Glass House (2Q26 Earnings)
August 13, 2026

Corporate Speakers

- Kyle Kazan; Glass House Brands Inc.; Co-Founder, Chairman & CEO
- Mark Vendetti; Glass House Brands Inc.; CFO
- Graham Farrar; Glass House Brands Inc.; Co-Founder & President

Participants

- Kenric Tyghe; Canaccord Genuity Corp.; Analyst
- Frederico Gomes; ATB Cormark Capital Markets Inc.; Analyst
- Ryan Meyers; Lake Street Capital Markets; Analyst
- Marc Cohodes; Alder Lane; Analyst

PRESENTATION

Operator^ Good afternoon, ladies and gentlemen. Welcome to the Glass House Brands Second Quarter 2026 Earnings Call.

Matters discussed during today's conference call may can constitute forward-looking statements that are subject to risks and uncertainties related to Glass House Brands' future financial or business performance. Actual results could differ materially from those anticipated in those forward-looking statements.

The risk factors that may affect results are detailed in Glass House Brands' periodic filings and registration statements. These documents may be accessed via SEDAR+ database.

I'd also like to remind everyone that this call is being recorded today, Thursday, August 13, 2026.

On today's call we have Kyle Kazan, co-Founder, Chairman and Chief Executive Officer of Glass House Brands; and Chief Financial Officer, Mark Vendetti.

Following prepared remarks, management will open up the call to analyst questions. Also joining for questions is Graham Farrar, Co-Founder and President.

And with that, I'll turn the call over to Kyle Kazan.

Kyle Kazan^ Good afternoon. Thank you Operator, and to all of you for joining today's call. For greater detail on results, please refer to our second quarter 2026 earnings press release.

Before I discuss results, I want to acknowledge the quarter's landmark event within our industry, the rescheduling of medical cannabis to Schedule III in late April. This help represents the most important drug reform in my lifetime and overdue common sense drug regulation.

I applaud President Trump and his administration for progressing with this change and remain encouraged by the rapid response from administrators in both California and at the DEA in updating systems, opening new licenses and registrations.

Changes made to date have not been just less service. They appear to be designed to produce tangible results for industry participants and more importantly, patients. We are confident that subsequent updates will lead to an eventual normalization of operations for consumers and cannabis operators.

We are optimistic for further legislative progress to come in connection with the Administrative Law Judge or ALJ hearings regarding the rescheduling of adult-use cannabis which concluded last month and anticipate further regulatory updates from both the state of California and the DEA in coming months.

With that said, while we favor freedom for the patients and plants, we at Glass House do not require adult use rescheduling as we built in optionality. We are registered with the DEA and operate today under a Schedule III designation.

We are confident that medical cannabis rescheduling is sufficient to support interstate commerce between companies with appropriately registered DEA licenses and export to international medical cannabis markets. The opening of interstate commerce and export dramatically expands our addressable market size and unlocks profitability and cash generation potential as a magnitude that is beyond what is achievable with exclusive California operations.

California is the most difficult cannabis market on the planet, on account of fierce competition, high regulatory costs and taxes and low wholesale prices which come in large part from illicit competition.

It also has the most discerning cannabis consumers in the world who know great marijuana. We survived and grow despite the challenge on account of our low-cost, large-scale production model and because at our farms, we produce top-quality cannabis flower.

In addition to our Allswell brand remaining a top seller in California measured by unit sales, we continue to win awards for quality in the state.

In July, at the 2026 California State Fair Cannabis Awards, we won 17 individual awards within the Mixed Light Flower category, showcasing the quality and consistency of our cultivation. I take my hat off to the cultivation team because winning awards while competing with California growers who are the very best in the world is an amazing accomplishment. I would compare it to winning the MVP at the All-Star game.

We are confident that our products will sell for premium prices in other markets, whether in other U.S. states or Europe, we know that consumers outside California want our and other California-grown products. And we know that continuing to win in our home state will be key to large demand for our products worldwide as the walls come down.

In addition, we believe rescheduling will soon enable us to supply academic and research institutions with cannabis, assisting in their efforts to further unlock the therapeutic power of the plant. This includes our partners at UC Berkeley with whom we've been working on novel medical development with hemp for more than a year.

