and it increases a business's tax burden significantly.

Merchants are not required to collect sales tax on medicinal cannabis sales for which the patient has a Medicinal Marijuana ID card.

CITY CANNABIS TAXES

Most municipalities have their own taxes on cannabis sales, and these can vary. A fairly typical example is Los Angeles, which requires 10% be paid on all recreational cannabis sales and 5% on all medicinal sales. In addition, this city levies 1% on cannabis distributors, 2% on cannabis manufacturers, and 2% on cannabis cultivators. Many other, smaller, cities charge less tax and are hopeful to attract the employment and sales that cannabis businesses generate.

ENFORCEMENT INITIATIVES AGAINST ILLEGAL CANNABIS

Other than Cannabis's federal status as a Schedule 1 Controlled Substance, which creates a massive federal income tax burden for cannabis businesses and which deems interstate commerce illegal and banking expensive and problematic, the biggest threat to the survival of any cannabis company nationwide is the toxic competition from illegal cannabis competitors.

In 2022, California generated \$5.3 billion in legal cannabis sales. However, cannabis website Leafly estimates only 45% of all cannabis sales in California are from legal shops. [\[44\]](#) According to Graham Farrar, the cofounder of Glass House brands, one of California's largest cannabis producers with a 1.5-million-square-foot greenhouse in Camarillo, the illicit market is simply outcompeting the legal market in terms of price, and consumers are following lower prices. "Nobody prefers bathtub gin, right? You only drink bathtub gin if legal gin costs twice as much," Farrar commented.[\[45\]](#)



The state is taking action to support legal cannabis. In an announcement dated March 2, 2023, the California Department of Cannabis Control released cannabis enforcement statistics for 2021 and 2022 in effort to demonstrate its commitment to bringing down the illegal market.

The DCC reported: "DCC-led search warrant operations increased from 62 in 2021 to 155 in 2022, a 150 percent increase. DCC also seized over 41,726 pounds of illegal cannabis in 2021 and more than 144,254 pounds in 2022, a 246 percent increase. Arrests more than tripled, with 17 in 2021 and 56 in 2022. And DCC led operations that seized \$243,017,836 worth of cannabis last year, a 212 percent increase from the \$77,772,936 seized in 2021."^[46]

In addition, Governor Newsom established the Unified Cannabis Enforcement Taskforce (UCETF) this past summer. The UCETF is a multi-agency task force designed to coordinate local, state and federal resources to combat illegal cannabis operations. A recent example of one of the UCETF's operations was a bust in the San Fernando Valley on October 18, 2022, which shut down thirteen large indoor cultivation facilities and netted 7,503 plants and more than 936 pounds of processed flower, both totaling almost \$8 million. The operation included the DCC, California Department of Fish and Wildlife, CDTFA, Los Angeles DWP, and the LAPD.^[47]

Whether decisive enough action against illegal cannabis operations is being taken by California is yet to be seen. But the state and legislators are aware of the seriousness of the issue and are ramping up efforts to stem the problem.

IN SUMMARY

Like with the Gold Rush of old, today's California offers a myriad of opportunities for entrepreneurs who want to get into the cannabis space. With over 39 million inhabitants, it offers the largest market in the United States, far out-stripping the #2 state, New York, by almost 50%. The general attitude of the Golden State is visionary and quite cannabis-friendly, as evidenced by its early approval of decriminalization back in 1996. Recently, some supportive tax credits have been made available to cannabis business people, and those who can demonstrate social equity status have access to even more tax incentives.

On the other hand, those entering the cannabis industry in California are faced with some significant challenges. Taxes are high (although California does not enforce federal section 280E, and for income tax purposes, treats cannabis businesses like all its other businesses), and the thriving illegal market is a significant threat to those entrepreneurs who run a legitimate operation. Time will tell whether the state's attempts at enforcement will rein in those parasitic criminals.

In summary, as the largest and perhaps the most mature cannabis market, California affords its cannabis entrepreneurs with unparalleled opportunities for sales growth and brand development. It's been said that, "As goes California, so goes the nation." In the future, when cannabis's status as a Schedule 1 Controlled Substance is repealed and interstate commerce in cannabis is allowed, it is quite likely that the state's strongest brands will find themselves national brands overnight.

[1] <https://capitolmuseum.ca.gov/state-symbols/nickname-golden-state/>

[2] <https://weedmaps.com/learn/the-plant/emerald-triangle>

[3] [https://ballotpedia.org/California Proposition 19, Personal Use of Marijuana Initiative \(1972\)](https://ballotpedia.org/California_Proposition_19,_Personal_Use_of_Marijuana_Initiative_(1972))

[4] <https://sdtreatmentcenter.com/california-treatment/history-of-marijuana-laws/>

[5] Proposition 215, the Compassionate Use Act, exempted patients and defined caregivers who possessed or cultivated marijuana for medical treatment recommended by a physician, from criminal laws that otherwise prohibited marijuana possession or cultivation. See, e.g., <https://vigarchive.sos.ca.gov/1996/general/pamphlet/215text.htm>.

[6] https://leginfo.legislature.ca.gov/faces/codes_displayexpandedbranch.xhtml?tocCode=BPC&division=10.&title=&part=&chapter=&article=

[7] Initially, California's Department of Food and Agriculture regulated cultivators, the Department of Public Health regulated manufacturers/processors, and the Bureau of Cannabis Control regulated business-to-business distributors, business-to-consumer retailers, microbusinesses (i.e., vertically-integrated businesses), independent testing laboratories, and temporary cannabis events.

[8] California Health & Safety Code Section 11362.2.

[9] <https://cannabis.ca.gov/cannabis-laws/where-cannabis-businesses-are-allowed/>

[10] Cal. Bus. & Prof. Code Section 26090.

[11] <https://www.sclabs.com/california-cannabis-whats-new-and-whats-next-7-questions-with-hirsh-jain/>

[12] See Proposition 215 (1996), at <https://vigarchive.sos.ca.gov/1996/general/pamphlet/215text.htm>.

[13] Cal. Bus. & Prof. Code Section 26140 (c-1, c-2), Cal. Bus. & Prof. Code Sec. 5 Section 26001, Cal. Health & Safety Code Section 11362.715(a), Section 136.

[14] Cal. Health & Safety Code Section 11362.77(a-e).

[15] Cal. Health & Safety Code Section 11362.7.

[16] Cal. Bus. & Prof. Code Section 26001, Cal. Health & Safety Code Section 11362.715(a), Section 136 5 Cal. Revenue and Taxation Code Section 34011(f).

[17] Cal. Health & Safety Code Section 11362.1, Cal. Bus. & Prof. Code Section 26140.

[18] Cal. Health & Safety Code Section 11362.1.

[19] Cal. Health & Safety Code Section 11362.2.

[20] Cal. Health & Safety Code Sections 11362.79 (a-e), 11362.5, 11362.712 and 11362.785(a).

[21] AB-2188, at
https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB2188.

[22] See, e.g., <https://cannabis.ca.gov>.

[23] Beginning in 2023, indoor and mixed-light growers must comply with renewable energy reporting requirements.

[24] However, "lab shopping" remains rampant in California (and elsewhere). For better or worse, consumers tend to gravitate toward higher THC potency products, so cannabis producers tend to give their testing business to those labs that are willing to provide inflated test results. As a result, lawmakers and regulators are working to better standardize testing methodologies and strengthen oversight and enforcement efforts. See, e.g., California Cannabis Regulator Issues Proposed Rules for Large Cultivation Licensing, Standardized Lab Testing, and License Fee Waivers/Deferrals, Cannabis Business Executive, dated June 20, 2022, at <https://www.cannabisbusinessexecutive.com/2022/06/california-cannabis-regulator-issues-proposed-rules-for-large-cultivation-licensing-standardized-lab-testing-and-license-fee-waivers-deferrals/>.

[25] <https://www.metr.com>.

[26] See, e.g., California's provisional marijuana licensing crisis resurfaces, possibly disrupting thousands of MJ companies, MJBizDaily, Mar. 18, 2021 updated Dec. 17, 2021, at <https://mjbizdaily.com/california-provisional-marijuana-licensing-crisis-resurfaces/>.

[27] <https://cannabis.ca.gov/applicants/ceqa-review-for-cannabis-businesses/>.

[28] Cal. Bus. & Prof. Code Section 26032.

[29] See, e.g., Cal. Bus. & Prof. Code Section 26200.

[30] See, e.g., Investors target distressed cannabis companies for new opportunities, MJBizDaily, Mar. 5, 2020 and updated Apr. 28, 2022, at <https://mjbizdaily.com/distressed-assets-for-sale-create-cannabis-investor-opportunity/>; see also 'Perfect Storm' for Cannabis M&A in 2023, Green Market Report, Jan. 17, 2023, at <https://www.greenmarketreport.com/perfect-storm-for-cannabis-ma-in-2023/>.

[31] See DCC Medicinal and Adult-Use Commercial Cannabis Regulations, Cal. Code. Regs. Title 4, Div. 19 ("DCC Regulations"), at Section 15023(f).
https://cannabis.ca.gov/wp-content/uploads/sites/2/2023/02/dcc_commercial_cannabis-regulations_2023-0131.pdf.

[32] DCC Regulation 15000.2(a).

[33] <https://cannabis.lacity.org/social-equity-program/about-program/about-program>

[34] See https://cannabis.ca.gov/wp-content/uploads/sites/2/2022/12/Guidance_Equity_Fee_Relief_Program.pdf for more details, including maps of qualifying neighborhoods, etc.

[35] https://cannabis.ca.gov/wp-content/uploads/sites/2/2022/12/Form_DCC-1601_Equity_Fee_Relief.pdf

[36] Details on how to apply for DCC Equity status: <https://cannabis.ca.gov/applicants/apply-for-equity-fee-relief/>

[37] <https://www.cdtfa.ca.gov/formspubs/L884.pdf>, this program is also detailed in Assembly Bill No. 195, https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB195

[38] <https://www.ftb.ca.gov/file/business/industries/high-road-cannabis-tax-credit.html>

[39] https://www.dir.ca.gov/dlse/faq_minimumwage.htm

[40] <https://www.ftb.ca.gov/file/business/industries/cannabis-equity-tax-credit.html>

[41] <https://www.politico.com/news/2021/10/23/california-legal-illicit-weed-market-516868>

[42] <https://taxfoundation.org/state-recreational-marijuana-taxes-2022/>

[43] <https://www.cdtfa.ca.gov/taxes-and-fees/rates.aspx>

[44] <https://www.leafly.com/news/politics/leafly-report-opt-out-towns-are-encouraging-illegal-marijuana-sales>

[45] <https://www.forbes.com/sites/willyakowicz/2023/02/28/californias-cannabis-sales-declined-in-2022-the-first-time-since-legalization/?sh=b9659a27af9e>

[46] <https://cannabis.ca.gov/2023/03/enforcement-update/>

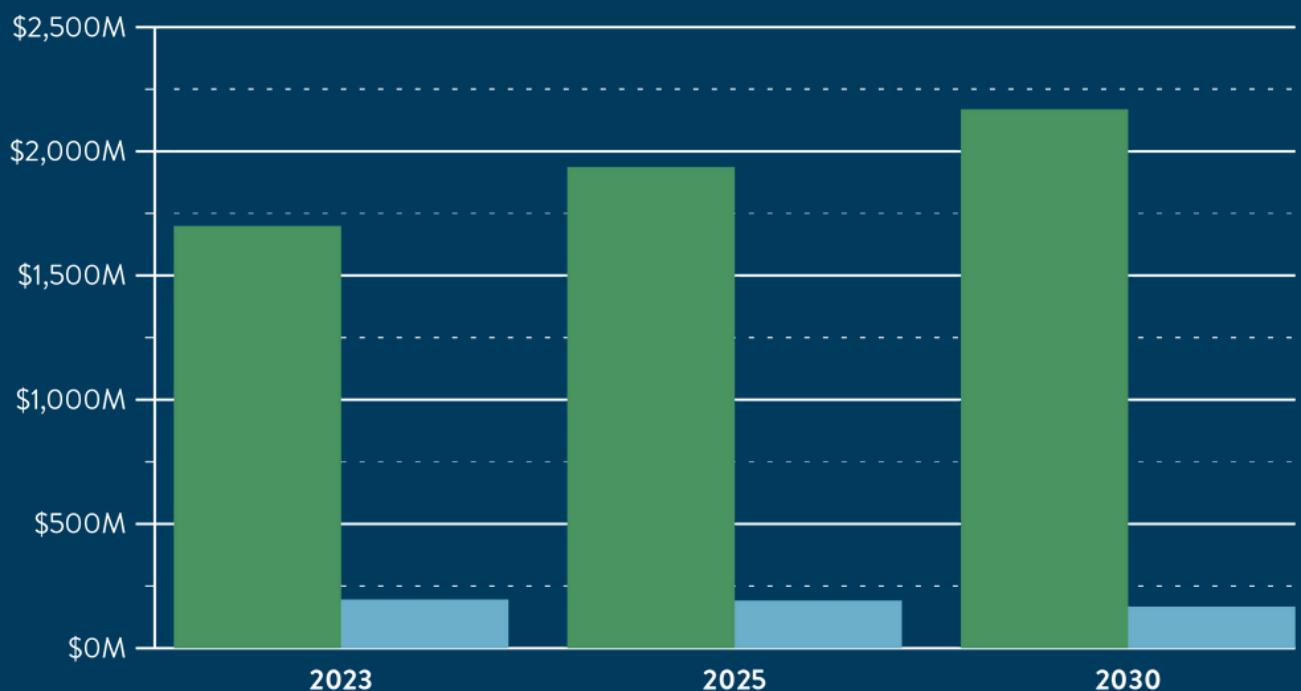
[47] <https://cslea.com/2022/10/cannabis-enforcement-taskforce-targets-illegal-indoor-cultivation-in-southern-california-warehouses/>

COLORADO LEGAL MARKET OVERVIEW

Colorado Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$1.7
Billion

2023: MEDICAL MARKET

\$196
Million

Charts provided by New Frontier Data

COLORADO

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INTRODUCTION

The Centennial State is home to one of the longest standing cannabis markets in the nation. With a medical cannabis program in place since 2000, and a recreational cannabis program in place since 2012, Colorado has long led the charge in reforming War on Drug-era prohibitions on cannabis consumption. As one of the most mature cannabis markets in the United States, Colorado is often used as a foundational model for new market regulations and policies. The Colorado program is one of the most successful in the country, partly because Colorado's cannabis policies and regulations undergo constant iteration in response to market forces – and we're excited to share the good, bad, and ugly aspects of CO's cannabis industry with our readers.

MARKET OVERVIEW

Market History

Colorado has historically been a leader in cannabis regulatory reform by both establishing one of the earliest medical cannabis programs in the United States and by being one of two states (Washington being the other) to first allow recreational cannabis use by citizens in 2012. Cannabis was first made legal for medical use in Colorado in 2000 when 54% of voters approved Amendment 20. Amendment 20 amended the Colorado State Constitution to allow qualified patients with the appropriate physician recommendation the ability to legally possess and cultivate cannabis. Amendment 20 did not create a commercial framework for the cultivation, manufacturing, and dispensing of medical cannabis products. Instead, patients were encouraged to cultivate their own cannabis or designate a primary caregiver that would cultivate their allotted cannabis plants on the patient's behalf.



However, Colorado established a commercial framework in 2010 for its medical cannabis program and now issues business licenses to medical cannabis cultivators, manufacturers, and dispensers.

Cannabis was then made legal for recreational use in Colorado in 2012 when 55% of voters approved Amendment 64. Amendment 64 amended the Colorado State Constitution to allow for adults over the age of 21 to possess and consume cannabis for personal use along with establishing a framework for commercial cultivation, manufacturing, and dispensing of recreational cannabis products.

MEDICAL CANNABIS PERSONAL USE FRAMEWORK

Colorado's medical cannabis program has evolved significantly since it was first put in place in 2000. Current regulations dictate that qualified patients may possess up to two ounces of medical cannabis and may cultivate up to six plants in their homes. As of 2023, the list of conditions that qualify a patient for medical cannabis includes cachexia; cancer; chronic pain; chronic nervous system disorders; epilepsy and other seizure-inducing disorders; HIV and AIDS; multiple sclerosis; and nausea. The Colorado medical cannabis industry is fully regulated by the Marijuana Enforcement Division (MED) of the Colorado Department of Revenue. The MED is tasked with licensing medical cannabis businesses, cannabis policy and rule clarifications, and enforcement of applicable laws.

RECREATIONAL CANNABIS PERSONAL USE FRAMEWORK

In 2012 Colorado became one of two states to first allow adults over the age of 21 to personally consume cannabis. Current regulations allow qualified adults to legally possess up to one ounce of flower. Regulations equate 8 grams of cannabis concentrates and 800 milligrams of THC in edible form to one ounce of flower. Qualified adults are also allowed to cultivate up to six plants in a privately locked space. Like Colorado's medical cannabis program, Colorado's recreational cannabis program is regulated in its entirety by the MED.

While medical cannabis patients are considered a protected class in Colorado that can't be discriminated against based on their cannabis use; Colorado did not extend the same protections to recreational users of cannabis. As such, employers can require drug tests and can prohibit the recreational use of cannabis by employees. Businesses can also implement cannabis possession and use policies that are stricter than statutory standards. Finally, property owners can also make decisions regarding the use of recreational cannabis on their property. A popular example is Denver International Airport: possession and use of recreational cannabis is banned on airport grounds.

Market Statistics[\[XJ1\]](#)

Major Brands and Operators[\[XJ2\]](#)

COMMERCIAL DUAL-USE STRUCTURE OVERVIEW

Colorado's legal cannabis framework is often cited as the model dual use cannabis regime for states that seek to offer both medical and recreational cannabis. Whether or not that is indeed the case, Colorado certainly has one of the most mature dual use cannabis regimes in the United States and the basic structure of the system has remained the same since its initial implementation in 2014. In the following paragraphs we outline Colorado's legal and regulatory structure and call out some of its features that may differ from other markets.

First, and importantly, it is critical to recognize that Colorado has both commercial medical cannabis and commercial recreational cannabis. This leads to a natural division of nearly all business activities: operators in Colorado must segregate their activities based on whether they are operating as "medical" or "recreational" businesses.

As an example, medical cannabis can't be cultivated in an environment that is licensed for recreational cannabis cultivation. As another example, medical cannabis products must be physically segregated from recreational cannabis products in the retail environment. Interestingly, however, is that operators are not required to conduct such activities in standalone buildings. As an example, a cultivator that possesses both recreational and medical cultivation licenses can cultivate both "types" of cannabis in the same facility – but they must be segregated into different rooms or areas of that facility. As another example, a dual use retailer can dispense both recreational and medical products from the same storefront – again, provided that the products are segregated into clearly designated medical and recreational sales areas. Business operators are required to submit separate applications for each license type, including whether the license authorizes medical or recreational activities. Colorado gives local municipal governments wide discretion in how to implement various aspects of the state's cannabis framework, so the practical landscape of jurisdictions that allow commercial cannabis activities is not congruent with Colorado borders.



There are currently four major license types available to cannabis business operators in Colorado for both medical and recreational activities: dispensary, cultivation, manufacturing, and transport. In 2021, Colorado also passed a bill authorizing recreational delivery licenses to be issued to qualified applicants. Dispensary licenses authorize commercial retail activities (essentially, dispensing cannabis flower and products to consumers and/or patients); cultivation licenses authorize commercial cultivation activities (as one might expect, growing cannabis plants); manufacturing licenses authorize commercial activities related to developing and producing cannabis extracts and/or cannabis infused products; and transport licenses authorize the transportation of cannabis and cannabis products from one licensed business to another, such as from a cultivation facility to a manufacturing facility. The recreational delivery license allows for delivery of finished products directly to consumers from a retail store.

Cannabis licenses in Colorado are issued to businesses geographical locations, meaning that each physical facility is required to have a standalone license. In some circumstances two operators may share a single licensed premise. For example, two standalone brands with separate businesses may be able to operate out of a single licensed manufacturing facility, provided the appropriate agreements are in place and products are segregated accordingly. Colorado does not have a limit on licenses of any type at the state level. Instead, Colorado allows local municipalities final control over the number and types of cannabis business that are allowed within municipal borders.

Colorado is a true "seed to sale" state that employs METRC to track cannabis materials as they move from seed/clone stage through the cultivation and/or manufacturing processes before eventually being dispensed to consumers. Operators are required to maintain virtual inventories that match physical inventories, including updates for any cannabis material that is converted into something different or leaves the licensed premise via transfer or sale. METRC also ties closely into taxation in Colorado.

TAX STRUCTURE OVERVIEW

Colorado's cannabis tax structure mimics that of its regulatory structure in that medical cannabis businesses and recreational cannabis business are subject to different taxes. Medical cannabis is considered tangible personal property and is thus subject to Colorado's standard sales tax of 2.9% and any applicable local obligations. Recreational cannabis, on the other hand, is exempt from Colorado's standard sales tax rate and is instead subject to the state's special recreational cannabis tax rate of 15%. Each business type is required to hold its own valid tax license, regardless of if ownership is shared.

Colorado also imposes an excise tax on all first transfers of recreational cannabis. "First transfers" encompass transfers of cannabis from a licensed cultivator to either a licensed retailer or a licensed manufacturer. The excise tax rate is 15%, and the amount that is taxed is either the contract price (if between two unaffiliated businesses) or the average market rate (if between two affiliated businesses). As of March 2023 (and, per Colorado's Department of Revenue, through June of 2023) the average market rates are \$649 per pound of flower; \$253 per pound of trim; \$13 per immature plant (clone); \$81 per pound of whole wet plant; \$8 per seed; \$51 per pound of trim allocated for extraction.

In 2022, Colorado reported it collected \$325 million in revenue from cannabis tax.

MARKET LESSONS

Colorado's first recreational cannabis sale was made in January of 2014; over 9 years ago. So, what have operators, regulators, and legislators learned over those 9 years? And how can other states looking to adopt similar dual use frameworks learn from Colorado?

First, agility and practicality are critically important when managing an emerging industry. Colorado's commercial cannabis framework is uniquely couched in regulations, not statutory language. Regulations are typically easier to change, and such regulatory changes are typically implemented quickly. Conversely, statutes are hard to change, and the process can take multiple legislative sessions. Cannabis, like all nascent industries, is a constantly shifting landscape of innovation, development, and change. Legal cannabis operators are constantly competing with illegal cannabis operators, meaning that the legal operators need to stay ahead of product innovation on the black market that is not subject to regulations. By couching most cannabis industry controls in regulations, and not statutes, Colorado is able to quickly adjust those controls in response to emerging market conditions and innovation.

Second, regulators play an important role in ensuring safe, high quality products make it into the hands of consumers. As we mentioned above, legal cannabis operators are constantly competing with the black market. One of the most important ways legal operators can distinguish their products from those found on the black market is quality.

Colorado regulators have taken an active role in ensuring products available to consumers from licensed cannabis businesses are safe for consumption and of a quality expected for products intended for human consumption. As an example, Colorado mandates an upper limit to water content in flower, shake, kief, and trim that seeks to keep overall humidity in those products low, thus reducing the risk of mold contamination.

Finally, government revenue generation, i.e. tax revenue, stemming from the cannabis industry has been remarkable. The positive impact realized in communities around Colorado has been meaningful: schools have new gyms, public infrastructure is being renewed and developed, and Colorado was able to establish a Social Equity Accelerator Program that minimizes barriers to entry in the cannabis industry for adversely impacted groups.

LOOKING FORWARD

Now that we've outlined Colorado's cannabis regulatory framework, and what Colorado has learned over the last decade in regulating both medical and recreational cannabis, we get to have some fun and look to the future. What is in store for Colorado in 2023 and years to come?

Remember that Colorado is not a limited license market. There is no statutory cap on the number of cultivation, manufacturing, and retail licenses. Instead, local municipal governments are given the opportunity to control local licensing and thus the number of cannabis businesses they allow within their zones of control. This means that there is no defined number of cannabis business that may operate in Colorado, unlike limited market states such as Florida. New brands and operators are coming online daily and have been since 2014. This competitive environment fosters innovation and process improvement. Operators and brands that are unable to innovate and compete with new entrants to the market often fail. So, in the future, Colorado is a state to watch as an incubator for new products, new technologies, and new processes related to cannabis.

The launch of the recreational cannabis market in Colorado naturally infringed upon the growth of the medical cannabis market. Colorado has a "chronic pain catchall" qualifying condition for medical patients. Many cannabis consumers that received medical cannabis recommendations under that condition have since abandoned their patient status and instead purchase recreational cannabis. We expect this shift to continue: medical cannabis patient counts will dwindle in the coming years as more Colorado citizens abandon their medical recommendations.

Considering that change, we expect the medical cannabis industry in Colorado to transition into a model that more closely models a pharmaceutical model than an over the counter medical model. This means that medical products in Colorado will be developed to specifically address true "medical" conditions. Similarly, patient profiles will shift to Colorado citizens that either can't purchase recreational cannabis (meaning they are under 21) or to Colorado citizens that suffer from the non-chronic pain qualifications.

We also expect significant changes in consumer retail experiences in Colorado in the coming years. As cannabis products have increasingly become commoditized in Colorado, prices for cannabis products have naturally compressed – often called a "race to the bottom." Consumers have become used to paying certain (low) price points for flower, infused products, and extracts. This means that many brands are resorting to adopting creative retail strategies from other industries (like convenience store product placement and point of sale displays) to better attract consumer interest in their products. This will inevitably lead to renewed interest in consumer education, product campaigns, and advertising. It will be interesting to see how regulators work with the cannabis industry to allow for innovation in the retail experience and advertising space while still protecting greater public health interests.