To best take advantage of medical cannabis rescheduling, we have made significant changes to the business, our licenses and operating structure including registering our cultivation and processing licenses with the DEA, as I mentioned previously and converting all of our cultivation and processing licenses to state medical licenses.

In addition, we completed a deconsolidation transaction whereby we fully separate our retail operations. Mark will discuss the direct impact on reported results later in the call but our former retail business consisting of 10 stores is now a fully independent entity and our remaining business is now fully medically licensed and Schedule III compliant. The finance and legal team did an outstanding job in deconsolidating our legacy retail business. The deconsolidation resulted in our being able to uplift to the New York Stock Exchange. They are unsung heroes.

I thank the retail team for their years of hard work and service. We supply these stores, still own a 90% economic interest in them and look forward to further collaboration in the future. They are on the front line with the most discerning cannabis consumers on the planet and serve them extremely well.

In connection with the deconsolidation, we applied for and successfully uplisted our U.S. OTC-listed equity share to the New York Stock Exchange commencing trading on June 30 and under our new ticker, GLAS. The listing results custodian trading liquidity constraints for investors and reflects an important milestone for Glass House and the industry overall.

We are proud of the listing and are excited to announce that our team will be in New York on the exchange floor for a bell-ringing ceremony on August 28.

Turning to second quarter results. Revenue was $47 million. I note that this is below guidance of $55 million to $60 million. However our original guidance included retail revenue which, as I mentioned, has been deconsolidated from results. Retail revenue through the date of deconsolidation was $10 million.

Gross profit was $15.8 million, up from $4.1 million in the first quarter. Gross margin was up from 14% in the first quarter but down from 55% in the second quarter of 2025. The lower gross margin stemmed from an unfavorable trim mix, particularly later in the quarter and slightly higher cost of production versus guidance. Retail gross margin through the date of deconsolidation was approximately 50% for the quarter.

Adjusted EBITDA for the second quarter was $5.7 million.

On the mix, there are three parts of the plant which are sold, the flower, smalls and trim. While all have value, flower and smalls drive the most, while trimmed by far the least. This quarter, our mix percentage of trim was meaningfully higher than our historical levels, better than quarter one, but clearly off of our best. There are three primary drivers of the current higher trim level.

Coming out of last year's disruption, we refilled our grocery with the strain that we're able to source quickly rather than the varieties we would have normally planted. These source strains are producing higher levels of trim. We are now back to our planned genetics which we expect will get us back closer to historical levels.

It is important to remember that as we are the largest cultivator on this planet, nobody who supplies clones was prepared to restock us. So we had to work with a myriad of suppliers in a bit of a scramble to fully replant.

Second, our workforce. We have hired and trained a large number of new people estimated over 90% through the rebuild who continue to gain valuable experience, bringing the remaining two-thirds of Greenhouse 2 online required adding many more new workers.

So a bigger share of the team remains early on their learning curve. Both are improving with time and we are already seeing improvement. Plus, we are happy to have another greenhouse online.

Finally, one of our cogens has been offline which is our primary source of CO_2. This had a larger impact than expected, that is being repaired, and we expect to have it back online within this quarter. We are aggressively moving forward on additional labor training, maintenance updates and upgrades to the facility to help to address all of these issues.

The retail exit and higher trim mix offset meaningful gains in returning to more fully efficient operations at our farms. We produced 246,000 pounds of biomass during the quarter, a record for the company and ahead of our 240,000 pounds guidance and the 231,000 pounds we produced last year.

We will see a further scaling of production for the second half of the year as we begin to get a full contribution from Greenhouse 2 at the end of this quarter, and we remain on track to produce 1 million pounds of biomass and we'll exit this year at a more than 1.1 million pounds of biomass run rate. Remember, the reference production levels do not include hemp contributions and that we still maintain a vacant six greenhouse to develop at our Camarillo farm.

Second quarter cost of production was \$122 per pound, reflecting significant improvement from the \$175 per pound reported in the first quarter and the \$129 level from the second half of last year. The improvement comes from the fact that our less than fully seasoned workforce gain valuable experience every day and we are seeing the benefit in volume from expansion efforts undertaken in the first half of this year.