CONCLUSION

In conclusion, Colorado has developed a practical approach to regulating its cannabis industry. Colorado's Marijuana Enforcement Division is one of the nimblest cannabis regulatory bodies in the United States that can pivot quickly to address technology, product, market, and consumer preference developments. Colorado is also home to some of the oldest and most successful retail and product brands in the country; and continues to be a great market for cannabis operators to develop and test new products. It will be interesting to watch Colorado's cannabis industry continue to grow as more municipalities opt in to allowing cannabis businesses within their respective borders. While not cannabis related, Coloradans voted to legalize psilocybin last year and we expect Colorado to take a similar leading position with psychedelics as it has with cannabis.

[XJ1]Suggest inclusion of following statistics (can be found on CNB):

- Patient counts
- Recreational revenues
- Medical revenues
- Rec license #'s (broken down by activity)
- Med license #'s (broken down by activity)

[XJ2]Suggest inclusion of brand logos for:

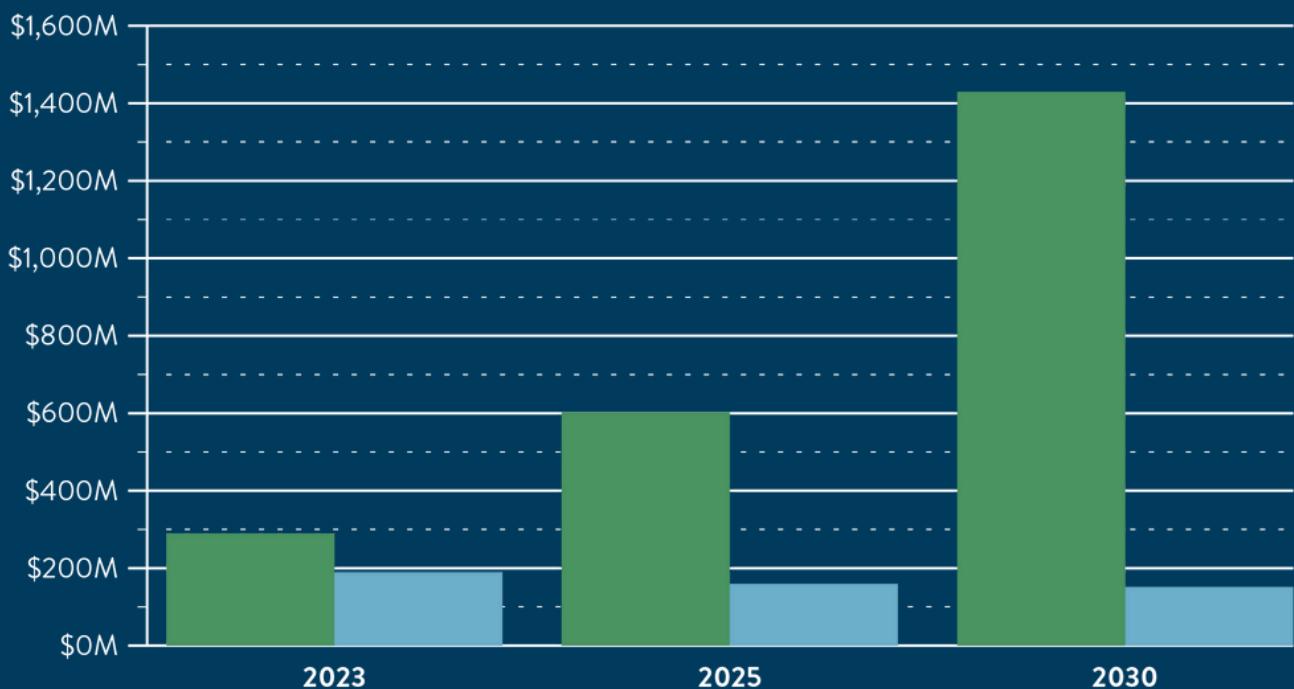
- § Native Roots
- § Livwell
- § The Green Solution
- § Lightshade
- § Medicine Man
- § Tumbleweed
- § Strawberry Fields
- § Veritas
- § Keef Cola
- § Incredibles
- § 1906
- § Apothecanna
- § Coda Signature
- § 710 Labs
- § The Clear
- § Wana
- § Viola

CONNECTICUT LEGAL MARKET OVERVIEW

Connecticut Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$290
Million

2023: MEDICAL MARKET

\$190
Million

Charts provided by New Frontier Data

CONNECTICUT

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The "Nutmeg State" Begins Adult-Use Cannabis

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On January 10, 2023, Connecticut joined those states in our union that have opened their doors to adult use cannabis sales. Seven dispensaries stepped through those doors and by January 31, 2023, Connecticut had recorded \$5.1 million in adult use sales, plus an additional \$8.2 million in medical sales for a total of \$13.3 million.

Like other states now embracing adult use, Connecticut has enacted a strong social equity program, with mixed results so far. Also, perhaps more than any other state, Connecticut has committed to protecting its existing medical cannabis patients and has put in place various mechanisms to guard their access to cannabis.

SLOW ROLL-OUT OF RETAIL CANNABIS LICENSES

Like other recently-legal states, Connecticut's rollout of its retail licenses has not been rapid. The state's initial goal has been to issue twelve retail licenses by lottery, with six reserved for social equity applicants. Also, the eighteen already-operating medical licensees were given the option to upgrade to a hybrid medical-adult use license, a process separate from the lottery.

As of the end of February 2023, there appear to be only twelve current (approved to do business) retail licenses, with eleven of those twelve belonging to medical-adult use hybrids. The majority of the 39 retail licenses listed on the state website are still in the provisional phase, which allows them to "work toward securing a final license."

CONNECTICUT SOCIAL EQUITY

Connecticut has committed to a robust social equity program and provided an early application opportunity for social equity applicants ahead of non-social equity applicants. In addition, the Nutmeg State has reduced fees for adult-use licenses by 50% for Equity Joint Venture applications, which is where investors agree to partner with a social equity applicant. Further, the state has eliminated 43,754 low-level cannabis convictions.

Connecticut's social equity requirements are less rigorous than those of neighboring New York and New Jersey, which may provide additional entry opportunities for both in-state and out-of-state entrepreneurs. Connecticut defines a social equity applicant as requiring that at least 65% of a business be owned by an individual with less than 300% of the state median household income in the past three tax years. Since the median household income was \$79,855, that individual would need to have earned less than \$239,565 annually.

ADJUSTMENTS NEEDED IN THE LOTTERY PROCESS

The lottery for the six initial social equity licenses was held in May 2022 followed by the lottery for the initial six general licenses, which took place in September 2022. Both were administered by a professor and department head at the UConn School of Pharmacy (the state law stipulated the lottery operator must be part "of the state system of higher education").

15,605 applications were received for both lotteries. Unfortunately, many of the winning applicants flooded the lottery system with hundreds of applications, spending hundreds of thousands of dollars to do so. One example, SLAP ASH LLC, accounted for 850 of the 8,360 applications submitted to the social equity lottery, winning 2 provisional retail licenses. Another company, Jananii LLC, spent over \$200,000 to submit 807 entries, receiving one provisional retail license. "There were individuals applying for licenses who submitted 50 applications or more to enter the lottery," said House Majority Leader Jason Rojas, D-East Hartford. "That wasn't our intent." Rojas and others are looking at other options for the next lottery to try and combat the problem.

PROTECTING MEDICAL CANNABIS PATIENTS

Perhaps what makes Connecticut's adult use cannabis program most unique is its considerable commitment to protecting medical patients' continued access to cannabis. Concerned that adult use sales wouldn't leave enough supply for patients, the state mandated a cap of ¼ ounce of cannabis for all adult use purchases. Lieutenant Governor Susan Bysiewicz commented that this action emphasized the importance of "not losing sight of a very robust medical program."

With the recent strong sales of adult use cannabis, however, patients have expressed concern about access, and now the Nutmeg State is considering further action. A bill is being considered in the state legislature which would create a state cannabis ombudsman. This individual would act as a liaison between patients and the state and would, in effect, be there to put pressure on the four licensed growers. These cultivators are required to submit a medical cannabis preservation plan to "ensure against supply shortages of medical marijuana products" and are in many ways responsible for continued patient access to cannabis.



LICENSING FEES

Connecticut lottery winners' license fees will vary from \$1,000 for a micro, to \$25,000 for a retail, to \$75,000 for a cultivator, subject to a 50% reduction if the applicant is deemed social equity. However, once the field is open to regular applicants, the fees will become sizeable.

Retail license fees will be \$1 million and cultivation license fees will be \$3 million, and even with a 50% reduction for an Equity Joint Venture application, the investment will be significant. The \$1 million fee also applies to any existing medical dispensary that wishes to convert to a hybrid license without going through the lottery process. The four existing cultivation companies that wish to service the adult use market and avoid a lottery process will have to pay the \$3 million as well.

TAX ISSUES

Connecticut cannabis-businesses are obligated to pay a sales tax of 6.35%, a gross receipts tax of 3% and a privilege tax of \$0.00625-\$0.0275 per mg of THC, depending on the item. Other than New York, Connecticut is the only state to have a tax based on the potency of the cannabis product.

FEDERAL TAX SUBJECT TO SECTION 280E

On the federal level, cannabis businesses are subject to Internal Revenue Code Section 280E, which disallows deductions and credits for expenditures connected with trafficking in controlled substances under the Controlled Substances Act, schedule 1 or 2. As cannabis is a schedule 1 drug, cannabis companies are only permitted to reduce their sales by cost of goods sold when determining their taxable income. By example, a cannabis dispensary would only be allowed to deduct the cost of the product purchased and the cost to transport the product to the dispensary, while disallowing such significant expenses as rent and payroll. All cannabis businesses must forgo expense deductions related to selling, general and administrative expenses, as they are disallowed under the tax code.

While some states like California have not conformed to 280E and allow their cannabis businesses the same deductions as other businesses, Connecticut is not one of those states. Personal income tax starts with Federal Adjusted Gross Income while corporate income tax starts with Federal taxable income as reported on line 28. There are no provisions that say Section 280E does not apply. This will mean a significantly heavier state tax burden for cannabis businesses.

LABOR AND EMPLOYMENT ISSUES

Cannabis is expected to fuel significant employment growth in Connecticut, and experts project more than 11,000 cannabis jobs will be added once the market reaches full capacity. These jobs are expected to include full time and temporary positions in all cannabis verticals: cultivation, manufacturing, distribution, retail, marketing, testing, finance, accounting, legal, compliance and C-suite.

As part of its social equity program, the state has made it clear it would like to see cannabis businesses employ individuals from those communities that have been disadvantaged by the war on cannabis. Connecticut has also made it a requirement that every approved licensee enter into a "labor peace agreement" with a labor union, and that such an agreement shall be an "ongoing material condition of licensure."

The state is focused on maintaining quality control on all aspects of its adult use cannabis businesses, including the people involved. Licenses are needed for all cannabis employees along with a special license for key employees in managerial positions. Additionally, financiers must be licensed, with a Backer license required for individuals with direct or indirect financial interests in a cannabis establishment totaling 5% or more.

Connecticut cannabis employees must be pre-trained through the state's Social Equity Council. The state also requires that each license recipient have a workforce development plan approved by the Council "to reinvest or provide employment and training opportunities for individuals in disproportionately impacted areas."

IN SUMMARY

No adult cannabis state has come close to having a smooth opening for its adult use sales program, and Connecticut is no exception. With well-funded groups gaming the license lotteries and medical patients concerned about their continued access to cannabis, the Nutmeg State has its work cut out for it. But with its strong commitment to social equity and its outsized commitment to protecting its medical cannabis patients, Connecticut can serve as a role model for compassionate cannabis capitalism. 2023 will reveal how the state rises to its challenges and matures its cannabis marketplace.

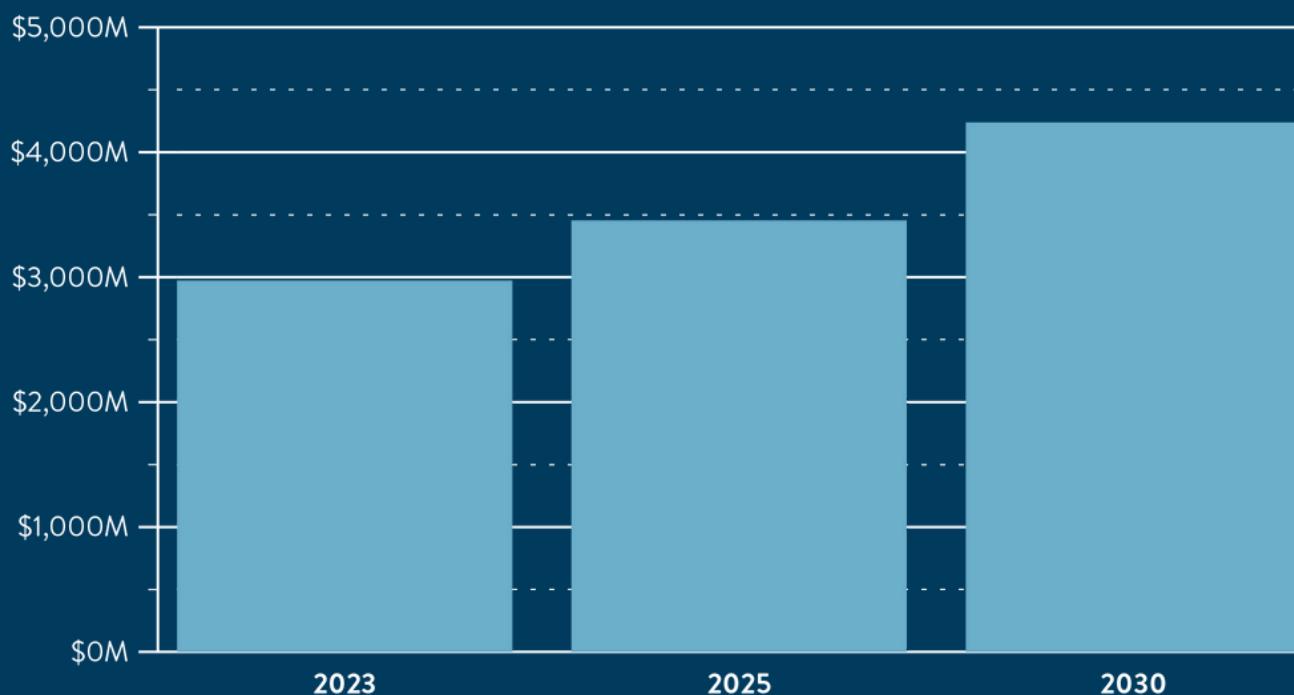


FLORIDA LEGAL MARKET OVERVIEW

Florida Legal Market Size Estimates

In Millions \$USD

● Medical only market



2023: MEDICAL MARKET

\$3.0
Billion

Charts provided by New Frontier Data

FLORIDA

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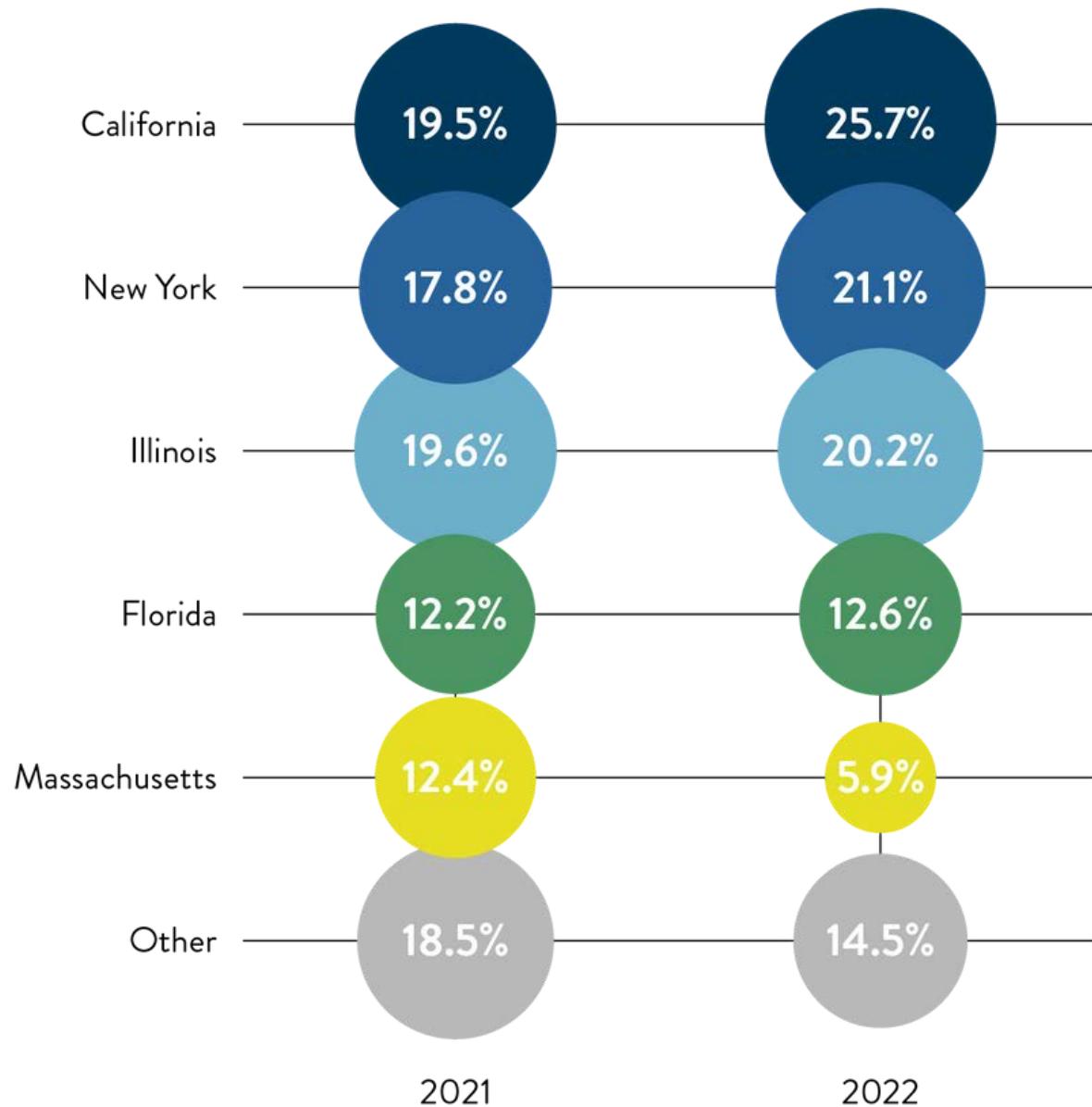
THE SKY'S THE LIMIT IN THE SUNSHINE STATE

The Sunshine State is the 3rd largest cannabis market in the U.S. only behind California and Colorado. They are the largest and most profitable medical only cannabis market in the United States. Medical sales approached \$1.3 billion in 2021 and grew to \$1.7 billion in 2022. Projections suggest that sales will top \$2 billion by 2025 and between \$3 and \$6 billion by 2030.

Over the past two years the active patient count has risen from 455,425 in 2020 to 779,465 patients by the end of 2022. Also, in that same time frame qualified physicians with certifications went from 102 in 2020 to 1,725 in 2022. Florida's medical marijuana industry has created nearly 25,000+ jobs and will only continue to increase as more players come into the market and sales continue to grow.

Florida currently has 22 businesses licensed to legally operate, with 413 dispensary locations as of 2022. Cannabis licenses in the state are extremely valuable and have sold for between \$30 and \$85 million. Naturally, the industry has been buzzing with excitement over the announcement that more licenses will be made available. This coming year will be a year for growth in Florida.

Capital Raises by U.S. State



Data Source: Viridian Capital Advisors
Chart provided by New Frontier Data

SUNSHINE MAKES IT GROW

On Dec. 19, 2022 the Office of Medical Marijuana (OMMU) through [Emergency Rule 64ER22-9](#), set the application guidelines and due date for its next round of applications. The first cycle will offer up to 22 new licenses. These licenses carry an application fee of \$146,000 which is more than double the \$60,830 charged during Florida's initial application round. The applications will be due on or earlier than April 24th, 2023, and no later than April 28, 2023 @ 5:00pm. In anticipation of growth the Florida Department of Health has asked for \$13 million to more than double the size of the current OMMU from 80 to 165 people.

The application process will be based off a points system. Points will be awarded for applicants who have infrastructure and equipment already secured and constructed while those who don't will not get points. The score sheets are available on the state licensing website. The barriers to entry to Florida's medical cannabis market will remain high, and Florida is likely to remain a market with a limited number of large-scale players.

For cannabis entrepreneurs, the new licenses in Florida present enormous upside. Florida has close to 800,000 active medical cannabis patients, representing more than 20 percent of the whole country's registered patient count. Florida could easily become the second largest market in the country, and even exceed the size of California's struggling market when the state decides to transition to adult-use.

Florida presents a unique opportunity for those that can afford it. The Florida cannabis license is different from those in most states in two critical ways:

1. Licensed cannabis businesses can build and manage an unlimited number of production and retail facilities. Grow as large as you want, the sky's the limit.
2. Licensed cannabis businesses are required to have full vertical integration. Each licensed company must have the financing to stand up a cultivation center, a GMP-certified manufacturing center, and multiple retail outlets within a year or two of being licensed.

SOCIAL EQUITY IN FLORIDA

Florida currently has four provisions that are aimed to provide some type of equity in the cannabis industry.

- 1.** The allocation of \$10 from the fee of each medical marijuana patient's card for the purpose of education minorities about medical marijuana use and the impacts of unlawful use.
- 2.** Florida reversed one of the then licenses, that was supposed to be available in 2017, for a Black farmer who is a class member of Pigford v. Glickman. The settlement of the case addressed racial discrimination in farm lending during the 1980's and 1990's. 12 Black farmers applied for the license. On September 20, the Department of Health awarded the license to Gwinn Brothers Medicinals which is in McAlpin, Florida.
- 3.** Florida is requiring applicants to have strong diversity plans.
- 4.** Applicants must reflect an involvement of minorities and veterans in management, ownership, and employment. Applicants seeking to renew their license must show the effectiveness of their diversity plan by reporting the representation of and recruitment efforts to employ minorities and veterans. They must also supplement records for contracts for services with minority business and veteran businesses.

THE SUN LOOKS TO SET NO TIME SOON

When you think Florida you think sun, beaches, and vacation. In 2022, Florida received approximately 137.6 million visitors to the state to vacation. When one thinks of vacation, they think of relaxation and when you think of relaxation.... Bingo, you think of cannabis. Just the sales to visitors will be mind-blowing. Not to mention the 21.78 million people that live in Florida.

Florida also has the greatest percentage of residents aged 65 and older. There are approximately 4.7 million retirees in Florida, making up 21.3% of its population. A study done in Colorado showed that medical marijuana use by individuals 65 and older has increased more than 800% in recent years. Numbers have climbed from 0.5% in 2006 to 4.2% in 2018.

As these numbers continue to climb and more retirees move to Florida, I feel you will see sales continue to climb.

Let's not forget that Florida is currently the 3rd largest market in the U.S., with sales of \$1.7 Billion in 2022. Sales numbers continue to climb year after year. With currently around 800,000 medical patients and the number climbing every year, the state will continue to flourish.

I can easily see Florida as the largest cannabis market in the U.S. when they decide to go recreational.

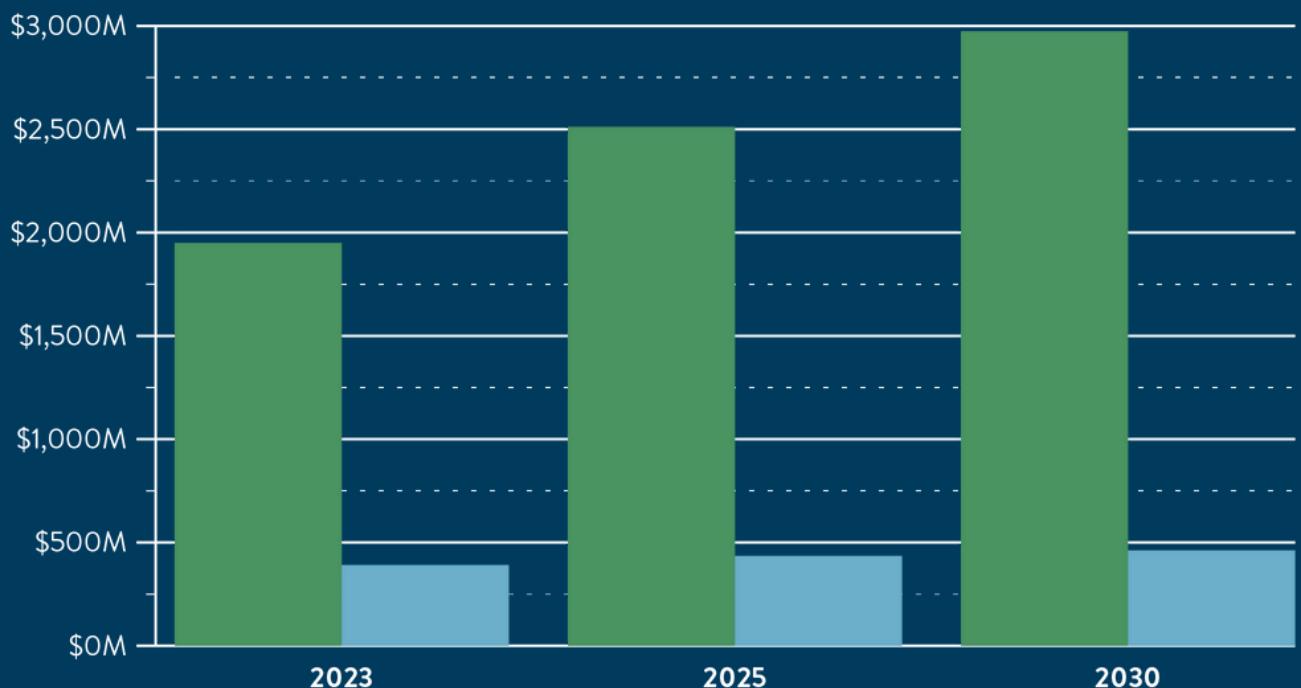


ILLINOIS LEGAL MARKET OVERVIEW

Illinois Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$1.9
Billion

2023: MEDICAL MARKET

\$390
Million

Charts provided by New Frontier Data

ILLINOIS

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INTRODUCTION

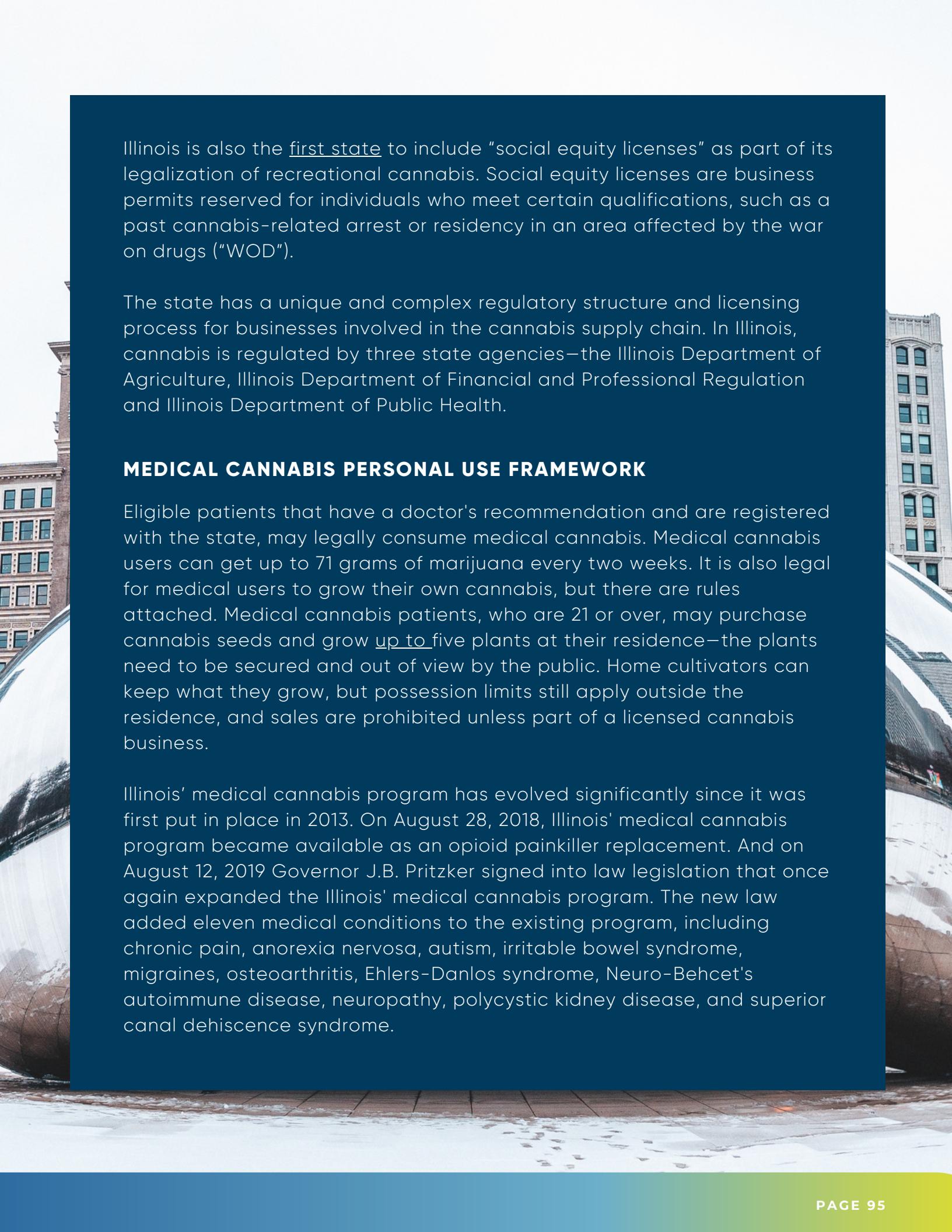
Illinois is the 11th state in the United States to legalize recreational cannabis in 2020 and is the first state in the nation to do so by a legislative act and not voter initiatives. Chicago is also widely considered the "Silicon Valley" of cannabis to industry insiders and is home to some of the largest cannabis businesses in the United States. Cresco Labs, Verano, Pharmacann, and Green Thumb Industries all call Chicago home. Illinois is a promising cannabis market that has averaged over \$40m in recreational sales monthly since launching the recreational program.

MARKET OVERVIEW

MARKET HISTORY

In less than a decade, Illinois went from treating cannabis as a criminal issue to developing a heavily regulated medical and recreational cannabis industry.

In 2013, Illinois legalized the use of medical cannabis with the passage of the Illinois enacted the Compassionate Use of Medical Cannabis Pilot Program Act. The statute legalized cannabis and cannabis-infused products for patients with debilitating medical. Six years later, on June 25, 2019, Illinois legalized recreational cannabis with the passage of the Illinois Cannabis Regulation and Tax Act (the "Act") becoming the eleventh state in the United States to legalize recreational cannabis. The Act became effective on January 1, 2020. Illinois is only the second state in the nation to legalize recreational sales by an act of the state legislature, as previous states had legalized sales by voter initiatives.



Illinois is also the first state to include "social equity licenses" as part of its legalization of recreational cannabis. Social equity licenses are business permits reserved for individuals who meet certain qualifications, such as a past cannabis-related arrest or residency in an area affected by the war on drugs ("WOD").

The state has a unique and complex regulatory structure and licensing process for businesses involved in the cannabis supply chain. In Illinois, cannabis is regulated by three state agencies—the Illinois Department of Agriculture, Illinois Department of Financial and Professional Regulation and Illinois Department of Public Health.

MEDICAL CANNABIS PERSONAL USE FRAMEWORK

Eligible patients that have a doctor's recommendation and are registered with the state, may legally consume medical cannabis. Medical cannabis users can get up to 71 grams of marijuana every two weeks. It is also legal for medical users to grow their own cannabis, but there are rules attached. Medical cannabis patients, who are 21 or over, may purchase cannabis seeds and grow up to five plants at their residence—the plants need to be secured and out of view by the public. Home cultivators can keep what they grow, but possession limits still apply outside the residence, and sales are prohibited unless part of a licensed cannabis business.

Illinois' medical cannabis program has evolved significantly since it was first put in place in 2013. On August 28, 2018, Illinois' medical cannabis program became available as an opioid painkiller replacement. And on August 12, 2019 Governor J.B. Pritzker signed into law legislation that once again expanded the Illinois' medical cannabis program. The new law added eleven medical conditions to the existing program, including chronic pain, anorexia nervosa, autism, irritable bowel syndrome, migraines, osteoarthritis, Ehlers-Danlos syndrome, Neuro-Behcet's autoimmune disease, neuropathy, polycystic kidney disease, and superior canal dehiscence syndrome.

RECREATIONAL CANNABIS PERSONAL USE FRAMEWORK

The passage of the Act in 2019 allowed adults 21 and older, who possess a valid, government-issued ID, to purchase recreational cannabis and other cannabis products in licensed stores starting on January 1, 2020.

As a result of the passage of the Act, Illinois residents can purchase and possess up to 30 grams of cannabis flower, up to 5 grams of cannabis concentrate, and up to 500 mg of THC in cannabis-infused products, including edibles. Nonresidents of Illinois may purchase and possess up to 15 grams of cannabis flower, up to 2.5 grams of cannabis concentrate, and up to 250 mg of THC in cannabis-infused products, including edibles.

However, consuming recreational cannabis is still illegal in public places, including streets and parks, any motor vehicle, on school grounds (except for medical users), around a minor, near on-duty school bus drivers, police officers, firefighters, and correction officers and in Section 8 government-funded housing.

Additionally, despite its legalization, employers are free to ban the use and possession of cannabis in the workplace. Employers can also bar workers from using it while on-call. And, in Illinois, companies can still conduct "reasonable drug and alcohol testing" of both current and prospective employees.

COMMERCIAL STRUCTURE OVERVIEW

Several government agencies in Illinois are responsible for licensing and regulating the business and affairs of the cannabis industry—the Illinois Department of Agriculture ("IDOA"), Illinois Department of Public Health ("IDPH"), and Illinois Department of Financial and Professional Regulation ("IDFPR").

The provisions of the Act contemplate a number of types of adult-use cannabis licenses, including (1) cultivation centers, (2) craft growers, (3) infuser organizations, (4) processing organizations, (5) transporting organizations, and (6) dispensing organizations. Existing medical cannabis cultivation and dispensing license holders may apply for early approval of adult-use licenses in the same category of operation as their current licensure permits.

IDOA has the authority to administer and enforce laws relating to the oversight and licensing of cultivation centers, craft growers, infuser organizations, transporting organizations and agents of those licensees. On the other hand, IDFPR was granted oversight and licensing authority for dispensing organizations, their agents, and agent education providers that sell cannabis to patients on the medical cannabis registry and to adults above the age of 21. Lastly, IDPH administers the registry of patients and the medical marijuana program.

Each business on the cannabis supply chain, from cultivation to a final sale to retail purchaser or patient, must be licensed, including agents of the licensee, such as employees. Most importantly, all licenses must be renewed annually, except for adult use dispensing organization licenses which are every other year. (410 ILCS 705/15-45(a)).

Notably, the number of licenses, except for transporters, are capped statewide. Persons and entities may only own interests in a limited number of licenses. And unlike most other states where cannabis is legal, applications for business licenses in Illinois are not accepted on a continuing basis. Applications for licenses are accepted by IDFPR and IDOA in successive rounds with common deadlines for receiving applications for a set number of available licenses.

Furthermore, licenses are issued to a specific applicant to operate at a specific location and are not freely transferrable to new owners. Applications to both IDOA and IDFPR are evaluated on a points system, with the applicants attaining the highest scores receiving the license. Point allocation and the subject matter evaluated varies between licenses, but all applicants are scored based on both binary metrics (such as Illinois resident status) and subjective scoring of the quality and sufficiency of their (1) Business plan; (2) Employee training plan; (3) Status as Social Equity Applicant, veteran-owned business, or Illinois resident; and (4) Diversity plan.

As mentioned above, Illinois is the first state to include social equity as part of its legalization of cannabis.

The Adult-Use Cannabis Social Equity Program (ICSEP) aims to help “social equity applicants” apply for cannabis licenses if they originate from an area disproportionately impacted by the war on drugs or otherwise link their business to such areas or persons disproportionately impacted by the WOD; and seeks to reinvest twenty-five percent of revenues to prevent violence and to develop areas damaged by the WOD. On January 1, 2020, the first day of legal recreational sales, over 77,000 customers spent \$3.2 million in legal sales at dispensaries across Illinois. These figures were historic as no other state, Oregon being second, has generated such significant first day recreational sales. On January 6, 2020, Governor Pritzker's office announced that in the first five full days of recreational adult-use sales, 271,169 individual transactions totaled over \$10.8 million in sales statewide. Total sales for January 2020 approached \$40 million, despite supply shortages,

Retail sales from recreational cannabis in Illinois average an estimated \$40 million in revenue each month since legalization. In 2022, the 113 dispensaries across Illinois sold \$1.5 billion worth of cannabis products.

Market Statistics [\[XJ1\]](#)

Major Operators [\[XJ2\]](#)

TAX STRUCTURE OVERVIEW

Illinois has one of the highest taxes in the nation for cannabis. At the wholesale level, cannabis products will be subject to a 7% tax when they are sold by cultivation centers or craft grows. And at the retail level, Illinois is taking a unique approach.

Rather than a blanket tax for all cannabis products, Illinois charges a tax rate based on the relative potency of the cannabis and the type of product. The more concentrated THC is, the higher the tax rate. For example, a 10% tax is imposed on cannabis products containing less than 35% THC, while products with higher doses of THC will carry a tax of up to 25% or more. Cannabis-infused products like edibles have a 20% sales tax. In addition to these scalable tax rates, the state's regular 6.25% sales tax rate also applies, along with local taxes of up to 3.5%. The range consumers will pay at the register – which does not include the 7% tax levied at wholesale – will be between 19.55% to 34.75% retail tax, depending on the product's potency.

Illinois made \$462 million in tax revenue from marijuana sales in 2022.

MARKET LESSONS

Illinois' cannabis industry provides an interesting test case for license lotteries and social equity licensing. Illinois is a limited license state, meaning that applications for cannabis business licenses are not accepted on an ongoing basis. The limited number of licenses led to an ultra-competitive application process for cannabis businesses looking to operate in the state. Further, Illinois relied on a lottery system in deciding which qualified applicants would ultimately be awarded the limited number of licenses. Unfortunately, the lottery approach led to a number of lawsuits being filed that ultimately resulted in the state being enjoined from issuing any licenses until those disputes had been resolved. A rocky start to one of the nation's leading cannabis markets, to say the least.

Another lesson learned from Illinois related to social equity. The ICSEP, the program that is designed to help qualified social equity applicants, was revolutionary on paper. The reality, however, is not as rosy. One simple stat demonstrates that reality: to date, not a single dispensary owned by a social equity applicant is open for business. The issue? Social equity license holders have no way to access the capital required to open their businesses. While we won't get into all of the challenges cannabis operators face when it comes to accessing capital – there are many – social equity license holders in Illinois are further challenged because they are not able to sell equity in their licenses. The state offers low-interest loans to cannabis operators, but there has yet to be a single dollar issued from the supposed \$3 million fund allocated to social equity cannabis businesses. So, while the program was nice in theory, the actual roll out of ICSEP has yet to result in a single social equity licensed business serving consumers.



CONCLUSION

In conclusion, it will be critical to monitor the number of licenses available in Illinois in the coming years to identify opportunities to enter the market. Licenses in a limited license market are incredibly valuable, and we expect to see valuations of Illinois cannabis companies lead the country, particularly when one considers the powerhouse cannabis operators that call Chicago home. Brands would be well served to establish a footprint in the state if they hope to work with some of the largest Multi-State Operators in the industry. Finally, we will be closely monitoring the continued roll-out of the ICSEP to see if social equity applicants are indeed empowered to meaningfully participate in the Illinois cannabis industry.

[XJ1]Suggest inclusion of following statistics (can be found on CNB):

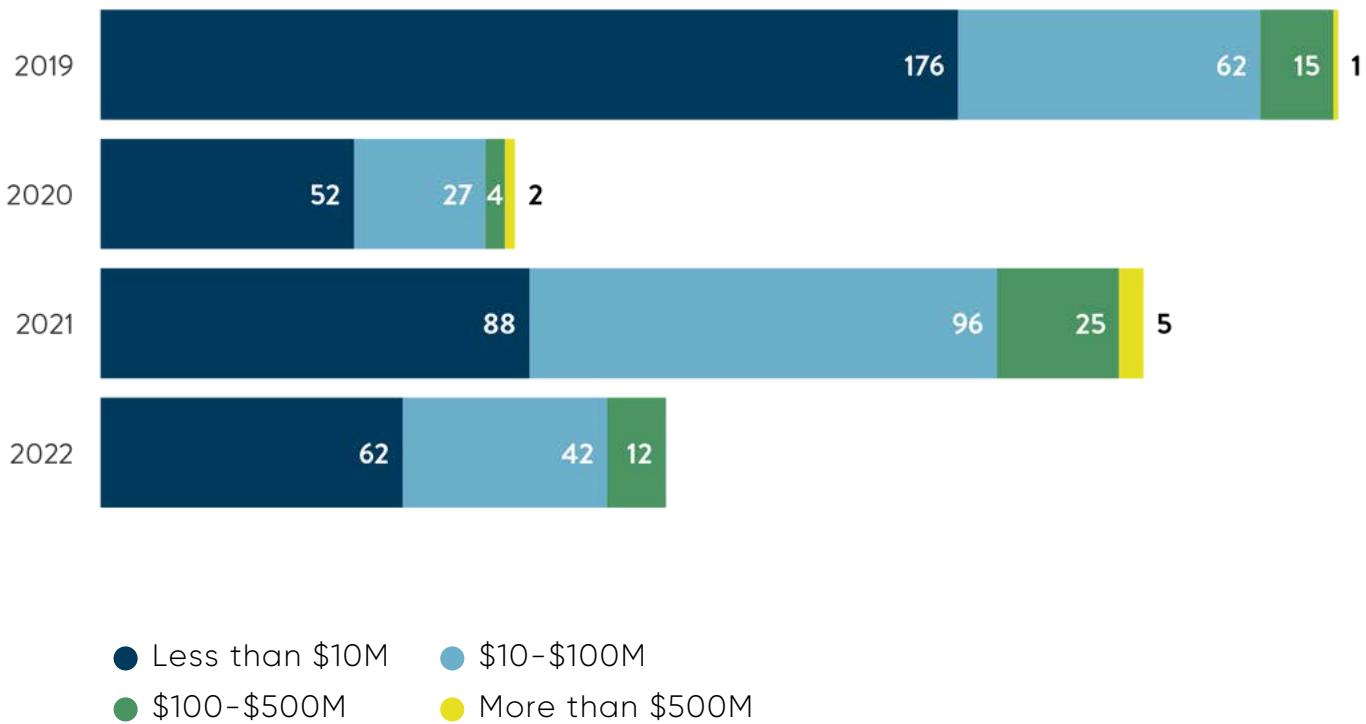
- Patient counts
- Recreational revenues
- Medical revenues
- Rec license #'s (broken down by activity)
- Med license #'s (broken down by activity)

[XJ2]Suggest inclusion of brand logos for:

PharmaCann

- GTI
- Cresco Labs
- Verano
- PTS

North American M&A Transactions



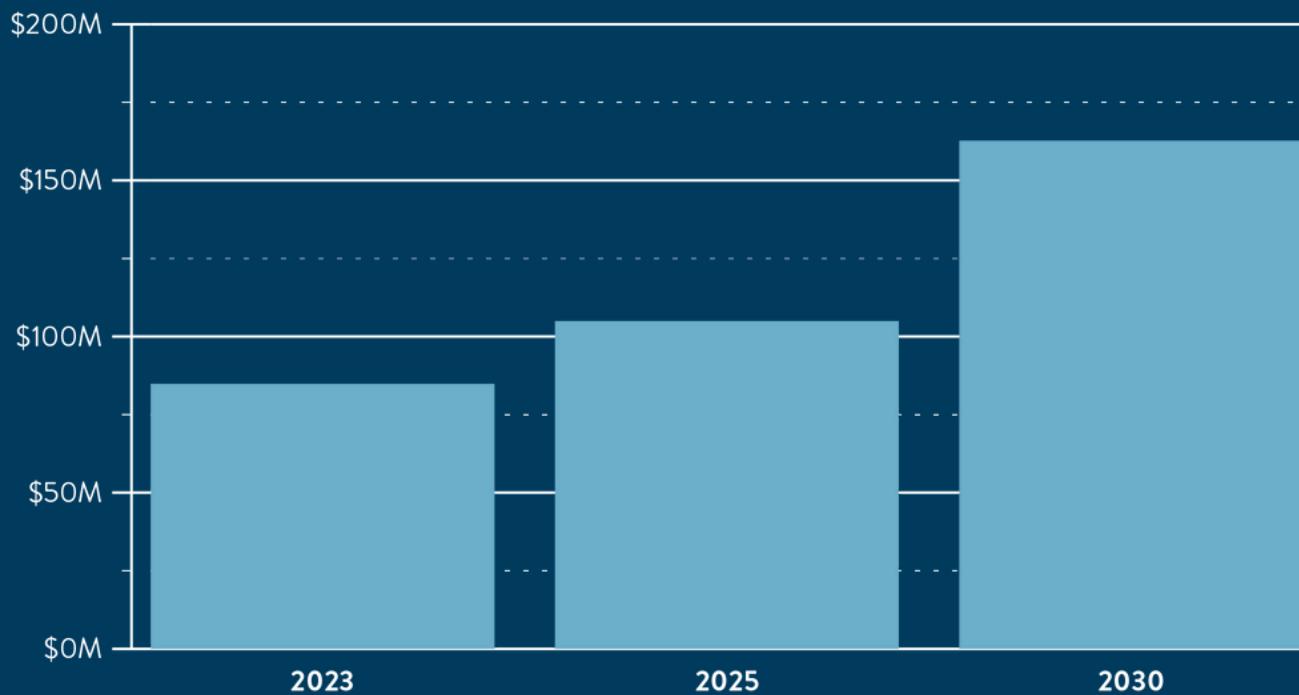
Data Source: Viridian Capital Advisors
Chart provided by New Frontier Data

MINNESOTA LEGAL MARKET OVERVIEW

Minnesota Legal Market Size Estimates

In Millions \$USD

● Medical only market



2023: MEDICAL MARKET

\$85
Million

Charts provided by New Frontier Data

MINNESOTA

Zuber Lawler

Chris P Parrington

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INTRODUCTION

In April 2023, the Minnesota House (HF 100) and Senate (S.F. No. 73) voted to approve bills that would legalize cannabis in Minnesota for adult-use recreational purposes. Although the bills have some differences that are currently being resolved by a joint committee of House and Senate representatives, those differences are not drastic enough to cause concern that legalization will not happen. Instead, it is fully expected that the joint committee will resolve the differences between the two bills and cannabis legalization will be signed by Governor Walz before the current legislative session ends on May 22, 2023, and become effective as soon as July 1, 2023. Below are the highlights of S.F. No. 73, which was approved by the Minnesota Senate at the end of April 2023 and for the most part (subject to minor revisions by the joint committee) will reflect the final legalization bill signed by the governor:

REGULATIONS:

- Creates an Office of Cannabis Management to establish policies and exercise regulatory authority over the cannabis and hemp industries in Minnesota.
 - Requires the appointment of a Director of the Office of Cannabis Management by the governor.
 - Requires the Office of Cannabis Management establish a Division of Social Equity, which is responsible for:
 - Administering grants to social equity communities;
 - Act as an ombudsperson to investigate complaints and resolve disputes; and
 - Report to the Office of Cannabis Management, complaints and the status of social equity in the cannabis industry.

- Creates a Cannabis Advisory Council consisting of thirty-nine (39) different members ranging from public service, industry operators, tribal representatives and medical experts.
- Transfers the current medical cannabis duties of the Minnesota Department of Health to the Office of Cannabis Management.
- Requires interagency agreements between the Office of Cannabis Management and the Minnesota Department of Agriculture related to the regulation of low-potency hemp edibles.
- Requires the establishment of food safety practices.
- Requires the establishment of environmental standards.
- Local government may not prohibit possession, transportation or use of cannabis or lower-potency hemp edibles.
- Local government may not prohibit the establishment or operation of cannabis businesses.
- Local government may adopt reasonable restrictions on time, place or manner of operation of cannabis businesses including prohibition of operation of cannabis business within 1,000 feet of school, or 500 feet of a day care, park, or residential treatment facility.
- Local government required to confirm zoning compliance as part of licensing process.
- Local government required to confirm zoning compliance as part of licensing process.
- Cannabis retailer, microbusiness with retail operator endorsement, mezzobusiness with retail operator endorsement, medical cannabis retailer, and lower-potency hemp edible retailer may be required to register with city, town or county where retail establishment is located under certain circumstances.
- Establishes limitations on location for consumption of cannabis.
- Establishes a tribal medical cannabis program in Minnesota including authorizing the negotiation of compacts between Minnesota and tribes for medical and adult-use cannabis operations.

TAXES / FINANCIAL AID FOR CANNABIS INDUSTRY PARTICIPANTS:

- Establishes various grants for the cannabis industry:
 - Cannabis Industry Community Grants.
 - Awards grants to eligible organizations in communities where long-term residents are eligible to be social equity applicants.
 - Substance Use, Treatment, Recovery and Prevention Grants.
 - Cannabis Grower Grants ("CanGrow"):
 - Awards grants to help eligible organizations to help farmers navigate through regulatory structure of legal cannabis industry and fund loans to farmers for expansion into legal cannabis industry.
 - Cannabis Industry Startup Financing Grants ("CanStartup").
 - Awards grants to nonprofit corporations to fund loans to new cannabis microbusinesses and support job creation in communities where long-term residents are eligible to be social equity applicants.
 - Up to \$150,000 available for loans to qualified businesses.
 - Cannabis Industry Navigation Grants ("CanNavigate").
 - Awards grants to organizations helping individuals navigate the regulatory structure of the cannabis industry, particularly for individuals facing barriers to employment and education.
 - Cannabis Industry Training Grants ("CanTrain").
 - Awards grants to organizations providing training relevant to the cannabis industry, particularly for individuals facing barriers to employment and education.
- Establishes state-imposed tax of 10% of gross receipts from sale of cannabis products.
 - 75% of taxes are deposited into Minnesota's general fund.
 - 25% of taxes are deposited into local government cannabis aid account established in the Minnesota special revenue fund.
 - Local governments are prohibited from imposing additional taxes on sale of cannabis products.

EXPUNGEMENTS / EDUCATION:

- Provides for automatic expungement of criminal records for certain qualified individuals with prior cannabis-related offenses.
- Provides for resentencing of certain qualified cannabis-related convictions to lesser offenses.
- Mandates that the Minnesota Bureau of Criminal Apprehension identify bureau records that qualify for automatic expungement or resentencing.
- Provides for deferred prosecution of certain qualified individuals facing prosecution of prior cannabis-related offenses.
- Restores firearm possession rights to certain qualified individuals previously barred from possessing firearms due to prior cannabis convictions.
- Requires the creation of a model program for cannabis education for:
 - Youth education for middle school and high school students.
 - Education for pregnant and breastfeeding individuals.
 - Health home visiting programs.
 - Local and tribal health departments.