We expect to set new harvest records in the second half of this year, producing more than 600,000 pounds.

I note that in anticipation of beneficial opportunities ahead, we put the pedal down on expansion this year including a full replanting of scale back operations, training newer people posed a real challenge, one the team has made significant progress on.

For the second half of the year, we anticipate a further reduction in cost per pound results in connection with higher production scale. We expect to exit the year with a cost of reduction below the $100 per pound level.

Longer term, on an annual basis, our $95 a pound production target cost remains achievable as we will never have to pay the high price and growing energy bills of warehouse operations and we do it at a scale that no one else comes close to.

It is these benefits that have sustained us despite challenging California cannabis market conditions and makes us an ideal supply partner for the operations in other markets which rely heavily on far more expensive cultivation inside of warehouses.

More importantly, our Michael Jordan of growing cannabis, Graham Farrar, has launched an upgrade process for our existing greenhouses including optimizing Greenhouses five and six to the latest version of the Ultra-Clima system, adding additional screens and environmental controls.

We expect these upgrades will give us enhanced control over climate, allowing us to utilize even more of the natural Southern California sun and increasing our yields from our existing footprint. Those two greenhouses are the backbone of our operations. And like every big technical, capital improvements are necessary.

In this case, the cultivation team has found ways to optimize as part of upgrading which will give even better tools to our growers.

Since nobody has grown cannabis at this scale, while utilizing the sun and fresh ocean air, every tool which can improve their utilization of mother nature drives more consistency for our plants.

Meanwhile, our average wholesale selling price for the quarter was $211 a pound, up from $206 last year and well ahead of guidance at $185 to $190 per pound. We continue to see modest California pricing improvements year-over-year, albeit still at deflated levels compared with prior years and the national average.

As we and other California operators eventually sell products outside the state, we expect California pricing to improve while simultaneously seeing an indirect decline in illicit market supply. Premium pricing within compliant channels presents a nice care for any opportunistic illicit market operator.

In addition to cannabis cultivation and wholesale distribution, in the second quarter, we commenced initial commercial operations for hemp. We completed an initial harvest from Greenhouse four and had initial sales.

While as expected, these sales were not material to second quarter results, they reflect a historic step for the company as it represents the first plant sale of any Glass House product outside of California and provides an operational test for future near-term medical cannabis sales in new markets.

We are closely monitoring a potential longer-term push off of the federal hemp ban connected to recent congressional action which delayed a federal ban on intoxicating hemp from November until December of this year after the midterm elections. A long term or permanent end to the hemp ban could present an exciting opportunity for Glass House to supply the existing multibillion dollar market leveraging our core competency of producing low-cost, high-quality cannabinoids.

We support a federal 1 Plant Rule which includes hemp. Consumers want cannabis, no matter what it is called and driving consumers into the illicit market is a bad solution for society.

As regulators remain dynamic in this space, we are evaluating the best next steps pending the updated regulations and where our facilities and expertise can best be leveraged. This includes possibly changing strain production priorities as we put our focus on where we can maximize the value of our facilities and team. We will provide further updates as these regulations develop.

As I have previously stated, whatever the end market, we aim to compliantly grow cannabinoids for sale in whatever markets offer us the highest possible price, and that may end up including intoxicating hemp.

Now before I turn the call over to Mark Vendetti to discuss financial results in greater detail, I want to take a moment to thank our entire team at Glass House. Between getting farm operations back on track, accelerating expansion efforts and preparing for the opportunities presented by rescheduling, the team has worked diligently to put the company in a position to achieve long-term success.

I am proud to lead this group, and I'm consistently impressed with the grit and determination displayed by each team member.

I do not have a crystal ball that presents an exact timeframe for when interstate commerce and exports will occur, but I promise you that we are working diligently to prepare for those opportunities. I'll share some of those efforts.

We formally engaged Pharma Compliance Group, led by Matt Murphy to work with the regulators of jurisdictions outside of California, so that we may ship our cannabis to those markets. Matt has been successful in building those bridges in the past and we are confident that under Schedule III, we can legally deliver medical marijuana to medical jurisdictions with willing participants. Matt is a former senior DEA official, who served as Khiron's Chief Compliance Officer, helping that company become Colombia's first medical cannabis producer to comply with DEA security and compliance protocols as an exporter of compliant products to Europe.