PERSONAL LIMITATIONS / RESTRICTIONS:

- Limits possession, purchase and use of cannabis to 21 years or older.
- Limited possession of 2 ounces in public places.
- Limited possession of 2 lbs. of flower in the individual's private residence.
- Limited possession of 8 grams of concentrate.
- Limited possession of 800 milligrams of edibles or low-potency hemp edibles.
- Allows for home cultivation of up to 8 plants with no more than 4 being mature, flowering plants at a single residence.

LICENSING:

- Allows for the issuance of ten (10) different adult-use, recreational cannabis business licenses:
 - Cannabis microbusiness
 - Allowed to grow cannabis, manufacture cannabis and hemp concentrate, manufacture synthetically derived cannabinoids, manufacture cannabis products, and sell immature plants and seedlings, flower, cannabis products, lower-potency hemp edibles and hemp-derived consumable products to consumers.
 - Allowed to operate an establishment for on-site consumption of lower-potency hemp edibles and hemp-derived consumable products.
 - Limits cultivation operations to 5,000 sq. ft. canopy space.
 - Manufacturing limits to be established by Office of Cannabis Management, equivalent to 5,000 sq. ft canopy.
 - Only one (1) retail location allowed with appropriate endorsement.
 - May also hold a cannabis event organizer license.
 - Fees: application (\$500); initial license (\$0.00); and renewal (\$2,000).
 - Cannabis mezzobusiness
 - Allowed to grow cannabis, manufacture cannabis and hemp concentrate, manufacture synthetically derived cannabinoids, manufacture cannabis products, and sell immature plants and seedlings, flower, cannabis products, lower-potency hemp edibles and hemp-derived consumable products to consumers.
 - Manufacturing limits to be established by Office of Cannabis Management, equivalent to 15,000 sq. ft canopy.
 - Up to three (3) retail locations allowed with appropriate endorsement.
 - May also hold a cannabis event organizer license and medical cannabis retailer license.
 - Fees: application (\$5,000); initial license (\$5,000); and renewal (\$10,000).

- Cannabis cultivator
 - Allowed to grow cannabis.
 - Limited to 30,000 sq. ft. of canopy space for indoor cultivation.
 - Fees: application (\$10,000); initial license (\$20,000); and renewal (\$30,000).
 - May also hold a manufacturing, medical cultivation, medical producers, industrial hemp growers and event organizer licenses.
- Cannabis manufacturer
 - Allowed to purchase cannabis to make cannabis concentrate, make hemp concentrate, make synthetically-derived cannabinoids, make adult-use cannabis products, make lower-potency hemp edibles, and sell the same products to cannabis businesses.
 - Size limitations to be established by the Office of Cannabis Management.
 - Fees: application (\$10,000); initial license (\$10,000); and renewal (\$20,000).
- Cannabis retailer
 - Allowed to sell immature cannabis plants and seedlings, flower, cannabis products, and lower-potency hemp edibles and hemp-derived consumer products.
 - Limit of up to five (5) retail locations per license.
 - Medical and adult-use cannabis sales allowed on same premises with proper licensing.
 - Fees: application (\$2,500); initial license (\$2,500); and renewal (\$5,000).
- Cannabis wholesaler
 - Allowed to wholesale immature plants and seedlings, flowers, cannabis products, lower-potency hemp edibles and hemp-derived consumer products between cannabis businesses.
 - May also hold cannabis transporter, cannabis deliver and cannabis event organizer licenses.
 - Fees: application (\$5,000); initial license (\$5,000); and renewal (\$10,000).

- Cannabis transporter
 - Allowed to transport immature plants and seedlings, flower, cannabis products, lower-potency hemp edibles and hemp-derived consumer products between cannabis businesses.
 - May also hold a cannabis wholesaler, cannabis delivery and cannabis event organizer license.
 - Fees: application (\$250); initial license (\$500); and renewal (\$1,000).
- Cannabis testing facility
 - Allowed to test immature plants and seedlings, flower, cannabis products, lower-potency hemp edibles and hemp-derived consumer products (including medical cannabis flower and products) from cannabis businesses.
 - Cannot own or be employed by any other cannabis business licenses.
 - Fees: application (\$5,000); initial license (\$5,000); and renewal (\$10,000).
- Cannabis event organizer
 - Allowed to organize a temporary cannabis event that lasts no more than four (4) days.
 - Licenses issued on a per-event basis and the Office of Cannabis Management may limit the number of licenses held by a person or business.
 - Fees: application (\$750); and initial license (\$750).
- Cannabis delivery service
 - Allowed to purchase flower, cannabis products, lower-potency hemp edibles, and hemp-derived consumer products from cannabis retail businesses and deliver to customers.
 - Fees: application (\$250); initial license (\$500); and renewal (\$1,000)

- Allows for the issuance of four (4) medical cannabis business licenses:
 - Medical cannabis cultivator
 - Allowed to cultivate medical cannabis.
 - Limited to 60,000 sq. ft. of canopy space.
 - Fees: application (\$250); initial license (\$0.00); and renewal (\$0.00).
 - Medical cannabis processor
 - Allowed to manufacture medical cannabis concentrate, medical cannabinoid products, and medical cannabis-infused products.
 - Fees: application (\$250); initial license (\$0.00); and renewal (\$0.00).
 - Medical cannabis retailer
 - Allowed to sell medical cannabis and cannabis-infused products to qualified patients.
 - Fees: application (\$250); initial license (\$0.00); and renewal (\$0.00).
 - Medical cannabis combination business.
 - Fees: application (\$10,000); initial license (\$20,000); and renewal (\$70,000)
- Allows for the issuance of two (2) hemp business licenses:
 - Lower-potency hemp edible manufacturer
 - Allowed to manufacture lower-potency hemp edibles, make hemp concentrate, and manufacture synthetically-derived cannabinoids.
 - Edible cannabis product handler endorsement required for manufacturing of lower-potency hemp edibles.
 - Fees: application (\$250); initial license (\$1,000); and renewal (\$1,000).
 - Lower-potency hemp edible retailer
 - Only allowed to sell lower-potency hemp edibles to individuals of legal age.
 - On-site consumption of lower-potency hemp edibles (i.e., bars and restaurants) is allowed with an on-site consumption endorsement.
 - Fees (per location): application (\$250); initial license (\$250); and renewal (\$250).

- Office of Cannabis Management must establish forms and processes for processing licensing that must include:
 - Background information on applicant including criminal background checks, information about individual owners, legal structure, management / control structure, corporate governance records, and financial information.
 - General description of proposed cannabis business location.
 - Diversity plan.
 - Security plan.
 - Proof of trade name registrations.
 - Business plan.
 - Labor peace agreement certified by a bona fide labor organization.
 - Compliance certificate.
 - Local government land use compatibility statement.
- License applications may (but not required) also include:
 - Proof of social equity applicant status.
 - Employee training and education.
 - Business policies governing compliance.
 - Commitments to maintenance of labor peace agreements.
- Office of Cannabis Management shall issue necessary number of licenses to ensure sufficient supply of cannabis flower and cannabis products to meet demand, provide market stability, ensure a competitive market and limit the sale of unregulated cannabis flower and cannabis products.
- Licenses issued based upon point-scoring system in a competitive application process.
- Vertical integration of licensing is explicitly forbidden and applicants can only hold certain prescribed groups of licenses.
 - Generally, cultivators and manufacturers cannot hold retail licenses, and vice versa, with the exception of allowances for cannabis microbusiness and cannabis mezzo business licenses.
- Licenses are freely transferrable with approval of the Office of Cannabis Management.

SOCIAL EQUITY:

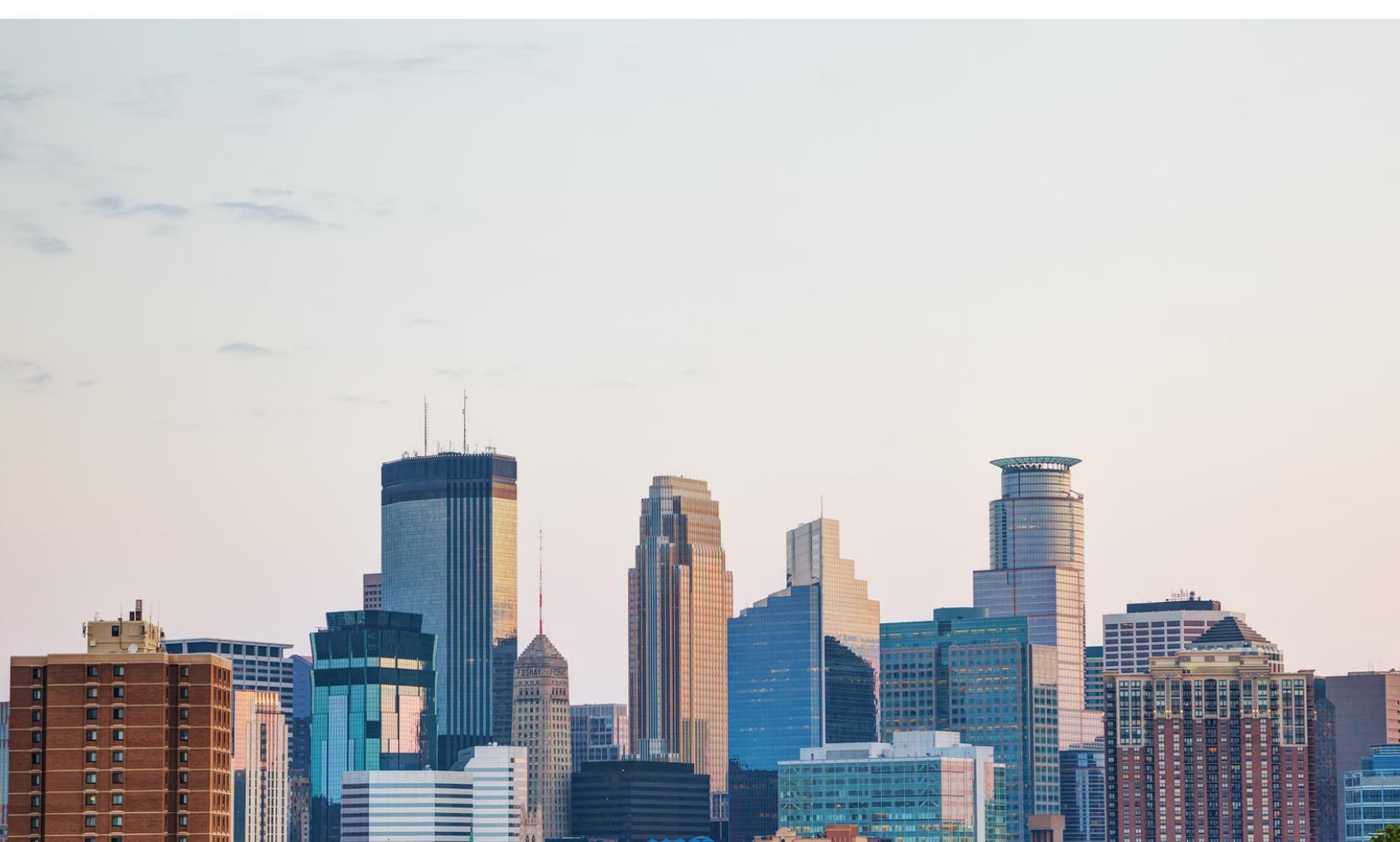
- Defines social equity applicant as:
 - Convicted of an offense involving possession or sale of cannabis or marijuana prior to May 1, 2023; had a parent, guardian, child, spouse or dependent convicted; or was a dependent of an individual convicted.
 - Service-disab led veteran, current / former member of national guard, or any military veteran, or current / former member of national guard, who lost honorable status due to an offense involving possession or sale of marijuana..
 - Emerging farmer as defined by statute.
 - 5-year resident in a disproportionately impacted area.
 - 5-year resident in community that has:
 - Poverty rate of 20% or more; or
 - Median family income that does not exceed 80% of statewide median.
- Social equity status must account for at least 20% of available points in application scoring process.

MEDICAL CANNABIS BUSINESSES:

- Defines "qualifying medical condition" to include:
 - Alzheimer's disease
 - Autism spectrum disorder
 - Cancer
 - Chronic motor or vocal tic disorder
 - Chronic pain
 - Glaucoma
 - HIV / AIDS
 - Intractable pain as defined statutorily
 - Obstructive sleep apnea
 - PTSD
 - Tourette's syndrome
 - Amyotrophic lateral sclerosis
 - Seizures including those characteristic of epilepsy
 - Severe and persistent muscle spasms including those characteristic of multiple sclerosis
 - Inflammatory bowel disease including Crohn's disease
 - Irritable bowel syndrome
 - Obsessive-compulsive disorder
 - Sickle cell disease
 - Terminal illness

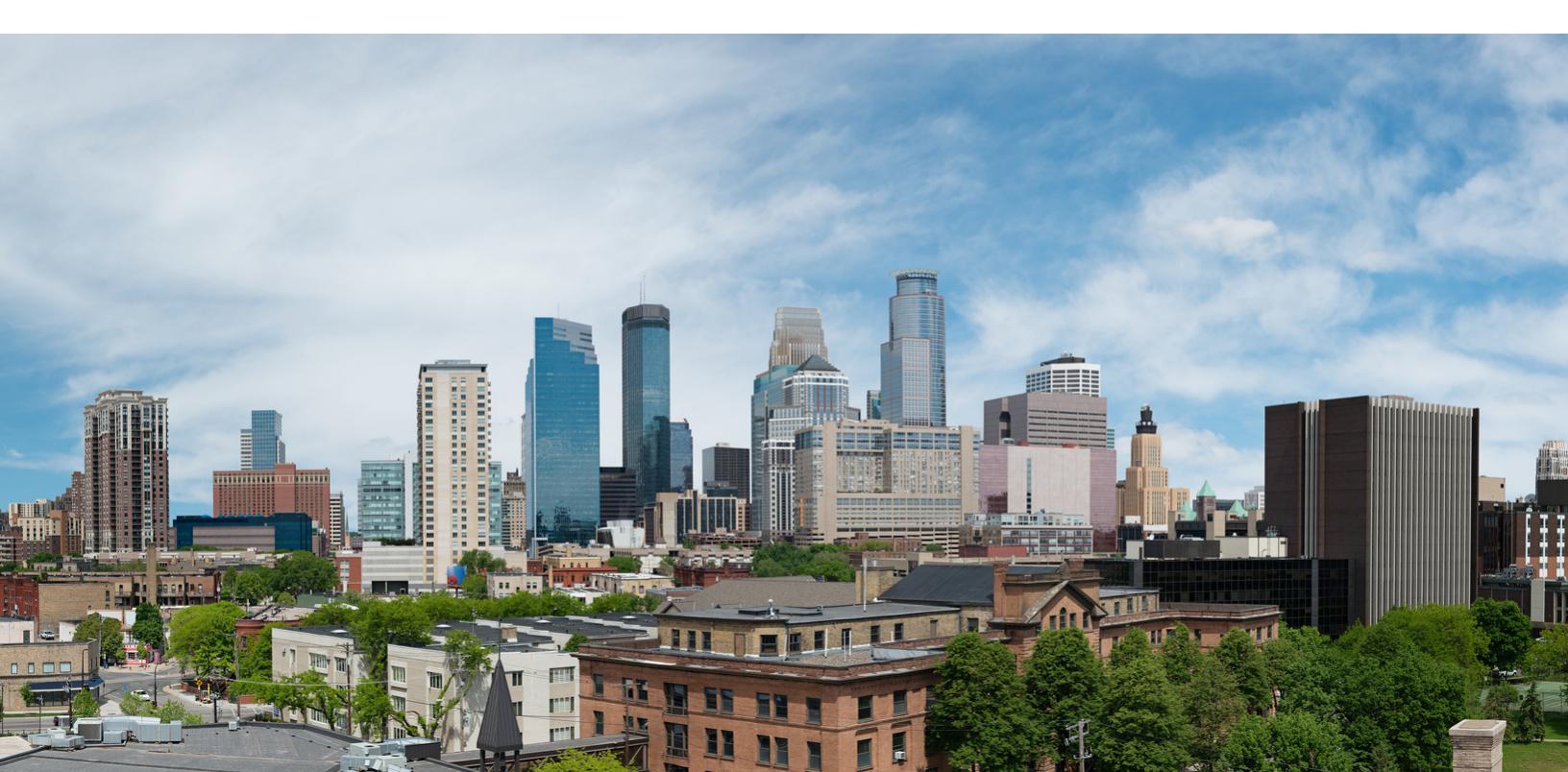
HEMP BUSINESSES:

- Lower-potency hemp edibles (beverages) and hemp-derived consumer products (non-beverages) are defined as a product that:
 - Military veteran who lost honorable status due to a cannabis-related offense.
 - Is intended to be eaten or consumed by humans;
 - Contains hemp concentrate or a synthetically derived cannabinoid, in combination with food ingredients;
 - Is not a drug;
 - Contains no more than 5 milligrams of Delta-9 THC, 25 milligrams of cannabidiol, 25 milligrams of cannabigerol, or any combination that does not exceed these amounts, on a per serving basis;
 - Does not contain more than 0.5 milligrams of all other cannabinoids per serving;
 - Does not contain a cannabinoid derived from cannabis plants or cannabis flower; and
 - Does not resemble nonalcoholic beverages, candy or baked goods.



HEMP BUSINESSES:

- Allows for lower-potency hemp edibles to be sold at licensed liquor stores.
- Current hemp-businesses manufacturing or selling lower-potency hemp edibles or hemp-derived consumer products must register with commissioner by no later than October 1, 2023.
- Lower-potency edibles or hemp-derived consumer produced manufactured outside of Minnesota cannot be imported into Minnesota with intent to sell to consumers or any other person or business that intends to sell them unless they have a license to import such products.
- Establishes temporary regulations (effective immediately) of certain cannabinoid products subject to prior Minnesota laws including:
 - Requires certain disclosures of information including known pesticides, fertilizers, solvents and other foreign materials applied to hemp during production or processing stages.
 - Requires addition of batch numbers to product labels.
 - Prohibits the sale of edible cannabinoid products containing THC-P, THC-O and HHC.
 - Requires registration of anyone selling cannabinoid products to consumers by no later than October 1, 2023.
- Requires sellers of edible cannabinoid products to employ certain age verification procedures.

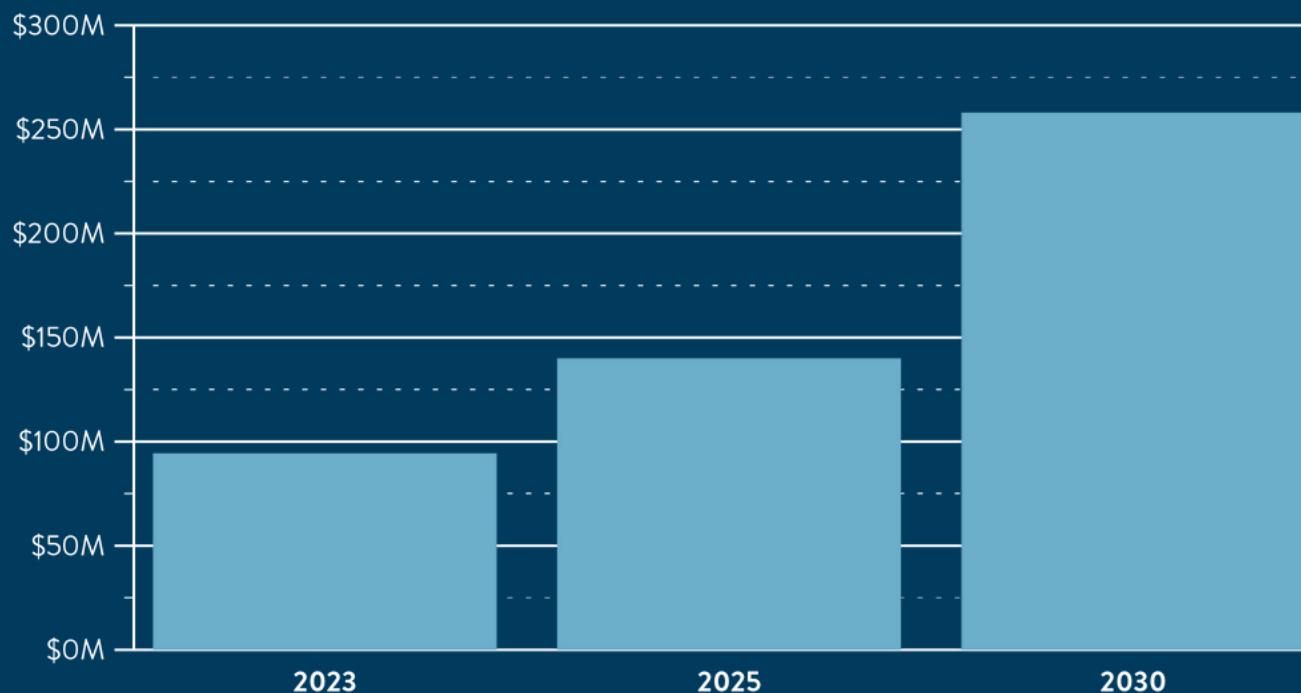


MISSISSIPPI LEGAL MARKET OVERVIEW

Mississippi Legal Market Size Estimates

In Millions \$USD

● Medical only market



2023: MEDICAL MARKET

\$94
Million

Charts provided by New Frontier Data

MISSISSIPPI

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MISSISSIPPI CANNABIS LEGALIZATION: 44 YEARS IN THE MAKING

In 1978, Mississippi decriminalized the possession of 30 grams of less of marijuana. House Bill 1231 was passed in 2014 allowing persons with epilepsy to use low – THC cannabis. In 2016 Senate bill 2169 revised the penalties for the sale, transfer, distribution, manufacturing or dispensing of cannabinoids. A year later in 2017, Senate Bill 2610 passed, clarifying the use of CBD for exploratory treatments remedies for seizures and other medical conditions.

On November 3, 2020, 69% of Mississippians voted in favor of enacting a medical cannabis program. On that same ballot, 74% voters selected Amendment 65, a broad, citizen-initiated constitutional amendment to legalize medical cannabis, rather than a restrictive alternative put forth by legislators (I-65A). Just days before the 2020 election in effort to nullify the ballot measure, the mayor of Madison, MS sued the state claiming the change in the number of congressional districts in Mississippi in 2020 that it was "mathematically impossible" to meet the ballot petition signature requirements laid out in the states constitution. In May of 2021, the state's Supreme Court sided with the mayor in a 6-3 ruling that struck down the medical cannabis law enacted by voters.

Senator Kevin Blackwell (R) lead the charge in the creation of Senate Bill 2095, it attempted to create a middle ground between the restrictive approach the governor favored and the voters' strong preference for a broad measure. The Senate passed SB 2095 on January 13, with a 46-5 vote and the House followed suit on January 19, with a 105-14 vote. A conference committee was formed by the two chambers to reconcile the bill.

The final version was passed on January 26, with the House voting 103-13 and the Senate vote of 46-4-1, which subsequently was the largest vote margins in the states history. Gov. Tate Reeves signed into law the Mississippi Medical Cannabis Act, (SB 2095) on February 2, 2022.

UPDATE OF LEGAL, REGULATORY AND LICENSING LANDSCAPE

The medical marijuana program has been fully operational, with dispensaries selling Mississippi-grown cannabis for just under three months. House Bill 1158 was passed on February 1, 2023, and the Senate's version, which included additional amendments passes on March 8, 2023. The House approved the Senate's amended version on March 14, 2023, and now it heads to the governor's office for approval, with hopes to help improve the states lacking patient count numbers which have created a slow start to the states Medical Marijuana Program.

NOTABLE AMENDMENTS OF HOUSE BILL 1158:

PATIENT AND PRACTITIONER AMENDMENTS

- No more government-mandated drug tests would be required to obtain patient certification from a practitioner.
- Practitioners would be allowed to assist patients during the visit and after certification, to submit an ID card application to the MSDH.
- Patients would no longer be required to visit the same practitioner who issued the original certification for a follow-up visit.
- To certify patients, practitioners are not subject to any additional qualifications or registries beyond those set forth in the MMCA.
- Registry ID certifications would now be valid up to six months before a patient applies to MSDH for an ID card (originally was valid for only 60 days).
- MSDH would be required to approve or deny a patient application within 10 days of submission (changed from 30 days). Then, the MSDH must issue the card if approved within five days after approval. This shortens the time from application to issuance from 35 days to 15 days.

BUSINESS LICENSE AMENDMENTS

- Tier 6 cultivators must have a canopy size of at least 100,000 sq. ft but no more than 150,000 sq. ft. These cultivators can also have more than one location, but the size limitations apply in the aggregate to all locations.
- Testing facility owners can have ownership interest in a transportation facility.
- Testing facilities can contract with transporters for the transportation of medical cannabis.
- The MSDH may contract with a private laboratory to conduct compliance testing oversight of medical cannabis testing facilities, but any such lab cannot perform commercial medical cannabis testing in Mississippi.
- A dispensary must complete construction and meet other requirements within 18 months of license issuance.
- Business licensees could now include a display of cannabis in company logos and other branding activities and display on dispensary websites pictures of the products the dispensary sells.
- No state agency or local governing body can issue rules or ordinances that are contrary to the MMCA.

HEMP/CBD/TOPICAL PRODUCTS AMENDMENTS

- Product with less than .3% THC that is subject to the Farm Bill is not subject to MMCA regulations/law.
- Topical cannabis products not ingested by the liver that are produced by a licensed processor can be sold in dispensaries to cardholders or any person over the age of 21. These products must be placed in an area of the dispensary that does not require access with a registry identification card.

SOCIAL EQUITY AND UNIQUE OPPORTUNITIES

The Mississippi cannabis program is a non-capped program, allowing anyone who would like to enter the market the ability to do so. The original law gave locals a head start, by only allowing those who had lived in the state for more than 3 years to apply for a license. Those restrictions were dropped as of January 1, 2023. Now anyone who would like to apply for a license can do so.

Mississippi is one of the 31 states that have decriminalized or, in 18 cases, legalized personal use cannabis possession. First offense possession of 30 grams is punishable by a \$250 fine instead of jail time and a civil summons as opposed to arrest if the offender provides proof of identity and a written promise to appear in court. However, Mississippi's cannabis law has a gaping loophole: possession of paraphernalia, such as the baggie the cannabis is in, remains a criminal offense punishable by up to six months.

Meanwhile, data indicates that Mississippi's cannabis laws are not being evenly enforced. A recent study found that although Black and White individuals use cannabis at nearly identical rates, Black Mississippians are 2.7 times more likely than whites to be arrested for cannabis possession.

One bill that is floating around is Initiative 68. This Measure seeks to legalize the use, cultivation, sales, and taxations of marijuana and THC for adults 18 years and older. It requires the Mississippi Legislature to support the expungement of non-violent marijuana related crimes and the possession of a firearm by a felon with non-violent charges.

CONCLUSION AND KEY TAKEAWAYS

The rollout of the Medical Program has been slower to start than most had hoped. There has been some backlog in the state with issuing license. The process has been much slower than anticipated. I believe this is to be expected with any new marker. Patient numbers also are not where they were expected to be at this point, but things are picking up. There are currently 6,400 patients which is a huge increase from just a month ago. I would expect the number to continue to climb, especially with some of the things that have been written into HB 1158.

Mississippi currently has 175 licensed dispensaries; this is more than enough to supply that state. I just hope that the patient numbers will pick up, so that all the dispensaries that currently have licenses can leave their doors open. Mississippi is a poor state and can use every tax dollar possible. I have faith that the state will figure things out and Mississippi will soon have a thriving Medical Cannabis Industry.

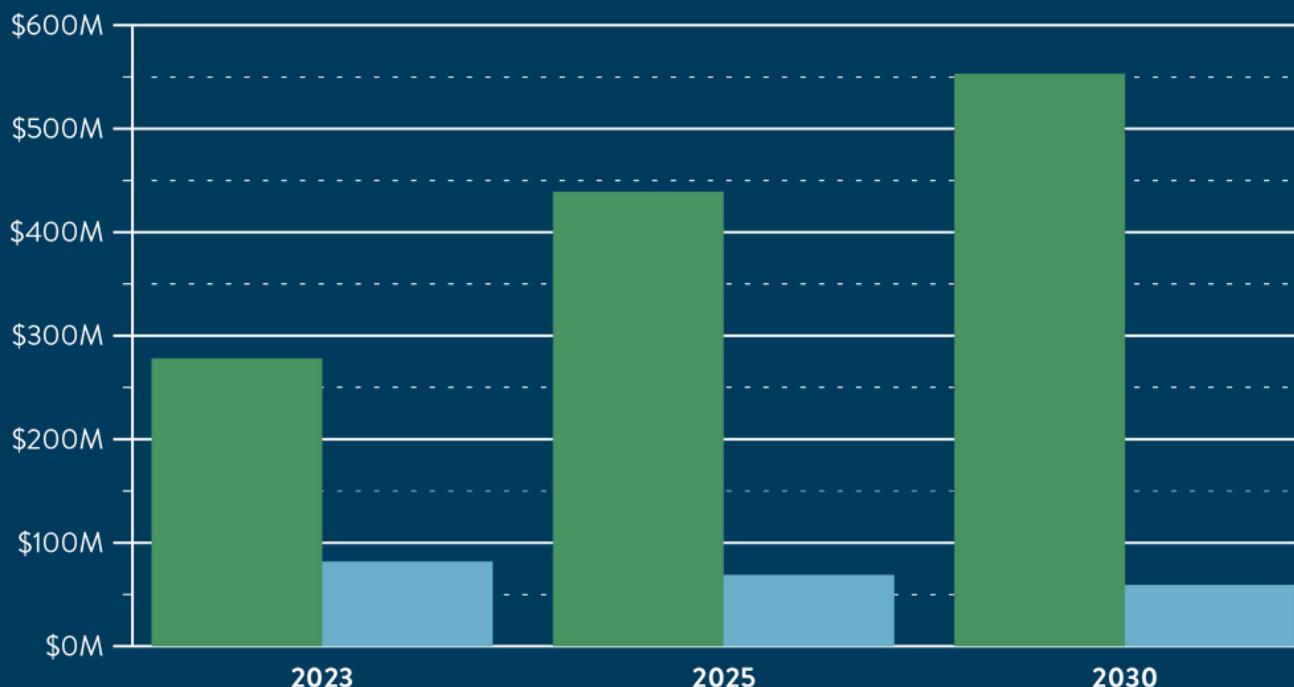


MONTANA LEGAL MARKET OVERVIEW

Montana Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$278
Million

2023: MEDICAL MARKET

\$82
Million

Charts provided by New Frontier Data

MONTANA

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A LOOK AT "THE TREASURE STATE'S" CANNABIS INDUSTRY REPRINTED WITH THE PERMISSION OF CANNABIS INDUSTRY JOURNAL

When Montana became a territory in 1864, its legislators chose as its motto the Spanish words "Oro Y Plata" which means "Gold and Silver. Gold and silver discoveries brought people to the new territory in droves, and everyone expected to get rich.

Nowadays, the newest "Gold Rush" to open up in Montana is the state's adult-use cannabis market, which began operation on January 1, 2022. Since then, cannabis sales have taken off in the Treasure State, and the tax dollars are rolling in. But political discussions are taking place that may alter the will of the voters who approved adult-use. In addition, local approval and the choice to "opt-out" has some cannabis entrepreneurs wondering if they'll have a business a year from now.

SALES - PREDICTED VERSUS ACTUAL:

When voters passed Initiative I-190 in 2021 and adult-use commenced January 1, 2022, the Cannabis Control Division (CCD) of the Montana Department of Revenue expected total recreational sales in 2022 to top \$130M. Montana's imbibers blew that figure out of the water. By the end of December of 2022, the Treasure State had notched up almost \$210M of adult-use sales, alongside \$93M of medical sales, for a total of almost \$304M. With a state population of only 1,085,000, that translates into \$280 of cannabis sales per capita. For context, Oklahoma sold \$214 of cannabis per person in 2022, while California did only \$135/person last year. (It's estimated that 55% of California's sales are made by illegal dispensaries, which would translate into a far more robust total of \$301 of cannabis/person.)



HOW HAS THE TAX SITUATION CHANGED IN MONTANA?:

Montana charges a 4% cannabis tax on medical sales and a 20% cannabis tax on adult-use sales. A 3% maximum local tax was part of the new law, and 20 counties had enacted it, all of them charging the maximum 3%. 10 states allow adult-use sales and have no local tax, which leaves 26 counties that have prohibited adult-use sales (the red counties).

The good news: wholesale sales are exempt from cannabis taxes, and there is no regular sales tax on retail sales, so there is no tax-on-tax (unlike California, which has sellers calculate and collect sales tax on the sale price of their cannabis products plus the cannabis excise tax they're required to collect).

More good news: Montana does not follow Internal Revenue Code 280E and allows normal business deductions for licensed (legal) cannabis corporations, as well as pass-through entities and individuals with licensed cannabis operations.

AS STATE CANNABIS TAX REVENUE GOES EXCEEDS EXPECTATIONS, DISAGREEMENTS ARE TAKING PLACE OVER USE OF THE FUNDS:

Total cannabis tax revenue for 2022 was almost \$46M and is projected to rise to \$53M for the fiscal year 2023-2024, which starts this July 1, 2023.

Eyeing this revenue, Governor Gianforte (R) initiated House Bill HB 462 on February 17, 2023, whose intent is to funnel revenue away from state parks and wildlife as approved by the voters, and more towards law enforcement and the state's general fund.

I-190, along with approving adult-use cannabis, specified that the first \$6M in tax revenue would go for the state program Healing and Ending Addiction through Recovery and Treatment. All remaining funds would be split between the general fund 65%, various parks and wildlife programs (32%), and veterans and surviving spouses (3%).

HB 462 would see the general fund receiving 75%, law enforcement 7.5%, veterans and surviving spouses 5%, with parks and wildlife reduced to 12.5%. Some Montanans feel this subverts the will of the electorate.

On almost the same day as HB 462 was introduced, another bill was put forward, AB 420, which would eliminate the 4% cannabis tax and 3% local tax on medical marijuana. The bill's sponsor, Representative Mike Hopkins, a Republican from Missoula, believes that adult-use tax revenues are "more than capable" of funding the adult-use program as well as the other addiction and parks and wildlife programs enumerated in I-190. The bill is being countered by the Montana League of Cities and Towns which believes that repealing that tax would create a \$4.5M dent across those communities who instituted the local tax.

Both bills have been tabled in committee and will continue to be debated in the second half of the 2023 legislative session.

RETAIL, CULTIVATION & MANUFACTURING – GRANDFATHERED LICENSES ONLY, FOR NOW:

Original adult-use legislation stated that, from January 1, 2022, until July 1, 2023, only Montana medical marijuana licensees who were licensed on November 3, 2020 (or had an application pending with DPHHS on that date) might be issued a license for cultivation, manufacture, or sale of adult-use marijuana. In an explicit effort to give current Montana-based dispensaries a temporary advantage over out-of-state players, the new law imposed an 18-month moratorium on all new licenses. Once the moratorium expires, new license holders will be limited to a small Tier 2 license, which restricts the amount of cannabis they can grow.



New license holders will need to show one year of Montana residency in order to apply. That being said, there's nothing stopping an out-of-state business from buying an existing business from a current Montana resident.

In an update to this legislation, a rider was recently added to HB 128 that would extend the licensing moratorium two more years, to July 1, 2025. The bill was approved by committee on February 14, 2023 and will come before the House later in this legislative session. In a recent presentation on cannabis in Montana, Bozeman cannabis attorney Christopher Young commented, "I've talked to Jason Ellsworth (R, Senator, President of the Montana Senate), and I've been told HB 128 is going to pass."

HB 128 HAS A NUMBER OF MEDICAL CANNABIS BUSINESSES CONCERNED:

The number of medical cannabis cardholders has dropped drastically since adult-use became legal, from 40,522 registered cardholders on January 1, 2022, to 22,325 on January 1, 2023, a reduction of 45%. For those dispensaries that initially chose to remain exclusively medical (18% of all dispensaries), as well as those that, for one reason or another, missed the boat to sell adult-use, they have seen a significant decline in revenue. Consequently, a significant number have been eagerly awaiting the July 1, 2023 to apply to sell adult-use cannabis. The possibility of having to wait an additional two years has them very concerned.

An adjustment in HB 128 is being debated which would allow 16 medical shops to become adult-use that had applied for adult-use before January 1, 2022 but who didn't complete the process. Without this adjustment, many of these medical dispensaries believe they'll face bankruptcy.

POSSIBLE OPT-OUT COUNTIES HAVE SOME CANNABIS COMPANIES NERVOUS:

Initiative 190 legalized adult-use cannabis by default in the counties that voted for it. In 2021, the Montana Legislature hammered out implementation of adult-use cannabis in House Bill 701, and one provision of this bill allows counties and municipalities to vote to opt-out of legalization.

Granite County, which became a green county when nearly 55% of voters approved I-190, chose to do just that, opting-out of adult-use sales on June 7, 2022. The county's sole dispensary, Top Shelf Botanicals, had begun selling to recreational users and estimates 80% of its customers are now adult-use. It has responded to the opt-out by drafting a new initiative to get voters to opt-back-in to adult-use sales. Their struggle to re-win the hearts of Granite County's voters is ongoing and appears to be an up-hill battle.

While Granite is the first county to opt-out of adult-use sales, changing them from a green county to a red county, movement is under way to opt-out in Cascade County, Carbon County, Ravalli County, and Flathead County, among others. [The opt-out movement is gaining strength](#) in the state and has Montana dispensaries concerned. "The opt-out provision is very problematic, and I think it's more problematic than people recognized at the time," said Kate Cholewa, lobbyist with the Cannabis Industry Association. "What other business would people accept being in the position of potentially losing their business every two years?"



TAXABILITY OF DISCOUNTED PRODUCTS:

Initially, it was thought that the Department of Revenue required cannabis tax to be assessed on the regular retail price of a product, even though that product might be discounted. However, the DOR now says this is not always the case. "If the discount is offered to all customers, as opposed to a discount that is offered to only a particular individual or group, the established retail price can change."

Examples where the discounted price becomes the new, lower established retail price: every Friday you offer everyone a 20% discount on certain products, or, you offer discounts to medical cardholders only. An example of when you must charge cannabis tax on the original, non-discounted price: a discount offered to a particular group, such as veterans or students.^[1] (Why medical cardholders are not considered a particular group is unclear, but this information is from the state's website.)

TAX COMPARISON TO OTHER STATES:

Montana is actually a low-tax state for cannabis operators. First of all, it doesn't follow federal statute 280E, but instead allows the deduction of regular operating expenses on state income taxes. In addition, unlike some states like California, Montana does not charge sales tax on top of cannabis taxes i.e., it doesn't charge tax-on-tax.

If one examines tax rates, while Montana's adult-use tax is high at 20%, its medical tax of 4% is a low one. The local tax of 3% (compared with Los Angeles's 10% adult-use local tax, for example) is quite low and is not charged by 37% of the counties that have adult-use sales.

And if AB 420 is passed and the medical and local cannabis taxes are repealed, Montana will truly enter the ranks of low tax cannabis states!

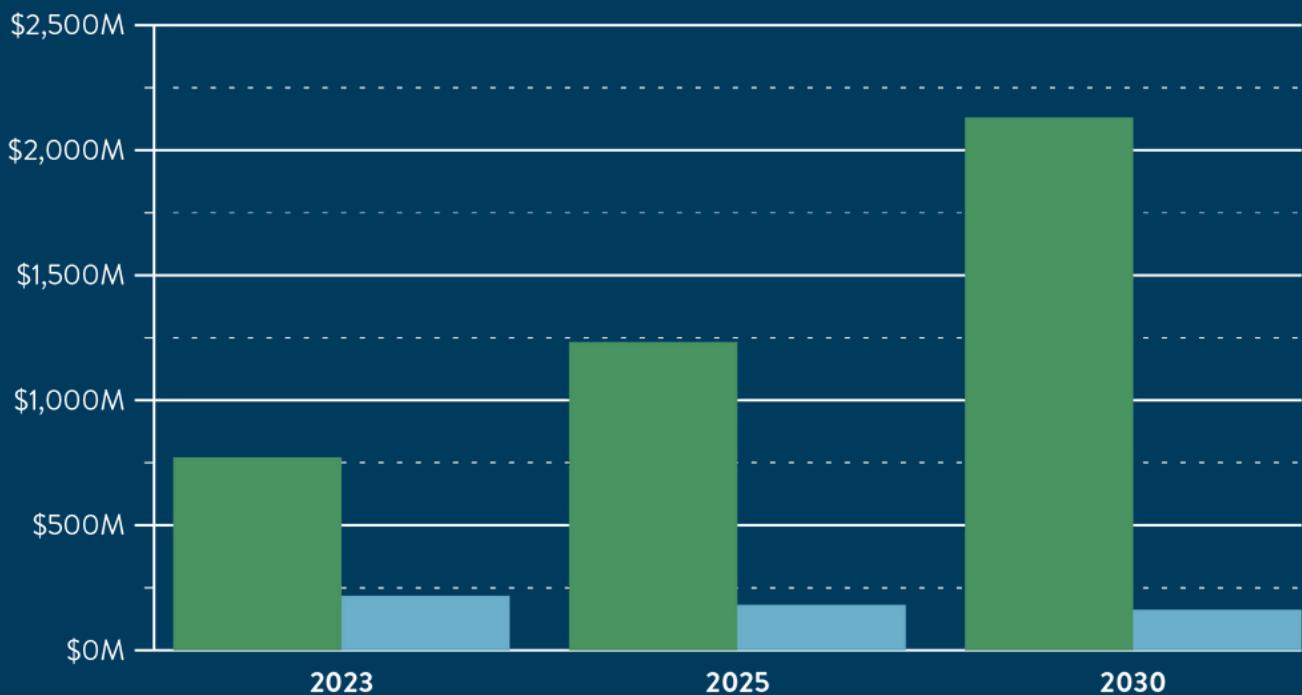
[1] <https://mtrevenue.gov/taxes/miscellaneous-taxes-and-fees/cannabis/#FAQs> see Can products be discounted?

NEW JERSEY LEGAL MARKET OVERVIEW

New Jersey Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$772
Million

2023: MEDICAL MARKET

\$218
Million

Charts provided by New Frontier Data

NEW JERSEY

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MARKET OVERVIEW

MARKET HISTORY

New Jersey's legal cannabis market is still a rather nascent one, with medicinal cannabis made legal in 2010 and adult use cannabis made legal in 2020.^[1] Medicinal cannabis was first made legal with the passing of the New Jersey Compassionate Use Medicinal Marijuana Act ("CUMMA"),^[2] which was later amended in 2013^[3] and eventually repealed and replaced by the Jake Honig Compassionate Use Medical Cannabis Act (the "Honig Act") in 2019.^[4] In its original and amended forms, CUMMA not only allowed for legal possession of medicinal cannabis by patients with specific conditions diagnosed by qualified doctors, but it also set forth New Jersey's guidelines for the cultivation, manufacturing, and dispensing of medicinal cannabis in the commercial market and the issuance of licenses relating to same. With the repeal and replacement of CUMMA by the Honig Act came the medicinal cannabis framework as we presently know it. The Honig Act was considered a win for patients, legalizing numerous benefits not previously allowed by CUMMA, including: raising the monthly limit for purchase amounts; extending the patient authorization period for access to medicinal cannabis from 90 days to one year; phasing out sales tax for medicinal cannabis purchases; allowing home delivery of medicinal cannabis; creating of the New Jersey Cannabis Regulatory Commission (the "CRC") to regulate the medicinal and adult use cannabis markets; and more.^[5]

Approximately a decade after the legalization of medicinal cannabis, New Jersey began the process to legalize adult use cannabis. In 2020, approximately 67% of New Jersey voters voted "Yes" to Public Question No. 1 in the general election, approving this amendment of the state constitution.^[6] Public Question No. 1 allowed for the legalization of a controlled form of cannabis available only to adults 21 years of age or older.^[7]

The State then enacted adult use legislation on February 22, 2021.^[8] This legislation authorized the CRC to begin regulating the legal purchase, possession, and consumption of adult use cannabis by persons 21 years of age or older and the commercial growth, cultivation, processing, manufacturing, preparing, packaging, transferring, and dispensing of adult use cannabis by businesses who gained proper licensure as set forth by the CRC.^[9]

While social equity and patient advocates have requested that the CRC take steps towards the legalization of home cannabis cultivation, the CRC by statute is not allowed to permit or regulate home-grow activity.^[10] However, multiple bills pending on New Jersey's legislative dockets seek to change this by legalizing growing and possession of cannabis plants for personal use in both the medicinal and adult use contexts.^[11]

MEDICINAL CANNABIS

The New Jersey Medicinal Cannabis Program ("NJMCP") sets forth three requirements to become a registered patient: (i) maintain a bona fide relationship with a health care provider who is registered with the program; (ii) be a New Jersey resident; and (iii) be diagnosed with a qualifying medical condition by a New Jersey health care practitioner registered with the NJMCP.^[12] As of 2023, the list of qualifying medical conditions includes: amyotrophic lateral sclerosis, anxiety, cancer, chronic pain, dysmenorrhea, glaucoma, inflammatory bowel disease (including Crohn's disease), intractable skeletal muscular spasticity, migraine, multiple sclerosis, muscular dystrophy, opioid use disorder, positive status for HIV and AIDS, post-traumatic stress disorder, seizure disorder (including epilepsy), terminal illness with prognosis of less than twelve months to live, and Tourette Syndrome.^[13]

Under CUMMA, New Jersey's medicinal cannabis industry was regulated by the New Jersey Department of Health. Under the Honig Act, regulation of New Jersey's medicinal cannabis market was transferred to the CRC, an independent agency in but not of the New Jersey Department of the Treasury.^[14] Specifically, the CRC has all powers, duties, and responsibilities to regulate and oversee the development, expansion, regulations, and enforcement of activities associated with the use of medicinal cannabis.^[15]



ADULT USE CANNABIS

While the legalization of adult use cannabis was approved by New Jersey voters in 2020, the sale of cannabis products to adult use consumers began on April 21, 2022.^[16] With just one year of sales under its belt, New Jersey's adult use cannabis market is already posting impressive numbers with sales exceeding \$328.7 million in 2022 alone.^[17] Adults who are 21 years of age or older can purchase the equivalent of up to 28.35 grams—1 ounce—of usable cannabis per transaction, making a good faith effort not to exceed this limit when engaging in multiple transactions with a single customer.^[18]

REGULATORY/LICENSURE OVERVIEW

In New Jersey, there are three stages of licensure: conditional licensure, conversion, and annual licensure. Conditional licenses are temporary and do not permit license holders to operate the cannabis business, as awardees of conditional licenses have not yet fulfilled all licensing requirements.^[19] Upon fulfillment of all incomplete licensing requirements, awardees can then apply for conversion to an annual license.^[20] Once awarded an annual license, the license holder may operate its cannabis business.^[21]

State law grants municipalities wide latitude as to whether they will allow cannabis businesses. In order to attain either medicinal or adult use cannabis licensure, applicants must obtain municipal approval from the municipality in which they are located.^[22] State law permits municipalities to establish regulations, enforce local ordinances, and to impose a local tax of up to two percent at each level of the supply chain.^[23]

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MEDICINAL CANNABIS

In New Jersey, a medicinal cannabis business is referred to as an “alternative treatment center” (“ATC”).[\[24\]](#) When applying for medical cannabis business licensure, applicants submit applications to become an ATC, and then choose an endorsement category.[\[25\]](#) There are three available ATC endorsement categories: cultivators, manufacturers, and dispensaries.[\[26\]](#)



An ATC receiving authorization for cultivation, manufacturing, and dispensing endorsements is classified as a vertically-integrated ATC.^[27] Applicants may not apply for ATC licensure at will. Rather, the CRC must publish a notice of request for applications in the New Jersey Register,^[28] as was done in 2018 and 2019.^[29]

When New Jersey opened up its adult use cannabis market, many ATCs wanted to participate. ATCs are not required to submit full applications to become active in the adult use space.^[30] The ATC must (i) notify the CRC of the intent to enter the adult use market, (ii) prove to the CRC that the ATC has adequate supply to meet the reasonably anticipated needs of medicinal cannabis patients, and (iii) obtain approval from the municipalities in which they are located and the CRC to begin such activities.^[31]

ADULT USE CANNABIS

The adult use cannabis regulatory scheme also provides for numerous types of licenses. Each type of license plays a different role in bringing the cannabis plant from seed to the consumer:

- Class 1 Cannabis Cultivator: A cannabis cultivator may grow and cultivate the cannabis from seed to plant in its rawest form.^[32] Cultivators may also supply and sell cannabis to cannabis cultivators, manufacturers, wholesalers, and retailers.^[33] Cannabis cultivators may not manufacture or create cannabis products from the raw plant form or provide cannabis in any way or form directly to consumers.^[34]
- Class 2 Cannabis Manufacturer: A cannabis manufacturer may obtain cannabis from a cannabis cultivator, manufacturer, or wholesaler; manufacture and package cannabis products; purchase cannabis products from cannabis manufacturers and wholesalers; and supply and sell cannabis products to cannabis wholesalers or retailers.^[35] Cannabis manufacturers may not cultivate cannabis or provide cannabis in any way or form directly to consumers.^[36]

- Class 3 Cannabis Wholesaler: A cannabis wholesaler may obtain cannabis items from cannabis wholesalers, cultivators, or manufacturers for the purpose of resale; store cannabis items; and sell cannabis items to cannabis wholesalers, manufacturers, and retailers.[\[37\]](#) Cannabis wholesalers are prohibited from cultivating or packaging cannabis, producing or manufacturing cannabis products, or providing cannabis in any way or form directly to consumers.[\[38\]](#)
- Class 4 Cannabis Distributor: A cannabis distributor is authorized to transport cannabis and cannabis items between cannabis cultivators, manufacturers, and other establishments; and to temporarily store cannabis and cannabis items in furtherance of transportation activities.[\[39\]](#) All transport by cannabis distributors must be intrastate.[\[40\]](#) Cannabis distributors are not authorized to cultivate or package cannabis; produce or manufacture cannabis products; provide cannabis in any way or form directly to consumers; purchase or resell cannabis or cannabis items; or transport cannabis or cannabis items outside the state of New Jersey.[\[41\]](#)
- Class 5 Cannabis Retailer: A cannabis retailer may purchase or acquire cannabis and cannabis products from cannabis cultivators, manufacturers, wholesalers, and retailers; purchase and acquire paraphernalia; and supply and sell cannabis and cannabis products and paraphernalia directly to consumers or to cannabis delivery services for delivery to the consumer.[\[42\]](#) Cannabis retailers may not cultivate cannabis or produce or manufacture cannabis products.[\[43\]](#)
- Class 6 Cannabis Delivery: A cannabis delivery service may deliver cannabis items and paraphernalia from cannabis retailers to consumers as requested in purchase orders, returning undeliverable cannabis items and paraphernalia back to the originating cannabis retailer.[\[44\]](#) Cannabis delivery services are not authorized to cultivate or package cannabis; produce or manufacture cannabis products; or provide cannabis or cannabis items in any way or form to cannabis businesses.[\[45\]](#)[\[MB1\]](#)

MARKET STATISTICS

As of April 17, 2023, New Jersey's Medicinal Cannabis Program has strong patient participation. The program tends to the needs of 108,760 patients, with 5,321 caregivers assisting those patients and 1,502 doctors qualified to treat those patients for their medicinal cannabis related needs.[\[46\]](#)

Both the medicinal and adult use cannabis markets boast strong sales, with medicinal and adult use cannabis sales coming to a combined total of \$554,868,527 in 2022.[\[47\]](#) New Jersey's medicinal cannabis sales remain strong and steady, despite the commencement of adult use cannabis sales.