As we aim to develop and implement track and trace processes that comply with existing closed-loop California systems and enable us to distribute outside the state, we will lean on Matt's experience and expertise.

Furthermore, we hope that Matt can assist federal and state regulators throughout the country, providing a pathway to better understand and implement viable regulatory framework.

When it comes to interstate commerce, underdeveloped states face a real inefficiency problems. It is economically inefficient and environmentally damaging to develop cultivation capacity for cannabis programs that are and will be expanded in response to rescheduling when supply already exists along the West Coast of the United States which could better fill demand more clearly and for cheaper.

Scanning of local cultivation also slows new patient access to a plant that has been proven to contain beneficial therapeutic capabilities, delaying and reducing access to the no regulators goal.

We are in regular discussions with California regulators to develop a system for tracking cannabis sales as happens for all other Schedule III drugs for both out of state and international market sales.

We are engaging with potential future customers about supply agreements for distribution of products and are collaborating with potential production and distribution partners.

We continue to progress towards a good agriculture and collection practices, otherwise known as GACP compliance audit at the farms. This is a prerequisite for European medical cannabis market supply.

As mentioned before we will continue to invest in our greenhouses for the long term in order to further optimize our farms. Leaning on Graham's tech background and his embedded Moore's Law mentality, the near term will include adding additional cooling capacity and air flow for Greenhouses 5 and 6, better shade light management at Greenhouse 6 and bring in one of our cogenerations back online. These are all focused and significant investments that we expect will reduce our cost per pound, increase our yields and improve the flower mix we grow.

I am committed to making sure that our cultivation team always has the very best tools so that we make our former selves obsolete as we are an ag tech company more than anything else.

We are always in search of ways for us to be an even lower cost grower with even better quality. That is embedded in our 10-year-old DNA.

We are working with the team at UC Berkeley to evaluate possible technology additions to ensure greater automation including AI upgrades. This thinking will be at the heart of planning the retrofits of Greenhouses three and four as well to ensure that they are state-of-the-art so that we may do more with less.

As we're working to open up markets outside the state of California, we are also looking at opportunities for expansion outside of our existing farms so that we are prepared when demand far exceeds our supply.

I look forward to updating everyone further on out-of-state progress whenever possible and appropriate.

With that, I'll turn the call over to Mark Vendetti, our Chief Financial Officer, to discuss our financial results for the quarter in detail.

Mark Vendetti^ Thank you, Kyle. Good afternoon, everyone.

As Kyle mentioned, during the quarter, we completed a deconsolidation transaction whereby we spun out our retail operations. Our former retail business is now fully independent and our remaining business is fully medically licensed under a Schedule III designation.

Due to the deconsolidation, our reported financial results include retail results as discontinued operations through June 11, and as an equity method of investment beginning June 12.

Second quarter revenue was $47 million, down from $47.6 million in the same period last year. Both periods exclude retail revenue. Retail revenue was $10 million through the date of deconsolidation, down from $12 million for the entire quarter last year.

Within reported revenue, $41.7 million stem from wholesale biomass, while $5.3 million was CPG sales. This compares to a $42.1 million and $5.5 million in the second quarter of sales for 2025, respectively.

We produced 246,000 pounds of wholesale biomass in the second quarter, up from $152,000 in the first quarter and 231,000 pounds last year.

As a reminder, we measure production late on sellable product.

As we look forward, we continue to anticipate further production growth on a sequential basis due to increases created by more sunlight and is the final new cultivation capacity from Greenhouse 2 comes online this quarter.

Driven by increased scale and achieved operating efficiency production, cost per pound was $122 down from $175 in the first quarter and $129 level from the second half of 2025.

Second quarter cost of production while improved from recent periods is above last year's $91 record low second quarter level, a number that we remain confident is achievable with improved workforce efficiency and production scale.

We sold 198,000 pounds of wholesale biomass in the quarter, up significantly from 140,000 in the first quarter, but still down from 204,000 last year.

In the second quarter, selling price for biomass sold was $211 per pound versus $206 last year as California pricing improved as the quarter progressed, compared to last year and it was up slightly during this period.