Total Medicinal Cannabis Sales for 2022:[\[48\]](#) \$226,112,984

- 2022 Quarter 1: \$55,838,072
- 2022 Quarter 2: \$59,262,014
- 2022 Quarter 3: \$61,138,231
- 2022 Quarter 4: \$49,874,667

Total Adult Use Cannabis Sales for 2022:[\[49\]](#) \$328,755,543

- 2022 Quarter 2: \$79,698,831
- 2022 Quarter 3: \$116,572,533
- 2022 Quarter 4: \$132,484,179

Further, New Jersey has issued a significant amount of conditional licenses, though the number of licenses going through conversions and the number of annual licenses remain relatively low as of March 2, 2023:[\[50\]](#)

Conditional Licenses: 1,035

- Cultivation: 251
- Manufacturing: 166
- Retail: 618

Annual Licenses: 55

- Cultivation: 10
- Manufacturing: 6
- Retail: 34

Conversions of Conditional Licenses to Annual Licenses: 34

- Cultivation: 15
- Manufacturing: 9
- Retail: 10



SOCIAL EQUITY

New Jersey's statutory and regulatory scheme includes many important diversity and inclusion initiatives. The CREAMM Act reserves 30% of licenses across all class types to minorities (15%) and women and disabled veterans (15% collectively).^[51] During the application process for a license, the State also awards additional points and/or priority to certain social equity applicants, which include (i) businesses holding State-issued certifications as minority-owned, woman-owned, and veteran-owned; (ii) businesses owned by individuals who reside or have resided in an Economically Disadvantaged Area; and (iii) businesses located in an Impact Zone, owned by individuals from an Impact Zone, or employing residents of an Impact Zone.^[52]

There are currently 55 zip codes that qualify as Economically Disadvantaged Areas.^[53] The criteria for such designation are a median income 80% or less or New Jersey's median household income, and a health uninsured rate at least 150% of the state's health uninsured rate.^[54] An Impact Zone is slightly different from an Economically Disadvantaged Area and focuses on four categories: (i) population size; (ii) whether the municipality is in the top 40% for arrests for marijuana or hashish-related offenses; (iii) crime index; and (iv) unemployment.^[55]

As discussed further below, New Jersey has also implemented a Social Equity Excise Fee (SEEF) to be invested into social equity programs.^[56]

The CRC has also partnered with the New Jersey Economic Development Authority ("NJDEA") to create the Cannabis Equity Grant Program, which allow small businesses to apply for financial assistance to cover certain start-up expenses for a new cannabis venture.^[57] The initial pilot program will make \$10 million available to up to 48 applicants.^[58]

The first grant product will utilize \$3.6 million to provide 24 grants of \$150,000, disbursed incrementally, to social equity applicants who have obtained a conditional license but have not secured site control or municipal approval.[\[59\]](#) The second grant product will utilize \$6 million to provide 24 grants of \$250,000, also disbursed incrementally, to all applicants that have a conditional license, site control, and municipal approval.[\[60\]](#) 40% of the second grant product will be set-aside for social equity applicants.[\[61\]](#)

TAX STRUCTURE OVERVIEW

New Jersey's tax structure for cannabis subjects recreational businesses to different taxes than medicinal businesses. Retail sales of medical cannabis are not subject to sales and use taxes, whereas retail sales of recreational cannabis are subject to the current sales tax rate of 6.625%.[\[62\]](#) Recreational cannabis cultivators (Class 1 license holders) must also charge a SEEF tax on the sale, or transfer, of recreational cannabis to other cannabis business, except to another Class 1 licensee.[\[63\]](#) The current SEEF rate for 2023 is \$1.52 per ounce of cannabis, an approximately 27% increase from the 2022 rate of \$1.10.[\[64\]](#)

In addition to taxes imposed at the state level, municipalities where the cannabis businesses operate may also implement a local transfer tax.[\[65\]](#) The New Jersey Division of Taxation has no involvement or responsibility for the local taxes, which are enforced by the respective municipalities.[\[66\]](#)

Under the CREAMM Act, a municipality may, but is not required to, adopt an ordinance imposing a Local Cannabis Transfer Tax on the sale of cannabis or cannabis items within its borders.[\[67\]](#) This includes business-to-business sales and retail consumer sales alike.[\[68\]](#) Each municipality may set its own transfer tax rate, but the rate cannot exceed 2% at each level of the supply chain.[\[69\]](#)

In implementing the transfer tax, the enabling ordinance must also include a user tax, at the same tax rate, on any concurrent license holders operating within the municipality's border.[\[70\]](#) The user tax is imposed on the value of each transfer of cannabis from the license holder's establishment within the municipality to any of its other establishments outside of the municipality.[\[71\]](#) The user tax only applies where the transfer tax does not.[\[72\]](#)

LICENSING RESTRICTIONS

New Jersey cannabis law contains important restrictions on license holders and their principals and owners in seeking a license. An individual may only be an owner or principal of one license applicant or license holder.^[73] If an individual is the owner of an applicant or license holder, his or her spouse, children, and parents may only be an owner of the same applicant or license holder and cannot be an owner of a different applicant or license holder.^[74] A person or entity may, however, hold an ownership interest as a passive investor in more than one applicant or license holder.^[75]

A license holder and owners and principals are also limited to holding only one license for each class at the same time.^[76] For example, an owner of a license holder may concurrently hold one cultivation, manufacturing, retailer, and delivery service license, but may not hold two cultivation licenses.^[77]

Third parties contracting with cannabis businesses are also limited under New Jersey's cannabis regime. A management service contractor may only contract with and provide services to up to five applicants or license holders, but may not hold any ownership interest in or act as a principal to any applicant or license holder.^[78] A financial source may provide funding to up to seven applicants or license holders, but may not receive an ownership interest in exchange for such funding.^[79]

[1] <https://mjbizdaily.com/map-of-us-marijuana-legalization-by-state/>

[2] https://pub.njleg.gov/bills/2008/PL09/307_.HTM

[3] https://www.nj.gov/cannabis/documents/mmp/cumma_amendments_9_13.pdf

[4] N.J.S.A. 24:6l, et seq.

[5] https://www.nj.gov/governor/news/news/562019/20190702_d.shtml

[6] <https://nj.gov/state/elections/assets/pdf/election-results/2020/2020-official-general-results-public-question-1.pdf>

[7] Id.

[8] https://www.nj.gov/governor/news/news/562021/20210222_a.shtml

[9] <https://nj.gov/state/elections/assets/pdf/election-results/2020/2020-official-general-results-public-question-1.pdf>

[10] <https://www.nj.gov/cannabis/medicinalcannabis/patient-faqs/>

[8] https://www.nj.gov/governor/news/news/562021/20210222_a.shtml

[9] <https://nj.gov/state/elections/assets/pdf/election-results/2020/2020-official-general-results-public-question-1.pdf>

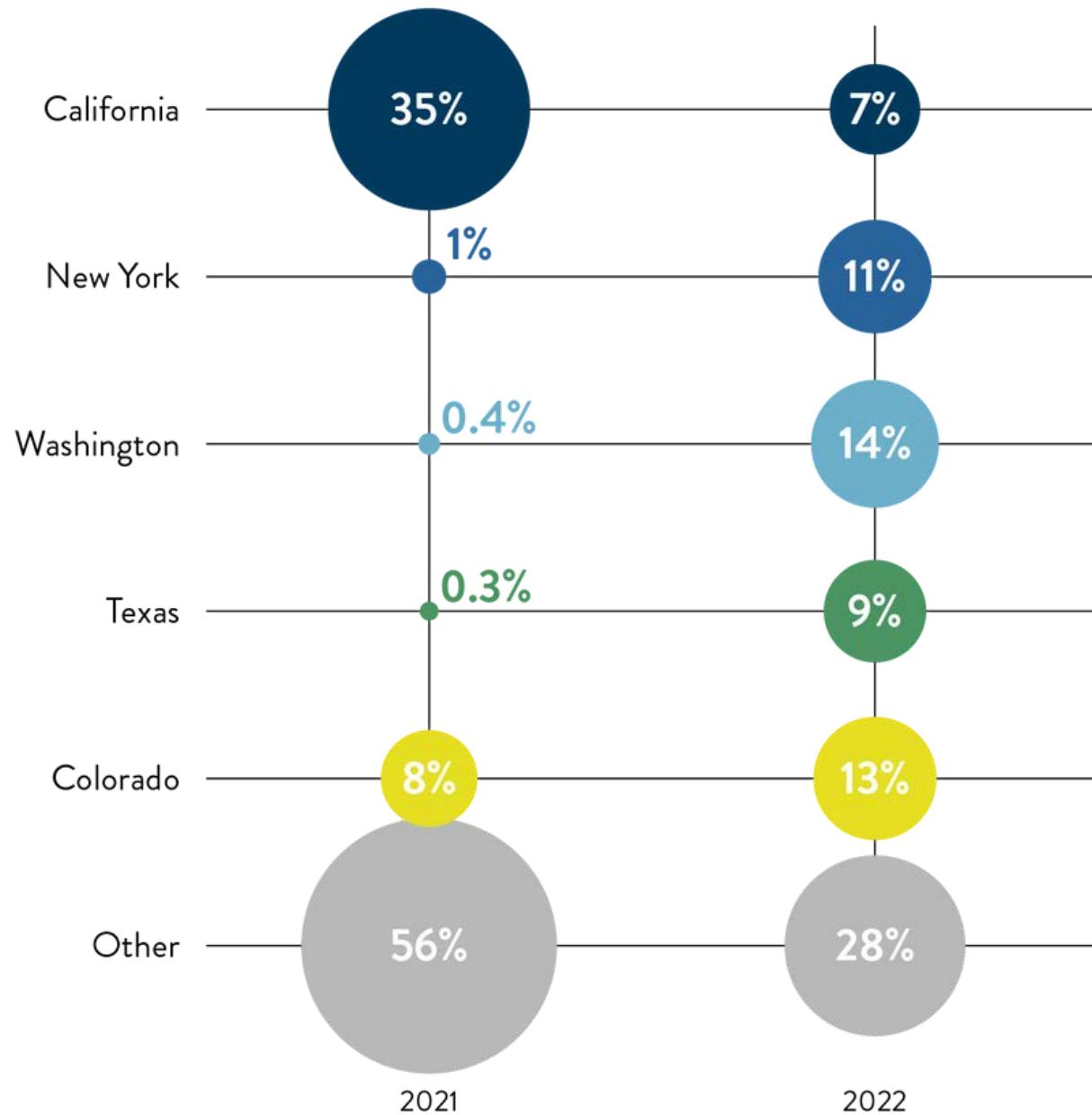
[10] <https://www.nj.gov/cannabis/medicinalcannabis/patient-faqs/>

[11] <https://original.newsbreak.com/@bridget-mulroy-1592364/2903194956768-nj-residents-will-be-able-to-grow-their-own-weed>

- [13] Id.
- [14] N.J.S.A. 24:6I-24;
<https://www.nj.gov/governor/news/news/562019/20190702d.shtml>
- [15] N.J.S.A. 24:6I-24.
- [16] <https://www.nj.gov/cannabis/news-events/20220414a.shtml>
- [17]
<https://www.nj.gov/cannabis/documents/Quarterlies/Rec%20Med%20sales%20Q4%2022.pdf>
- [18] N.J.A.C. 17:30-14.3(d)-(e).
- [19]
<https://www.nj.gov/cannabis/businesses/recreational/license-awardees/>
- [20] Id.
- [21] Id.
- [22] N.J.A.C. 17:30A-7.1(b)2x; 17:30-5.1.
- [23] N.J.A.C. 17:30A-7.1(b)2xi; 17:30-5.1. N.J.S.A. 40:48I-1(40)a(1).
- [24] N.J.S.A. 24:6I-3.
- [25] N.J.A.C. 17:30A-7.1(d)-(e).
- [26] N.J.A.C. 17:30A-7.1(e).
- [27] N.J.S.A. 24:6I-3.
- [28] N.J.A.C. 17:30A-6.1(b).
- [29] <https://www.nj.gov/cannabis/businesses/medicinal/>
- [30] Id.
- [31] Id.
- [32] N.J.A.C. 17:30-10.2(a)1.
- [33] N.J.A.C. 17:30-10.2(a)2.
- [34] N.J.A.C. 17:30-10.2(b).
- [35] N.J.A.C. 17:30-11.2(a).
- [36] N.J.A.C. 17:30-11.2(b).
- [37] N.J.A.C. 17:30-12.2(a).
- [38] N.J.A.C. 17:30-12.2(b).
- [39] N.J.A.C. 17:30-13.2(a).
- [40] Id.
- [41] N.J.A.C. 17:30-13.2(b)
- [42] N.J.A.C. 17:30-14.2(a).
- [43] N.J.A.C. 17:30-14.2(b).
- [44] N.J.A.C. 17:30-15.1(a).
- [45] N.J.A.C. 17:30-15.1(b).
- [46]
<https://www.nj.gov/cannabis/resources/reports-stats-info/>
- [47]
<https://www.nj.gov/cannabis/documents/Quarterlies/Rec%20Med%20sales%20Q4%2022.pdf>
- [48] Id.

- [49] Id.
- [50]
<https://www.nj.gov/cannabis/resources/reports-stats-info/>
- [51] <https://www.nj.gov/cannabis/diversity-inclusion/>
- [52]
<https://www.nj.gov/cannabis/businesses/index.shtml>
- [53]
<https://www.nj.gov/cannabis/businesses/priority-applications/eda.shtml>
- [54] Id.
- [55]
<https://www.nj.gov/cannabis/businesses/priority-applications/impact-zones.shtml>
- [56] N.J.S.A. 54:47F-1.
- [57] <https://www.njeda.com/cannabis-equity-grant-program/>
- [58] <https://www.njeda.com/wp-content/uploads/2023/02/CEGP-board-specifications-211202022.pdf>
- [59] Id.
- [60] Id.
- [61] Id.
- [62]
<https://www.nj.gov/treasury/taxation/pdf/cannabis/anj30.pdf>
- [63] Id.
- [64]
<https://nj.gov/treasury/taxation/cannabis/recreational/seef.shtml>
- [65]
<https://nj.gov/treasury/taxation/pdf/pubs/tb/tb104.pdf>
- [66] Id.
- [67] Id.
- [68] Id.
- [69] Id.
- [70] Id.
- [71] Id.
- [72] Id.
- [73] N.J.A.C. 17:30-6.8(g), (l).
- [74] N.J.A.C. 17:30-6.8(g)(1).
- [75] N.J.A.C. 17:30-6.8(h).
- [76] N.J.A.C. 17:30-6.8(e)(1)-(3).
- [77] Id.
- [78] N.J.A.C. 17:30-6.8(p), (q).
- [79] N.J.A.C. 17:30-6.8(r), (t).
- [MB1] SHOULD I USE THE DESCRIPTIONS IN THE "LICENSE TYPES" SECTION OF THIS PAGE?:
<https://www.nj.gov/cannabis/businesses/index.shtml>

M&A Activity by U.S.State



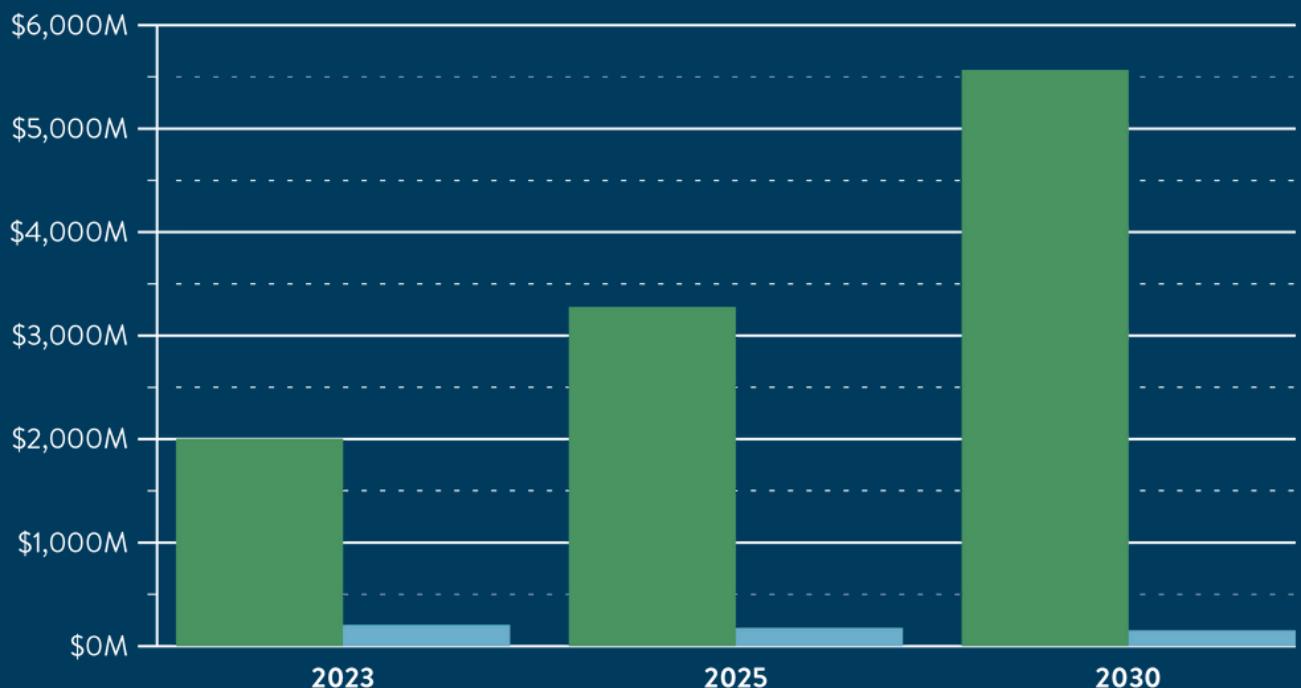
Data Source: Viridian Capital Advisors
Chart provided by New Frontier Data

NEW YORK LEGAL MARKET OVERVIEW

New York Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$2.0
Billion

2023: MEDICAL MARKET

\$205
Million

Charts provided by New Frontier Data

NEW YORK

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INTRODUCTION

Medical cannabis was approved in New York State in 2014 under the Compassionate Care Act, which allows patients with certain qualifying medical conditions to access medical cannabis through state-licensed dispensaries. and there are currently ten vertically integrated companies (known as "Registered Organizations") licensed to grow and distribute medical cannabis throughout the state. The program has since expanded to include chronic pain, PTSD, and other conditions, and currently has over 130,000 registered patients.

In March 2021, New York State legalized adult-use cannabis (also known as marijuana, or recreational marijuana) by passing the Marijuana Regulation & Taxation Act (MRTA). The legislation created a new Office of Cannabis Management (OCM) governed by a Cannabis Control Board to oversee and implement the law. As a result of the passage of the MRTA, it is now legal for adults 21 and older to possess up to three ounces of cannabis and up to 24 grams of concentrated cannabis for personal use in New York. Adults may smoke or vape cannabis wherever smoking tobacco is allowed under the smoke-free air laws, with a few exceptions.

The legalization of recreational cannabis is expected to have a significant impact on the industry, with estimates suggesting that the market could eventually generate billions of dollars in revenue. However, it may take some time for the regulatory framework to be fully established and for licenses to be granted to businesses looking to enter the market.



The delay, in part, is attributable to New York's decision to prioritize social equity through its legislative mandate to grant a majority of licenses social equity applicants, including the first retail grants only to "justice involved" applicants (that is, New Yorkers who have been impacted by the war on drugs (generally through a conviction for marijuana related offenses), through the Conditional Adult-Use Retail Dispensary (CAURD) program.

Through mid-April, about 170 of the allocated 300 "adult-use" retail license have been granted; however as of mid-April 2023, there are only still only 7 legal of adult-use cannabis dispensaries open in New York.

The proposed rules for the broader program were published on Nov. 21, 2022, and revised proposed rules are expected to be released in mid- May 2023. As such, the timeline for opening of the application window for this program is of yet uncertain. The unintended consequence of the delay in the opening of the licensed market has led to a proliferation of unlicensed cannabis retail dispensaries. While there have been recent reports on the crackdown on notes selling such illicit cannabis, it does not seem to have done anything to dampen that market.

Overall, the cannabis market in New York is poised for significant growth and is expected to become a major player in the industry in the coming years.

ADULT USE LICENSING OVERVIEW

At the current time, the rollout of licenses for New York cannabis market has been solely focused on social equity community. The three main components of this program are: (1) The Conditional Use Retail Dispensary License; (2) the Adult Use Conditional Cultivator License; and (3) the Social Equity Cannabis Investment Program. The three initiatives have lead to a highly anticipated recreational cannabis market, which commenced in late 2022 and is ramping up operations.

SALES – THE CONDITIONAL USE RETAIL DISPENSARY LICENSE

On August 12, 2022, New York State announced that applications for Conditional Adult-Use Retail Dispensary Licenses ("CAURD") opened on August 25, 2022 and closed on September 26, 2022, with the goal of issuing about 100 to 200 licenses. Nearly 900 applications were submitted, in early April, the OCM issued an additional 99 licenses bring the total to close to 170. Licensees will be eligible to receive loans from the New York Social Equity Cannabis Investment Fund, to pay for construction, renovations and equipment associated with the dispensary location, once the Fund becomes available. With a CAURD license, individuals will have the ability to make legal cannabis sales. Eligibility for a CAURD license requires an individual to be (1) "justice involved"; (2) have business ownership experience; and (3) have significant presence in New York State.

First, CAURD licenses are meant for businesses or nonprofits, owned by individuals that were disproportionately affected by marijuana, or what New York's Office of Cannabis Management ("OCM") refers to as "justice involved" individuals. The OCM is responsible for promulgating regulations under the MRTA, as well as issuing licenses to participants in both adult-use and medical cannabis markets. The OCM says that a "justice involved" individual is someone who has been personally impacted by a conviction for a marijuana-related offense in New York before March 31, 2021. This not only includes the individual who was convicted, but also family members of the convicted individual. "Justice involved" individuals will be required to submit his or her arrest and/or charge paperwork during the CAURD application process.

Second, to apply for a CAURD license, an applicant must have owned a "qualifying business," which means that the individual owned or controlled at least 10% of the business and that such business had at least two years of positive net profits while the applicant was an owner. The qualifying business is not required to be a retail business, and can include a business outside the state of New York. Documentation of such qualifying business is required in the CAURD license application process.



Third, a successful CAURD license applicant will have a significant presence in New York State. Significant presence in New York State means that the applicant must have at least one of the following in New York: residency, assets, real property, bank account, or another solidified connection to New York.

CAURD licenses are also available to qualifying nonprofits. A qualifying nonprofit must have a history of serving or employing incarcerated individuals, at least one "justice involved" member, officer, or advising committee member, and a history of at least two years of net profits. Nonprofit organizations are not eligible for financial support from the New York Social Equity Cannabis Investment Fund. A nonprofit also must provide its own retail storefront, in which the OCM will have approval authority.

CULTIVATION – ADULT-USE CONDITIONAL CULTIVATOR LICENSE

New York's Adult-Use Conditional Cultivator License will authorize eligible hemp growers to produce cannabis that contains over 0.3% tetrahydrocannabinol ("THC"), throughout New York State. The Adult-Use Conditional Cultivator License application window opened on March 3, 2022 and closed on June 30, 2022, in anticipation of the New York adult-use market. The license is aimed at positioning New York farmers first and to provide a jump start to the New York State cannabis industry. As of January 25, 2023, the OCM had approved 280 Adult-Use Conditional Cultivator Licenses.

To qualify for such license, the applicant must meet all of the following requirements: (1) Authorization from the Department of Agriculture and Markets Hemp Research Pilot Program; (2) Be in good standing with the Department of Agriculture and Markets;

(3) Authorization by the Department of Agriculture and Markets to grow CBD Hemp or cannabinoid, rather than growing hemp for grain or fiber; (4) Have experience in growing and harvesting cannabinoid or CBD hemp for two to four years and have the ability to provide proof to OCM; and (5) Maintain at least 51% or more ownership in the entity that maintains the industrial hemp grower authorization from the Department of Agriculture and Markets.

If approved for an Adult-Use Conditional Cultivator License, processors will have the ability to use the cannabis grown by farmers, and then manufacture the material into product at a New York dispensary. Eligible applicants must hold a Cannabinoid Hemp Processor license from OCM or must have applied for such license before January 1, 2022. Eligible applicants are also required to participate in mentorship programs aimed at providing industry, entrepreneurship and environmental sustainability opportunities for social equity applicants.

RETAIL/EQUITY – SOCIAL EQUITY INVESTMENT PROGRAM

New York State plans to create jobs and opportunities for those who have been treated disproportionately for cannabis penalizations. The Social Equity Cannabis Investment Fund (the "Fund") is a \$200 million private fund that will allow New York State to finance about one hundred fifty (150) adult-use retail dispensaries. Social Equity Impact Ventures, LLC ("SEIV") is a minority-led investment team, and will sponsor and manage the Fund. SEIV is led by National Basketball Association Hall of Famer Chris Webber and entrepreneur Lavetta Willis. As of mid-April, however, the Fund had not raised the bulk of the required capital to launch.

LICENSE TYPES – NEW YORK ADULT-USE LICENSES

The MRTA authorized nine (9) types of adult-use licenses for use in New York. The MRTA authorized the Cannabis Control Board to oversee the OCM in regulating and issuing such licenses. The nine licenses are the following: (1) adult-use cultivator license; (2) adult-use processor license; (3) adult-use cooperative license; (4) adult-use distributor license; (5) adult-use retail dispensary license; (6) microbusiness license; (7) delivery license; (8) nursery license; and (9) adult-use on-site consumption license. The OCM is currently still developing the regulations and application process for certain of these license categories.

Notably, the adult-use on-site consumption license will bring cannabis into social settings. The MRTA states that the consumption of cannabis will be permitted in a licensed area, which means that the holder of such license will be able to acquire, possess and then market cannabis for on-site consumption, much like alcohol is offered at a bar or specialty tobacco is offered at a hookah lounge. The MRTA lists several factors that could be considered in attaining such license, such as the site's noise level and general need for on-site cannabis consumption. Additionally, the MRTA states that the site must be five hundred (500) feet from a school and two hundred (200) feet from a house of worship.

TRUE PARTY IN INTEREST RULES[1]

The [New York State Cannabis Law](#) sets out restrictions for individuals and entities with interests in businesses licensed by the OCM. The Cannabis Law creates a two-tier market structure for the Adult-Use Cannabis Program, whereby individuals or entities having any direct or indirect interest in a licensee authorized on the supply tier (cultivation, processing, distribution) are prohibited from holding any direct or indirect interest in a licensee on the retail tier (retail dispensary, on-site consumption, delivery), and vice versa. The Cannabis Law also includes prohibitions for individuals or entities with a direct or indirect interest in a registered organization or laboratory testing permit holder.

In contrast to the prohibition on holding any direct or indirect interest in licensed entities across the two tiers, the Cannabis Law allows for an individual or entity to have an interest in multiple licenses within the same tier, albeit with several significant restrictions which are designed to increase access, competition, and diversity of business ownership in the industry.

The two-tier market structure fulfills the Cannabis Law's intent preventing conflicts of interest, undue influence, and market concentration from taking root in the New York cannabis industry, and allows the New York cannabis market to develop around strong, independent licensing tiers, instead of the centralization and consolidation that has created barriers to entry in other legal markets for small and medium sized entrepreneurs, legacy operators, and other individuals and communities lacking access to capital.

The OCM is tasked by the Cannabis Law to ensure compliance with the restrictions outlined above. It does so by requiring the disclosure of individuals and entities having certain interests in licensees. These disclosures are required when applicants apply for a license and when existing licensees make changes to their license.

The OCM is issuing this guidance for conditional adult-use retail dispensary (CAURD) applicants and licensees, who should use it for planning purposes as they finalize the ownership composition of their license and plan for parties receiving or holding interests in their license. As part of the application process, applicants will be required to upload the required Personal and Entity History Disclosure forms for all True Parties of Interest and, in certain circumstances, financiers in the applicant before receiving a license.

RECREATIONAL CANNABIS TAX OVERVIEW

New York imposes special excise taxes on the sale of adult-use recreational cannabis products at wholesale and at retail, including:

- Cannabis flower, defined as the flower of any plant of the genus Cannabis that has been harvested, dried, and cured but has not undergone any processing whereby the plant material is transformed into a concentrate, edible, or topical product;[\[2\]](#)
- Concentrated cannabis, defined as the crude or purified separated resin obtained from cannabis or a material, preparation, mixture, compound or other substance, which contains more than three percent by weight or by volume of total THC;[\[3\]](#) and
- Cannabis edible products, defined as a product containing either cannabis or concentrated cannabis plus other ingredients which is intended for use or consumption via ingestion – including sublingual or oral absorption.[\[4\]](#)

When sold at wholesale, i.e., by a registered distributor to a registered retailer, the tax rate varies depending on the THC content[\[5\]](#) and type of product sold:

- five-tenths of one cent (\$0.005) per milligram of the amount of total THC for cannabis flower;[\[6\]](#)



- eight-tenths of one cent (\$0.008) per milligram of the amount of total THC for concentrated cannabis;[\[7\]](#) and
- three cents (\$0.03) per milligram of the total THC for cannabis edible products.[\[8\]](#)

When any of the above products are sold at retail, i.e., sold by a registered retailer to the consumer, then a 13% excise tax is due.[\[9\]](#) Excise taxes are collected by the seller from the purchaser at the time of sale and should be held in a separate bank account until remitted to the state.

Sellers, both wholesale and retail, are required to apply online with the New York Department of Taxation and Finance ("DTF") for an Adult-Use Cannabis Certificate of Registration after having received an adult-use cannabis license from the OCM.[\[10\]](#) This is accomplished using the "Choose an Online Service" link on the DTF website's home page. Excise tax returns are filed online on a quarterly basis and are due, along with all excise taxes owed, 20 days after the end of the calendar quarter.[\[11\]](#) Failure to comply with these excise tax collection and remittance requirements may result in substantial penalties.

Sellers should be mindful that sales of non-cannabis products such as lighters, rolling papers, and pipes are sales of tangible personal property, which are subject to New York sales taxes.

EMPLOYMENT CONSIDERATIONS OVERVIEW[12]

UNION ORGANIZATION IN THE CANNABIS INDUSTRY

Regardless of an employer's preference regarding union organization, New York requires businesses seeking to operate in the cannabis industry to negotiate and work with a union.

Specifically, the New York Marihuana Regulation and Taxation Act ("MRTA") requires all applicants for any business license in New York to enter into and maintain a "labor peace agreement" with a union that is either actively representing, or attempting to represent, the employer's workplace. The MRTA requires the maintenance of such an agreement as an ongoing material condition of their licensure.

Under the MRTA, a labor peace agreement is an agreement between an entity and a labor organization that, at a minimum, prohibits labor organizations and members from engaging in picketing, work stoppages, boycotts, and other economic interference with the entity. In evaluating entity applicants with 25 or more employees for licensure, New York will give special consideration to an employer that is a party to a labor peace agreement with a building and construction trade union for construction work on the employer's licensed facilities. This preference appears to be targeted towards cannabis growers likely to engage in facility construction more so than non-growing cannabis dispensaries. Thus, unions have significant leverage in negotiating union-friendly terms exceeding those explicitly required by the MRTA, such as neutrality, access to information about employees, and card check.



Employers should still note that entering into a labor peace agreement does not require or lead to automatic unionization and does not impose a collective bargaining agreement, although that is most often the practical result.

Significantly, New York's labor peace agreement requirement for cannabis employers (virtually all of whom are engaged in interstate commerce) is arguably unlawful as pre-empted by the federal National Labor Relations Act ("NLRA"), as the New York law requires or incentivizes violations of employees' right under the NLRA to make an informed choice as to union representation. 29 U.S.C. §159(e).

TREATMENT OF EMPLOYEES BASED ON USE OR NON-USE OF CANNABIS

Employers are prohibited from discriminating against employees based on the employee's recreational use of cannabis outside the workplace, outside of "work hours" and while not using the employer's equipment or property. New York Labor Law § 201-d. However, employers can still take action against or prohibit employee conduct with respect to cannabis use where: (1) it is/was required to do so by state or federal statute, regulation, or ordinance, or other state or federal government mandate; (2) it would be in violation of federal law (i.e., truckers driving cannabis across state lines); (3) it would lose a federal contract or federal funding; or (4) the employee, while working, manifests specific "articulable symptoms of cannabis impairment" that either: (i) decrease or lessen the employee's performance of the employee's tasks or duties; or (ii) interfere with the employer's obligation to provide a safe and healthy workplace as required by state and federal law.

Employers also can (but are not required to) take disciplinary action against employees who use cannabis during "work hours" or for on the job impairment. Employers are also allowed to prohibit cannabis use in company vehicles and on premises after regular business hours or work shifts and can prohibit employees from bringing cannabis onto company property, which includes company vehicles and areas used by the employees, such as lockers and desks.

The MRTA does not define "articulable symptoms of cannabis impairment." Guidance from the New York State Department of Labor ("DOL") explains that such symptoms must be "objectively observable indications that the employee's performance of the duties of the position are decreased or lessened." The sole example the DOL guidance provides is the operation of heavy machinery in an unsafe and reckless manner. The DOL guidance explicitly notes that the smell of cannabis, on its own, and/or observable signs of cannabis use that do not indicate impairment on their own are not evidence of "articulable symptoms of impairment."

The DOL defines "work hours" to include paid and unpaid break and meal periods, all time employees are suffered, permitted, or expected to be engaged in work (including on-call time), and all of the time the employee is actually working. All such periods are still considered "work hours" even if the employee leaves the worksite.

DRUG TESTING EMPLOYEES FOR CANNABIS

Generally, employers may not drug test employees for cannabis in New York. However, an employer is permitted to take action related to the use of cannabis (including drug testing for cannabis) under the circumstances identified in the Treatment of Employees based on Use or Non-Use of Cannabis subsection above or pursuant to other applicable laws. For example, an employer may drug test an employee if federal or state law requires drug testing or makes it a mandatory requirement of the position. Examples from the DOL guidance include mandatory drug testing for drivers of commercial motor vehicles in accordance with 49 Code of Federal Regulations ("CFR") Part 382, as well as NY Vehicle and Traffic Law Section 507-a which requires mandatory drug testing for for-hire vehicle motor carriers in accordance with 49 CFR 382.

Due to deficiencies in current marijuana testing capabilities, including the lack of devices capable of testing for active impairment, it may be difficult for employers to determine if the employee is under the influence while at work. Employers should focus on the employee's work performance before proceeding with any actions based on a suspected use of cannabis.

[1] See <https://cannabis.ny.gov/caurd-tpi>

[2] N.Y. Tax Law § 492(a). Cannabis flower excludes the leaves and stem of the Cannabis plant.

[3] N.Y. Tax Law § 492(e).

[4] N.Y. Tax Law § 492(c).

[5] New York's definition of "THC" includes Delta-9-tetrahydrocannabinol; Delta-8-tetrahydrocannabinol; Delta-10-tetrahydrocannabinol; and the optical isomer of such substances. New York DTF, Adult-Use Cannabis Products Excise Tax (June, 2022).

[6] N.Y. Tax Law § 493(a)(1).

[7] N.Y. Tax Law § 493(a)(2).

[8] N.Y. Tax Law § 493(a)(3).

[9] N.Y. Tax Law § 492(b) and (c).

[10] N.Y. Tax Law § 494.

[11] N.Y. Tax Law § 495. If the due date falls on a Saturday, Sunday, or legal holiday, the return is due on the next business day.

[12] N.B. The information in this Overview does not address the medical use of cannabis.

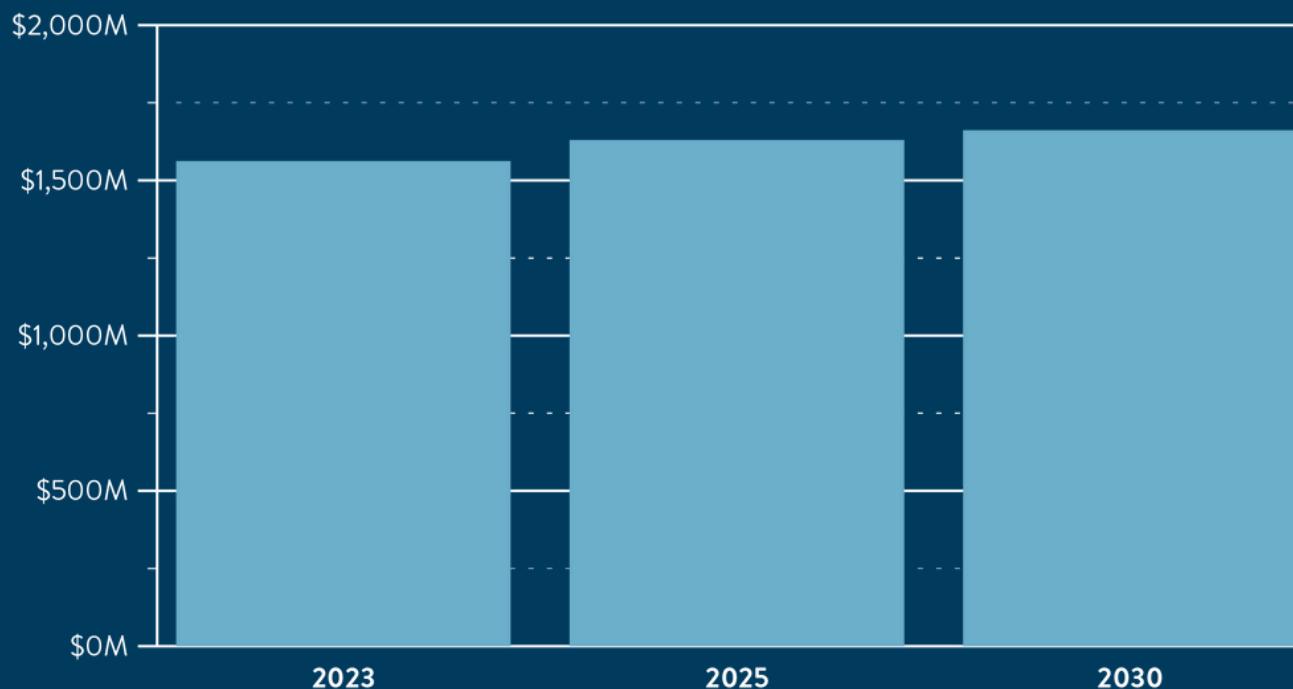
*The following description of the New York cannabis relates to the state of affairs as of April 2023 and does not include a discussion of the revised proposed regulations released on May 11, 2023.

OKLAHOMA LEGAL MARKET OVERVIEW

Oklahoma Legal Market Size Estimates

In Millions \$USD

● Medical only market



2023: MEDICAL MARKET

\$1.6
Billion

Charts provided by New Frontier Data

OKLAHOMA

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CANNABIS: OKLAHOMA'S SECRET AGRICULTURAL CASH CROP

Oklahoma has a long and storied history with cannabis, and in recent years, has been making headlines again. Cannabis was first outlawed in 1933 and despite these laws, OK Cananbis was a major exporter and provided the first or second largest crash crop for many, many years.

When the illegal cannabis growing fields of Southeastern OK were finally shut down in the 1980's (took the State national guard & helicopters...it was this whole thing), many fled to the Humboldt region of California to grow secretly in the woods again.

Fast forward a few decades to June of 2018 where OK voters overwhelmingly voted in favor of medical cannabis, OK became the 30th state to approve some form of cannabis. Thanks to the "Oklahoma Way" where both the people and business laws provide a very friendly environment. This equated to incredibly LOW barriers of entry to obtain your state legal right to grow, manufacturing, sell and consume cannabis. By OCTOBER of 2018, we had dispensaries fully open and selling to patients.

Ever since this unprecedeted legal refuge, we have seen a reverse Grapes of Wrath where many people, covid or not, are moving to the business friendly state. Oklahomans have returned home along with those "shut out of the legal market" from other states and now call Oklahoma home.

FRIENDLY PEOPLE AND FRIENDLY LAWS

You may ask, what attracted people to OK? Besides almost being guaranteed a state license, many chose the business friendly climate, already an agricultural state, nationally one of the lowest costs of living and already benefits from set transportation lanes for future cannabis interstate commerce.

Low State Taxes

- State Income tax - Ranges from .25% to 4.75%
- Sales taxes - State average of 8.9%

Low to No Cannabis Taxes

- NO cultivation tax
- NO manufacturing tax
- Cannabis excise tax of 7% collected at the retail location
- OK has uncoupled from the Federal tax code, potentially the state can remove 280e in future legislative sessions

Friendly Cannabis laws

...basically uniform laws so each county/municipality can't specifically curtail cannabis operators

- Therefore, every county has every vertical represented
- No canopy or production limits and are home to many large indoor and outdoor cultivators

Agricultural workers / exporters

- Weather and soil supports farming
- Large pool of existing generational farmers

Flyover State Benefits

Once legally able to transport across state lines, OK operators will be two days quicker shipping to the East coast vs West coast

- OK Agricultural Labor costs will be less expensive than either coast
- Not industry specific, many major logistics and transportation firms in the country already have warehouses or based here

During the zenith of licensing there were over 12,000 commercial licenses in OK.
As of March 2023 there are:

- Cultivation: 6,975
- Manufacturing: 1,834
- Retail: 2,893
- Oklahomans: 3,959,353
- MMJ Patients: 368,023

At one point, OK had the highest % of patients nationally with a medical card

- 12% of the population licensed to grow at home, consume or hold medical marijuana products in very generous amounts relative to the rest of the country

With these assumptions, this equates to:

- 1 dispensary for every 127 patients
- 1 Manufacturer for every 200 patients
- 1 Cultivator for every 53 patients

Like many states with an over supply, we have seen wholesale price decline and the business side of the industry is considered not very healthy. Current wholesale flower prices are outdoor at \$600 and high quality indoor at \$1,000/lb. 90% distillate is easily found for \$900 /liter and a standard pack of 100 MG, live resin, nano-emulsified gummies wholesales for \$7/package. And is considered too high for this market.

SEED-TO-SALE IMPLEMENTATION-ISH

Since Oct of 2018, OK has operated sans a state mandated seed-to-sale tracking system and really was 'the wild west of cannabis'. In mid 2022, legal operators got their wish and the industry implemented Metrc tags and systems. Like days of old where lawlessness met a new sheriff in town, bringing order and "implementing metrc" went about as poorly as you can imagine. NOT because of people wanting to stay out of metrc but due to poor implementation and help from the state of OK and metrc. In all fairness, that many licensees onboarding after 4 years was a very difficult challenge.



VIEWPOINTS

No licensing caps and a low barrier to entry has impacted the state in many ways. Above speaks to the business side and depending on your view, there have been some positive consequences to this unique medical program.

If you are not overtly rich or a person of color, it has provided wonderful access where they were traditionally shut out. If you are a MSO looking at OK, it is bad. If you are a 'craft operator' or a protectionist from MSO's, it is great. If you are thriving in OK and want to get purchased from an MSO, it is bad.

In what is considered one of the most red states, OK has an EXTREMELY diverse ownership and very different from most states where it is overwhelmingly, affluent males that are white. While not the activists intention, the low barrier to entry provided the opportunity for what has to be the most diverse cannabis program in the nation.

2023 RECREATIONAL VOTE FAILED MISERABLY

You could write a decent screenplay based on the hi-jinx that occurred from the patient led initiative process all the way through the failed vote on March 7, 2023. Screenplay elevator pitch includes covid delays, social equity funding, and shady political moves that changed the date of the election from Nov of 2022 to March of 2023.

State Question 820 was the framework for recreational sales AND included significant criminal justice reforms aimed at undoing the wrongs of previous incarcerations, it was great to see. It would have also provided a lifeline for an over-saturated market by exponentially expanding the customer base to include the estimated 100,000+ Oklahomans who currently use marijuana without a patient card, as well as allowing sales to all customers over the age of 21, including huge numbers of customers from Texas and Arkansas.

There are a number of factors that led to the failure of SQ 820. In spite of a valiant legal and organizing effort by the SQ 820 campaign team, multiple political and legal maneuvers, by SQ 820 opponents, SQ 820 did not qualify for the November 2022 general election ballot. Governor Kevin Stitt then used his executive authority to place SQ 820 on a special election ballot to be held on March 7, 2023. This decision doomed SQ 820. Rather than appearing on the November ballot with multiple, high profile statewide candidates, state legislative candidates, as well as county and municipal elections, SQ 820 would stand alone on the ballot.

This was the first time a recreational marijuana ballot measure stood alone before the voters, meaning opponents had no other campaign issues or candidates competing for political oxygen. Opposition earned media focused squarely on a single issue. This allowed the opposition to use recent stories, including a high profile execution style homicides to rise to the top of the media cycle. It did not matter that these particular killings took place at an illegal, unlicensed grow.

The new election date also imposed impossibly difficult logistical problems on the campaign. The Oklahoma 2022 General Election in November featured record spending by candidates and independent expenditure groups, resulting in serious voter fatigue. As a result the 820 campaign was not able to go into the field with polling and survey tools until early December. The results from these polls and voter modeling were not available until mid December and it took longer to incorporate the new voter turnout models into the voter file. Additionally, campaign vendors, not used to working on campaigns immediately after a general election or over the holidays, also delayed important campaign activities. Further, due to municipal elections occurring in February of 2023, there were also a series of voter registration blackout periods and odd absentee ballot requests deadlines that posed their own unique challenges. In essence, the actual statewide campaign could not begin until mid-January 2023, leaving the campaign team less than two months to persuade and turnout voters.

Ultimately, an election held on a date on which no election in Oklahoma had ever taken place, following a hotly contested 2022 general election and wedged between municipal and municipal runoff elections, led to dismal voter turnout of less than 25% statewide. No marijuana ballot measure, even the medical marijuana initiative SQ 788 that voters approved in June of 2018 on a regularly scheduled primary election date, would have passed on March 7, 2023. In fact, with rare exception, ballot questions on marijuana routinely fail when turnout is under 50%. Instead, a low turnout election disproportionately favors older and more socially conservative voters who will cast a ballot hell or highwater.

If the SQ 820 campaign had either been on the ballot in November of 2022 or had a longer campaign runway towards a regular election date in 2023 or even 2024, there would have existed multiple paths to victory that simply were not there on a March 7th date.

The SQ 820 campaign did successfully advance the idea that legalized medical marijuana is not the same as ending prohibition. Thousands of Oklahomans are still being arrested every year for simple possession of marijuana. In addition the state is forfeiting hundreds of millions of dollars in revenue it could be collecting from adult use sales. While these messages were persuasive in polling and focus groups, it is also the case that voters, including voters who otherwise support recreational marijuana in Oklahoma, want to see improvements to the current medical marijuana program. The widespread belief that the current medical program is out of control holds true even among voters who support medical and/or recreational marijuana.

The cannabis industry in Oklahoma should lead this conversation and not resist it. This does not mean submitting to poorly thought out policy proposals by lawmakers, but it does mean coming to the table in good faith to work with policy makers to improve upon the existing medical program. Responsible leaders in the industry should actively distinguish themselves from operators and their enablers who want to throw the current program into chaos and who eschew common sense regulation and enforcement. The future of recreational marijuana in Oklahoma rests upon the success of medical marijuana.

FUTURE LOOKING STATEMENTS

Short term looks the same, the harshest environment possible, with a desirable future once interstate commerce is allowed or federal legislation changes. As mentioned above, OK is already in a position of advantage in regards to business laws and taxes, agricultural workers and climate all with distribution included.

With so many licensed cultivators, there will be ample biomass available. When there is that much biomass, there will be larger manufacturers able to leverage that access and also distribution. Heck, the Tulsa Port of Catoosa is in fact, an actual port with barges and has a Foreign Trade Zone.

The state prognosis is poised for success based on these business fundamentals. From the operator standpoint, there are brands starting to emerge from the pack. They are reaping the benefits of operating for four years in such a hyper-competitive environment.



Neighboring states should thank the cannabis gods there is an imaginary line that won't allow someone to take across a bunch of their plants. Because when that imaginary line is gone, the proven, elite operators, will walk all over the groups that are great at paperwork or their family tree (cough Missouri and Arkansas, cough). Jokes aside, pure capitalism operators will always be better, faster stronger than operators in a protected monopoly/oligopoly system. Pressure treated and cured by years of pressure competing against 10,000 cultivators with have more innovations and experiences vs someone that competed against 20.

You may not want to enter this environment but should entertain working with strong performers in this market as most likely, they would kill to operate in your environment.

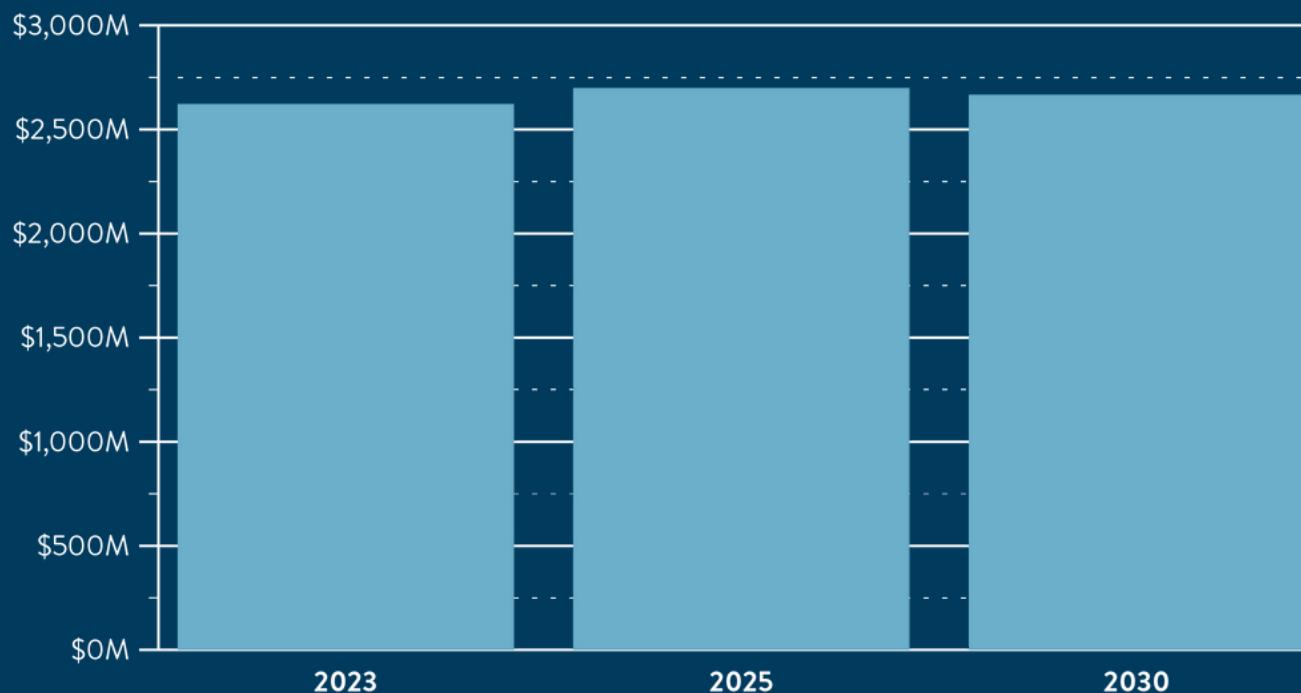
STATE QUESTION 788		
Yes	507,582	56.86%
No	385,176	43.14%
STATE QUESTION 820		
Yes	217,078	38.33%
No	349,284	61.67%

PENNSYLVANIA LEGAL MARKET OVERVIEW

Pennsylvania Legal Market Size Estimates

In Millions \$USD

● Medical only market



2023: MEDICAL MARKET

\$2.6
Billion

Charts provided by New Frontier Data

PENNSYLVANIA

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INTRODUCTION

Pennsylvania's cannabis market is one to watch in 2023. With massive recreational markets coming online in neighboring states of New Jersey and New York, Pennsylvania lawmakers will need to seriously evaluate legalizing cannabis for adult use to tap into valuable job creation and tax revenue. With an existing strong medical patient base, and meaningful tax revenue, the proof is in the pudding that Pennsylvania's recreational market will be a successful one. Current Governor Shapiro has indicated that such reform may be part of Pennsylvania's 2023-2024 budget considerations.