Second quarter consolidated gross profit was $15.8 million and gross margin was 34%. To clarify, the gross margin guidance previously provided with the high 40 level included retail. The underperformance was attributable to the higher proportion of trim within the production mix and higher-than-anticipated cost of production. Retail gross margin through the date of deconsolidation was approximately 50% for the quarter.

Adjusted EBITDA for the period was $5.7 million, down from $18.1 million in the second quarter last year, but up almost $10 million from the loss of $4.2 million in the first quarter of this year. Adjusted EBITDA reflects the factors that impacted gross margin performance as well as a modest increase in cash operating expenses.

Second quarter operating cash flow was $139,000. We ended the quarter with $22 million in cash and restricted cash compared to $23.4 million at year-end 2025.

Inclusive in the reported cash position is approximately a $6 million reduction that moved with the company's former retail operations as part of the deconsolidation transaction as well as $4.9 million raised during the quarter through the company's ATM facility.

Subsequent to quarter end, we raised an additional $10 million in proceeds from the accelerated call of the company's Series B and C preferred equity warrants and $1.6 million from the ATM.

In June, warrant holders were given a 30-day notice of expiration on July 23, and were provided an option to convert on either a cashless or for a cash basis.

In total, we issued 7.4 million shares from the redemption of the Series B, C and D warrants, the accelerated warrant conversion followed the redemption of the company's backbone shares in May. Through the redemption, the company terminated $30.6 million warrants in exchange for the issuance of 362,000 shares. Both the conversion and redemption highlight recent efforts to meaningfully simplify our cap table. In total, 7.8 million shares were issued for the redemption of all warrants.

As previously mentioned, we've had discussions with our tax advisers regarding the implications of rescheduling on taxes, specifically the elimination of the 280E tax burden on medical cannabis. Going forward, the company will no longer need to recognize 280E and its future tax provisions. Through June 30, the company has included $38 million of uncertain tax provisions on its balance sheet but has taken the position that 280E does not apply when making cash tax payments.

Turning to forward-looking expectations.

On account of the deconsolidation transaction and elimination of retail from financial results, the guidance we previously provided full year revenue, gross profit and adjusted EBITDA should no longer be relied upon.

At this time we are not updating guidance as we await greater clarity on the timing of potential sales outside the state of California and further our hemp strategy as well as expansion initiatives at the farm.

We continue to plan to produce approximately 1 million pounds of biomass this year. We expect to exit the year with a cost of production below $100 per pound while noting the company's long-term $95 cost of production target remains intact.

And with that, I turn the call back to Kyle for his closing remarks before opening up this call to questions and answers. Kyle?

Kyle Kazan^ Thank you, Mark. And again, thank you for joining us today and to all of our investors for their continued support.

I am encouraged by medical scheduling and what I'm hearing about adult use. I believe ongoing reforms represent a true breakthrough for the industry and may well prove to be just the beginning of a change and long anticipated normalization for this industry.

I am genuinely optimistic for the months and years ahead. I am hopeful that we will also see social reform and appeal upon the President to pardon the many people that remain incarcerated in federal prison for nonviolent cannabis defenses. Just as he did with his current pardon czar, Alice Marie Johnson and my friend and adviser Weldon Angelos, among many others, President Trump can correct a wrong and give these people their lives back, many of whom are staring bleakly at a nightmare future of decades more behind bars.

I hope the President shows compassion as the war on cannabis won't truly end until these people are brought home. People like Parker Coleman, who is serving a life sentence from nonviolent cannabis sales and Jose Valero Jr., who has served years for selling less than eight pounds of cannabis. Jose is also a non-violent offender.

One request for all cannabis investors listening. Please take a moment and call your congressperson and ask them to request that President Trump grant clemency to all nonviolent federal cannabis prisoners. These requests make a difference as I communicate with several of these people who are living that nightmare right now.

It is sincerely appreciated. Let's not leave them behind.

Thank you again, and I will now ask the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Kenric Tyghe with Canaccord Genuity.

Kenric Tyghe^ Just with respect to the margin performance in the quarter, specifically gross margins, obviously a very impressive rebound, but perhaps not as strong as you were expecting. Can you speak to and help us better handicap what the drag was in quarter from the items you called out, higher trim and the other issues that affected the performance, such that we can at least have a better indication of how to think about the evolution of gross margins here in the second half?

Mark Vendetti^ Kenric, this is Mark Vendetti.

So the big drag in Q2 was basically just had a higher mix of trim than we typically do and trim sells in the $25 range where flower is selling at a $500 range per flower. So a one point shift has a fairly negative impact on margin.

And the other thing that happened is, particularly towards the second half of the quarter, we produced more trim and that actually ended up in inventory and has a much lower value than flower and smalls that actually depressed what we kept on our balance sheet.

So those two fundamentally drove Q2.

As I think about Q3, the ability to have margins go up significantly, you're going to be really driven by our ability to get the mix back more towards with the historical level has been.

We haven't provided guidance for the back half of the year as we kind of work through some of the -- I'm going to call it, things we mentioned earlier in the call relative to improving the current mix. Longer term, there's nothing in what's happening right now that causes the feel we won't get back to where we were. And about $95 long-term target remains intact.

So the simplest way again to think about this is, if we can -- just -- and this is just the state of California, if we can do $200 average selling price, you're going to have a margin -- a gross margin that's north of 50%. And that's just how -- to get higher pricing outside the state. Gross margin is going to go up significantly.

Graham Farrar^ And Kenric, this is Graham, and thanks for the question.

Let me jump in there since this is primarily a cultivation operations question.

I think two things to stress. One is that this is a transient issue as we ramp back up. I think worth a -- couple of reminders.

One is that a year ago, the greenhouses were mostly empty. So in the last year, the cultivation team has replanted about 3.5 million square feet of cultivation footprint which includes adding almost 1 million square feet of additional footprint to our largest historical format.

So they -- footprint. So they have done an incredible job relaunching and rescaling the operation. The first step is to get open. The next step is to get operation. The final step is to get optimizing.

So if you look at what we're doing and with the ASPs, you can see that for the flower we're growing, pricing and demand is still strong. There was no shortage of demand and pricing was actually up slightly versus our forecast on our flower component. You can also see it reinforced by the 17 gold medals that the team won at the California State Fair. So this isn't a flower quality issue.

What it is, is an issue of getting everybody consistently doing the same operation. An easy way to think of it is when you're harvesting the plants, the team goes through and remove some of the leaves, the leaves that end up as trim.

If you don't have an experienced team doing that, they don't do as consistent and even a job as that -- and that. So that ends up in the final product, we grade it out, but it does shift down the ASP.

So if you think about what's going on here, you see that the greenhouse is where we planted, you see an additional 1 million square foot added. You see a cost reduction from $175 a pound down to $122 a pound which is a 30% reduction in the period of a quarter.

We missed what we were aiming at by about $2, but the 30% reduction, I think, paint a clear picture of the team rebooting, resetting and getting back to the work that we've done.

As a reminder, historically, best ever was $91 a pound. There is nothing in here that prevents us from getting back to where we were. It is just the process of getting it open, getting the scale up, getting people efficient and now getting them consistent, so we get back to what we've done historically. Nothing here that I don't see passing by and improving with time as we now have scaled up and now can fully focus on optimizing the consistency and efficiency of the team that we have.

Kenric Tyghe^ That's some great insight. I appreciate it, Graham. Just a quick second question there.

So with respect to your bringing Greenhouse 2 online, the -- fair to assume there or reasonable to assume that the spend required to bring it online, obviously would have led revenues and that we'll see some sort of normalization there on the SG&A line as you sort of start to see more benefit from Greenhouse being online. Is that a fair characterization?

Graham Farrar^ Yes. I'll defer the specific SG&A questions to Mark, our CFO.

But from an operational point of view, Greenhouse 2 is now fully planted. We actually just started for the first time harvesting some of the additional square feet.

So one of the ways that I think of it is there's a lot of investment that goes in before you get any return out of it, right?

First, you got to set up to greenhouse, you actually start back in the nursery, right? You're building the mom plants, the clones, you're spending labor hours or dollars, investing in creating those plants, then you got to turn them into teams, then you got to plan them in the greenhouse, you got to maintain them, you've got to harvest them. You've got to dry them, you got to trim them, you got to sell them before you see a dollar back on that revenue.