MARKET OVERVIEW

MARKET HISTORY

Pennsylvania debuted into the cannabis industry in 2016 when the state's Congress passed Senate Bill 3. At that point, Pennsylvania became the 24th state to legalize cannabis for medical use. This bill established a state-licensed system for the distribution of cannabis to patients. Pennsylvania's Medical Marijuana Program (the "Program") became open to the public in 2018. Recreational cannabis has not been legalized in Pennsylvania; however, in 2020 former Governor Tom Wolf and former Lieutenant Governor John Fetterman called upon Pennsylvania legislature to create a cannabis legalization bill. More recently, in March 2023, Governor Josh Shapiro proposed legalizing and taxing adult-use cannabis as a part of the 2023-2024 budget. Polls have shown that 66% of registered voters legalizing recreational marijuana in Pennsylvania. However, the future of a recreational market remains in a state of uncertainty.



MEDICAL CANNABIS PERSONAL USE FRAMEWORK

Although a relatively new market, Pennsylvania's medical cannabis program has continually expanded. Originally, only non-smokeable medical cannabis products were permitted under Senate Bill 3. This changed in 2018 when new regulations were issued to allow whole-plant and flower. House Bill 1024, effective June 2021, dictated that dispensaries cannot sell edibles, but medical cannabis products could be mixed into food or drinks to facilitate ingestion by a patient in a facility or residence. While vaporization is allowed, smoking is prohibited. Even more, at home growth is prohibited.

Current regulations state that qualified patients may possess a 90-day supply of individual doses. In order to qualify for the program, a patient must be under the ongoing care of a physician who issues a certification during an in-person visit. The certification must state that the patient has a qualifying medical condition, and that the physician believes he or she could benefit from medical cannabis.

As of 2023, patients can qualify for medical cannabis if they have: a terminal illness or if they suffer from cancer, including remission therapy; HIV/AIDS; amyotrophic lateral sclerosis; Parkinson's disease; multiple sclerosis; epilepsy; inflammatory bowel disease; neuropathies; Huntington's disease; Crohn's disease; post-traumatic stress disorder; intractable seizures; glaucoma; autism; sickle cell anemia; damage to the nervous tissue of the CNS (brain-spinal cord) with objective neurological indication of intractable spasticity and other associated neuropathies; severe, chronic, or intractable pain; dyskinetic and spastic movement disorder; or addiction substitute therapy – opioid reduction.

RECREATIONAL CANNABIS PERSONAL USE FRAMEWORK

Pennsylvania does not currently have a recreational cannabis market.

MARKET STATISTICS

As of May 2022, there were 712,421 patients and 37,221 caregivers registered in the Program. Even more, 1,117,500 medical marijuana ID cards have been issued to certified patients and approved caregivers.

Dispensing activities to certified patients and approved caregivers began in 2018. There have been 61,647,200 products sold during 21,687,632 dispensing transactions (as of May 2022).

Even more, 2,439 physicians have registered for the Program, 1,812 have been approved to certify patients to use medical marijuana product. 1,068,111 patient certifications have been issued by approved practitioners since the Program began.

As of July 2022, there were 23 operational grower/processors who were actively growing and processing medical marijuana.

MAJOR BRANDS AND OPERATORS

Currently, there are approximately 161 medical cannabis dispensaries in Pennsylvania. Within each of these stores, customers will find an array of brands and products. Some of the major brands include:

- Cresco Cannabis
- Rhythm
- Terrapin
- The Bank
- The Lab
- Stizzy
- Nira
- Sunnyside
- Seche
- Kind Tree
- Select

In 2022, Cresco Cannabis was the top selling brand in Pennsylvania.

TAX STRUCTURE OVERVIEW

In Pennsylvania, there is no sales tax imposed upon patients for medical marijuana, although patients are initially charged \$50 for an identification card. There is a 5% tax levied on the sale of medical cannabis to a dispensary from growers and processors.

In addition to this sales tax, dispensary applicants pay \$5,000 per dispensary application while growers and processors pay \$10,000 per application. Medical cannabis business licensees pay registration fees of \$30,000 for each dispensary location and \$200,000 for grower/processors.

In [2022](#), Pennsylvania reported it collected over \$16 million in revenue from cannabis taxes.





MARKET LESSONS

Pennsylvania's cannabis industry, both the existing medical and potential recreational markets, has a long way to go. With many of Pennsylvania's bordering states like New York and New Jersey legalizing medical and recreational cannabis, Pennsylvania may have more to learn than to teach.

LOOKING FORWARD

Pennsylvania has seen growth in its cannabis regulatory framework and medical market in the five years since first establishing its medical cannabis market. However, there is still a lot to look forward to. What is in store for Pennsylvania in 2023 and years to come?

The prospect of legalized adult-use cannabis is closer than it has ever been in Pennsylvania. While there is still opposition to this movement, [Governor Shapiro's proposal](#) to include recreational adult-use cannabis as part of the 2023-2024 budget could give the possibility legitimacy.

On the [medical side](#), there are several measures that law makers are considering in order to broaden the market. First, is the expansion of eligibility for a medical card. Second is the ability to purchase medical cannabis in edible forms, an option that is currently unavailable. Another measure is to reform the medical cannabis advertising structure by creating a more equal system where doctors can advertise their ability to approve patients for the Program. Progress can still be made to give patients the best access to medical cannabis including offering the option for at-home cultivation.

CONCLUSION

Pennsylvania's cannabis market has seen progress since 2016. However, there are still many improvements to be made. The medical cannabis market provides Pennsylvania millions of dollars of additional tax revenue each year with sales projected to increase as the market continues to expand. As new legislation is introduced, Pennsylvania law makers recognize the opportunities to strengthen the market. As for a recreational market, there is potential but no certainty.

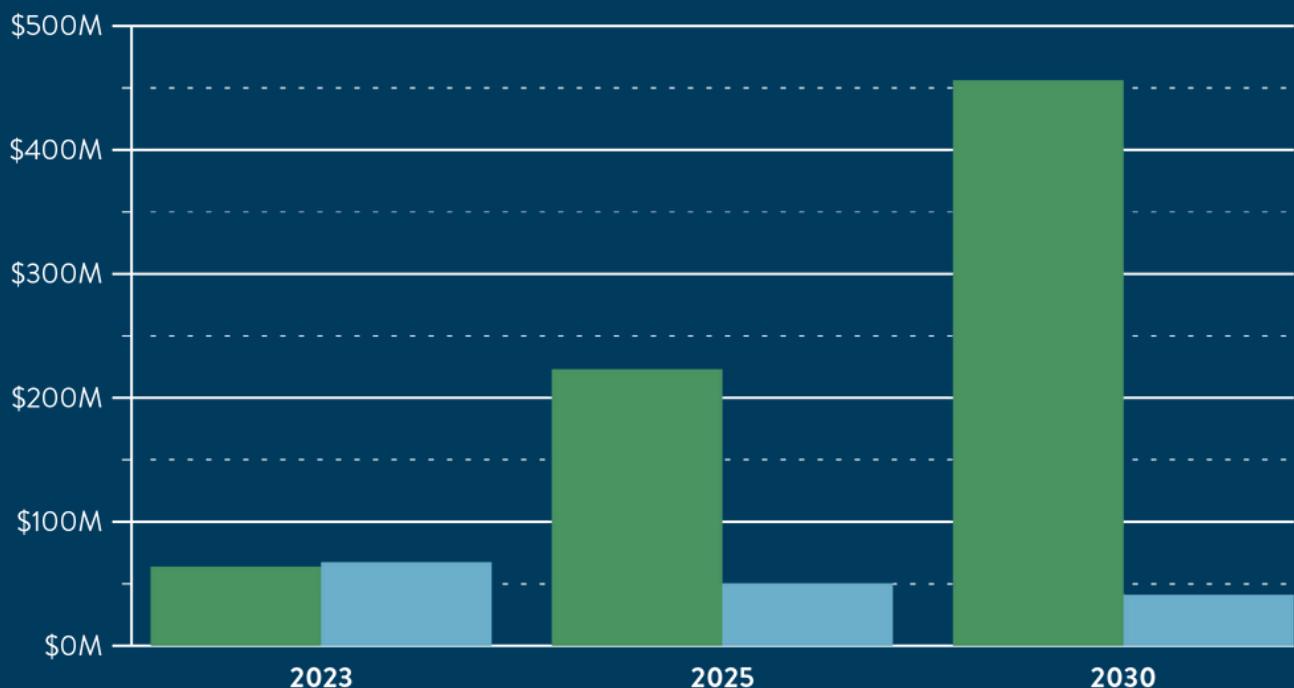


RHODE ISLAND LEGAL MARKET OVERVIEW

Rhode Island Legal Market Size Estimates

In Millions \$USD

- Adult-use market
- Medical only market



2023: ADULT-USE MARKET

\$64
Million

2023: MEDICAL MARKET

\$67
Million

Charts provided by New Frontier Data

RHODE ISLAND

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AMERICA'S SMALLEST STATE OPENS ITS DOORS TO ADULT-USE CANNABIS

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RHODE ISLAND DOES A "180" ON CANNABIS

Rhode Island first banned cannabis in 1918, and up until recently, had some of the strictest mandatory minimum sentences for large-scale possession, sentencing those with more than 5 kg (11 lbs) to 20 years' imprisonment and fines of between \$25,000 and \$100,000.

These days, however, America's smallest state has turned over a new leaf. It legalized medical marijuana in 2006, and on May 25, 2022, legalized adult-use sales as well. Starting in December 2022, Rhode Island residents may now purchase cannabis from five of the six medical marijuana dispensaries across the state which have also been approved for adult-use sales.

Over the course of 2023, the state is expected to issue licenses for an additional 28 dispensaries, including a portion reserved for social equity applicants and worker-owned cooperatives. At the same time, 33 cities and towns across Rhode Island voted to determine whether cannabis businesses would be allowed in their jurisdiction. 25 of these municipalities ended up approving these measures.

SOCIAL EQUITY

Like many adult-use-legal states, Rhode Island has enacted social equity support for cannabis licensees. The state is divided into six Retail License Zones, and within each zone, one retail license will be reserved for a social equity applicant and one for a worker-owned cooperative. In addition, the state's cannabis legislation provides for a \$1 million fund to help support the social equity license recipients. Funded by all fees collected from adult-use cannabis businesses, this assistance fund will provide grants, promote job training and workforce development, and administer programming for restorative justice. The legislation also establishes a process whereby individuals may have their misdemeanor or felony convictions for cannabis possession expunged.

HOW TAX-FRIENDLY TOWARD CANNABIS IS RHODE ISLAND?

The Ocean State still has a way to go to be considered a truly cannabis-friendly state. For one thing, the state is forcing both individuals and corporations to conform to Internal Revenue Code section 280E which disallows deductions and credits for expenditures connected with trafficking in controlled substances under the Controlled Substances Act, schedule 1 or 2. This means cannabis companies will only be permitted to reduce their sales by cost of goods sold when determining their taxable income on their state tax returns unless they decide to take more aggressive tax positions. For example, with a conservative IRC 280E tax position, a cannabis dispensary would only be allowed to deduct the cost of the product purchased and the cost to transport the product to the dispensary, while disallowing such significant expenses as rent and payroll. All cannabis businesses must forgo expense deductions related to selling, general, and administrative expenses, as they are disallowed under the federal tax code when following this traditional method. Rhode Island has also disallowed cannabis businesses from taking an R&D tax credit as a result of conformity with federal tax law.



In addition, Rhode Island requires retailers to collect 10% state cannabis excise tax plus 3% local cannabis excise tax from its customers, along with the standard 7% sales tax. Good news: sales tax is not calculated on the excise tax collected (unlike California, which imposes tax-on-tax). Medical sales are subject to sales tax but not to excise tax, and excise tax is not charged on cannabis accessories. Excise tax, like sales tax, must be remitted to the state by the dispensary on or before the 20th of the following month.

IN SUMMARY:

Rhode Island has taken a big step forward from its anti-cannabis past by legalizing adult-use sales and by supporting equity applicants and the expungement of past criminal convictions for many of those victimized by the war on cannabis. While Rhode Island's excise taxes are not the highest we've seen, the state's support of 280E makes it harder for cannabis businesses to thrive.

TEXAS

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THE TEXAS MEDICAL MARIJUANA PROGRAM

The State of Texas has established a program to make non-inhalable low-THC medical cannabis products, containing no more than one percent THC by weight, available to patients with specified medical conditions who have a prescription for medical cannabis from a licensed physician. Production and distribution of all cannabis products with more than 0.3% delta-9 THC is illegal under the federal Controlled Substances Act, and thus Texas's medical cannabis program conflicts with United States federal law to the extent it approves production and distribution of medical cannabis products containing between 0.3% and 1% delta-9 THC. Under Texas state law, possession of cannabis or any commercial activity involving cannabis for non-medical purposes remains illegal.

THE TEXAS COMPASSIONATE USE ACT

In June 2015, Texas Governor Greg Abbott signed the Texas Compassionate Use Act, which initially allowed the use of low-THC cannabis oil (defined at the time as no more than 0.5% THC by weight) only for the treatment of intractable epilepsy. In 2019, Governor Abbott signed a bill expanding the scope of qualifying conditions that made patients eligible to participate in the medical marijuana program, to include not only epilepsy, but also terminal cancer, autism, multiple sclerosis, amyotrophic lateral sclerosis (ALS), seizure disorders, and incurable neurological disorders including Alzheimer's, Parkinson's, and Huntington's Disease. In 2021, the medical cannabis program was expanded once again, by adding non-terminal cancer and post-traumatic stress disorder (PTSD) to the list of approved conditions and increasing the amount of THC allowed in the medical cannabis products from 0.5% of product weight to 1% of product weight.



A patient in Texas may purchase low-THC cannabis only if he or she is a permanent resident of Texas, has one of the listed medical conditions, and is prescribed low-THC cannabis from a Compassionate Use Act-registered physician who has determined that the benefits of using low-THC cannabis outweigh the risks. There is no age limit for prescriptions, and patients under 18 may procure medical cannabis through a legal guardian. The physician writing the prescription for medical cannabis enters it in the Compassionate Use Registry of Texas (CURT), which is an online system provided by the Department of Public Safety. CURT is used by qualified physicians to input and manage medical cannabis prescriptions, and by dispensaries to search for a patient's information before filling any prescriptions. After a patient's prescription is entered into CURT, the patient or legal guardian can go to any licensed dispensary (or make arrangement for delivery services through a licensed dispensary) to obtain the prescribed products. When obtaining the cannabis products, the patient (or legal guardian) needs to provide a government ID and the last five digits of the patient's Social Security Number.

Notably, Texas law does not allow any medical cannabis to be sold in smokable or inhalable form. Medical cannabis products may only be sold as orally or topically active products. This prevents Texas cannabis patients from either smoking cannabis flowers or "vaping" concentrated cannabis, which are the preferred methods of consumption for many patients in other states around the country and can provide the quickest form of relief.

Texas's medical marijuana program provides for only a single type of commercial cannabis license – a Dispensing Organization Permit – which allows the permit holder to conduct all activities across the medical cannabis supply chain, including cultivation, manufacturing/processing, testing, distribution to other license holders, dispensing from a storefront, and delivering to medical cannabis patients across the State.

These vertically integrated medical cannabis businesses are allowed to operate as for-profit corporations or limited liability companies, and all managers and employees are required to pass background checks. There is no limit to the size of any cannabis cultivation maintained by a licensed business.

Among states that have adopted licensing programs for medical marijuana businesses, Texas is unusual in that it has issued only three licenses as of May 2023 – in a state with more than 30 million people. These three license holders were part of a larger group that applied during the first phase of medical cannabis licensing in Texas. Recognizing that the state needed more businesses to meet the demand for medical cannabis across the state, in light of the changing state laws that allowed a broader pool of patients to participate in the program, and decreasing stigma associated with medical cannabis, Texas re-opened its application process in 2023. Texas allowed new applicants to submit applications for Dispensing Organization Permits during a window that closed in April 2023. As of this writing, the State of Texas has not yet issued any additional commercial cannabis licenses following the original three Dispensing Organization Permits.

The Texas Department of Public Safety, Regulatory Services Division, regulates the state medical cannabis industry, and has issued regulations based upon the Compassionate Use Act that govern the operations of licensed medical cannabis businesses. Under these regulations, a single licensed Dispensing Organization may conduct all commercial cannabis activities – from seed to sale – and may sell medical cannabis products only to patients with specified medical conditions who have obtained a prescription for low-THC cannabis from a qualified physician. While many other states require licensed cannabis businesses to have cannabis products tested by independent, third-party labs, Texas allows, and requires, cannabis businesses to test their own products. In addition to selling cannabis products to qualified medical marijuana patients, Texas allows Dispensing Organizations to sell cannabis products to, and buy cannabis products from, other licensed Dispensing Organizations. License holders may sell medical cannabis products out of a single storefront location and may also deliver medical cannabis products and establish pick-up centers throughout the State where patients can pick up medical cannabis products that they have ordered. All cannabis products not provided to patients, however, must be stored at the licensed storefront premises at the end of each day.



In addition to obtaining a Dispensing Organization Permit from the Department of Public Safety, commercial cannabis businesses must follow local zoning and land use laws, although local governments are not allowed to ban state-licensed medical cannabis businesses. Under state law, cannabis businesses must be located at least 1,000 feet from any private or public school or day care center that existed before the date of initial license application.

For now, anyone interested in becoming involved in Texas's licensed commercial cannabis industry must work with either one of the three existing licensed cannabis businesses in the State, or one of the businesses to be awarded a new Dispensing Organization Permit pursuant to the second round of cannabis license applications. These state-licensed businesses are allowed to enter into contracts with out-of-state businesses or individuals seeking to offer their products or services to the Texas market, but such products and services must be manufactured and provided under the umbrella of the licensed Texas entity. It is likely that, as Texas's cannabis laws continue to evolve, and after the State completes its current round of cannabis licensing, the State will allow more businesses to apply to participate in the licensed industry.

WHAT'S NEXT FOR CANNABIS IN TEXAS?

Polls have shown that an overwhelming majority of Texas support some form of legal access to marijuana. Texas's medical marijuana program remains one of the most restrictive in the country but has been trending in the direction of increasing access and loosening restrictions. As noted above, the State has expanded the list of qualifying medical conditions on two different occasions, going from initially allowing only patients with intractable epilepsy, to now allowing patients suffering from a wide variety of ailments, including all forms of cancer and PTSD.



It has also increased the maximum acceptable concentration of THC in cannabis products from 0.5% to 1%. Given these trends, it is likely that Texas will continue to open its licensed cannabis market to a greater variety of medical cannabis patients and products, including by potentially expanding the list of qualifying conditions to include ailments such as anxiety, depression, and insomnia, by removing the "low THC" requirement and allowing medical products with the same potency offered in other states, and by allowing medical cannabis to be sold in the form of inhalable products. By using estimates from other states of the percentage of qualified patients within the overall population, and the average amounts spent by patients on medical cannabis, the Texas medical cannabis market could potentially reach sales of billions of dollars per year.

It is also likely that Texas will eventually open its licensed cannabis market to all adults. In other states that have legalized commercial cannabis activity, including California, an initial legal market limited only to medical cannabis products was followed by "adult use" or "recreational" licensing, which allowed businesses to sell cannabis to all people over 21 years of age. These changes occurred after residents observed that cannabis businesses were not inherently problematic or disruptive, that taxes from licensed cannabis businesses can provide great support to state and local governments, and that many people were obtaining unlicensed cannabis products originating in states with more liberal cannabis laws, or from the illicit market within their own state.

Texas has already taken steps to liberalize its non-medical cannabis laws and associated penalties. Texas previously had the harshest cannabis laws of any state in the nation, with possession of any amount classified as a felony punishable to two years to life in prison. Following passage of a bill in 1973, however, possession of up to two ounces of marijuana was reclassified as a misdemeanor offense. The law was later changed to reclassify possession of up to four ounces of marijuana as a misdemeanor. And in 2007, Governor Rick Perry signed a law allowing police to "cite and release" offenders, instead of arresting them, for certain misdemeanor offenses, including possession of marijuana.

In 2015, the bipartisan appeal of cannabis legalization became clear, as State Representative David Simpson, a Tea Party-backed conservative, introduced a bill to legalize commercial cannabis for recreational purposes, although the bill failed to advance after gaining a majority of support in the House Criminal Jurisprudence Committee. In 2021, Governor Abbott signed a law eliminating the State's requirement that any cannabis conviction be automatically penalized with a six-month driver's license suspension, instead allowing judges to waive the suspensions for misdemeanor offenders without a drug conviction in the last 36 months.

Most recently, on April 27, 2023, the Texas House of Representatives passed HB 128, which would reclassify possession of up to an ounce of marijuana as a Class C misdemeanor, with no jail time and a maximum fine of \$500. Existing law classifies such possession of cannabis as a Class B misdemeanor, subject to 180 days of jail time and a \$2,000 fine. This bill is currently pending a vote in the Texas Senate.

Unlicensed commercial cannabis activity remains subject to serious criminal penalties in Texas. Sale of more than 7 grams of cannabis is a felony, punishable by a mandatory minimum sentence of 180 days imprisonment, or up to 2 years in prison. Sale of more than five pounds of cannabis is punishable by a mandatory minimum sentence of 2 years, or up to 20 years in prison, and sale of more than 50 pounds is subject to a mandatory minimum sentence of 5 years, and a maximum sentence of life imprisonment.

[1] J. Raza Lawrence, whose practice focuses on cannabis business law and other leading-edge industries, is counsel at the law firm Zuber Lawler LLP, in its flagship Los Angeles office. He is a frequent speaker and writer on these topics and represents cannabis-related businesses in transactional, regulatory, and litigation matters across the U.S. It should be noted that Mr. Lawrence is not licensed to practice law in Texas, and nothing in this article should be construed as legal advice regarding Texas state laws.

SUMMARY

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Simon Menkes

The United States cannabis industry is in a rapid state of change. 2023 continues to see vociferous debate at the federal legislative level with Democrats and Republicans pushing both for and against the decriminalization of cannabis. Achievement of decriminalization, which most consider eventually inevitable, should result in a fair system of federal taxation for cannabis businesses, as well as access to banking loans and services at a reasonable cost and the opportunity for interstate cannabis commerce.

Until full legalization takes place, however, the business of cannabis in the USA is a state-by-state matter. As the almost 150 pages of this report demonstrate, each cannabis-legal state is unique: in its history, licensing, taxation, social equity and regulation of cannabis businesses and personnel. In order for an entrepreneur to be successful in the cannabis environment, detailed information must be studied and opportunities and challenges analyzed and weighed.

We at the Cannabis Chamber of Commerce hope that our 2023 National White Paper has provided you with valuable information to help inform your decisions. We also hope we've been able to suggest further avenues of research, further questions that need to be answered, so that you may then open and operate (or expand!) the most successful cannabis business possible.

As an organization, we stand ready to assist you in any way we can. Please feel free to reach out to us, or to any of the individual authors cited in this report, if you need further information or resources -- or just an open ear and a helping hand.

And as always, we look forward to welcoming you and your cannabis business as our very next member!

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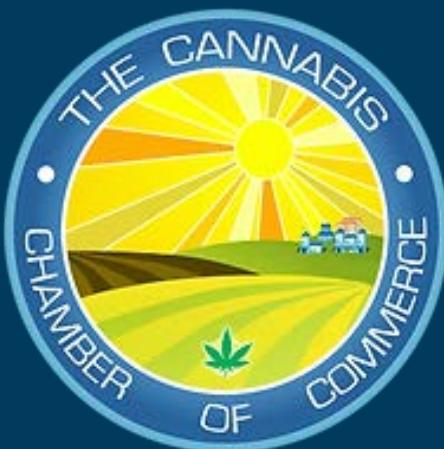
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LEARN MORE ABOUT THE CHAMBER

The Cannabis Chamber functions to support the growth and development of the broader compliant cannabis industry (properly permitted businesses and ancillary products & services). Our local regional boards are dedicated to supporting cannabis businesses through our signature networking mixers, educational events, and shared resources.

Our goal is to help connect all aspects of the industry: Cultivation, Manufacturing, Distribution, Retail, everything in between, and everything around it. Contact us to learn more about how we can help you find the opportunities and partners you need.



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