So pipeline is fully filled, and the additional production from that is just about to start coming out.

So if you think about the way that we do COGS, it's the dollars you spend divided by the pounds you produce. There's a decent amount of dollars that go into the system before any pound start coming out. So that is about to start happening from the additional 600,000 square feet that we brought on during the quarter. Go ahead.

Mark Vendetti^ And Kenric, just on the SG&A front, the wholesale and cultivation business is very efficient for SG&A.

So there will -- the place where there might be growth related to the expansion in the second half, it's just that the fact as revenue ramps up in wholesale, we end up having to pay a 4% cannabis tax to the county of Ventura.

So with sales growth, that growth, but the underlying costs from the sales and just management doesn't grow any of the head count is actually flowing through gross margin from a cost perspective.

Operator^ Your next question comes from the line of Frederico Gomes with ATB Cormark.

Frederico Gomes^ First question on hand. If the intoxicating hemp ban gets delayed federally, let's say, for a year until the end of next year, how beneficial could that be for you? And I guess how willing are you to really scale up that hemp production and take advantage of that?

Kyle Kazan^ So that's a great question, Frederico.

I would tell you that what we really like to do is keep our optionality open. It's the same plant. And so we're always just looking at what's best for the company. Do we want to go bigger?

Do we not? Remember, we haven't spent on a million square foot greenhouse, even $1 million on CapEx. So we've saved a ton there just to learn and we're watching closely.

We -- as I mentioned, we cheer on the one plant solution. Hemp, cannabis just bring it all together. And then that's exciting because it might open up our ability just to turn off a license here and upgrade there.

So I guess what I'm saying is right now nothing really report. Graham, do you want to add in?

Graham Farrar^ Yes. So just as a reminder -- Frederico, thank you for the question, is that what we were working on was CBD flowers. So there's absolutely nothing we are doing on the intoxicating hemp space that is at risk. Everything that we are working on and experimenting with and learning and doing our R&D on was fully federally compliant less than 0.3% total THC, meaning it was -- it's compliant with the existing Farm Bill.

It's also compliant if the Farm Bill additional restrictions in the hemp ban "goes into effect." It's also compliant with what many countries in Europe are doing.

So we face no additional contraction or risk or negative impact if the ban does go into effect. That said, as Kyle mentioned, we do believe in a one plant one set of rules.

We think people deserve access to legal license tested and age-gated cannabinoids of all natural types.

So I think we're generally advocates of a rational public policy that doesn't treat the same plant under two different regulatory frameworks, but we have no risk or downside if it does go into effect. If they do delay it, then that only kind of presents the potential for additional opportunities.

Frederico Gomes^ Appreciate that. Second question on interstate commerce.

I think you would be a supplier, right, for operators in other markets given your cost of cultivation and the quality there. Have you had any discussions with other operators? How far along are you in those discussions? What can you share? And how do you think the U.S. market could look like once the interstate commerce is allowed?

Kyle Kazan^ So another very good question.

One thing that the way I would point this out is, some people come to me and say, nothing's going to happen with that legislation. And I'm quick to point out that all the way back to early days of Trump 1, we've been talking about safe banking legislation. To date including today, we have no safe banking legislation, yet, we've been legally banked by a very large publicly traded bank for a long time.

So we see this in much the same dynamic, whereby we're speaking with the regulator.

In this case, the regulator the Schedule III drug here is the DEA, and we've already applied for our 225 license. And so we're confident that the construct is here, speaking of the regulators, to your question, absolutely, we are talking to companies in other states and companies internationally, and there is a lot of interest in getting this across the table. Nothing to announce as far as a supply agreement at the moment.

But I would just tell you, without a doubt, people would love to be able to import our cannabis from California to everywhere.

Graham Farrar^ Yes. I think it's worth noting, too, on there that I think there's sometimes a perception that no states want imported cannabis.

I'd say that's very much not true and is supported by the conversations we've had. You can look to states like Vermont, who have put in potential import regulations into their cannabis ordinances. You could look to the New Jersey Senate President, who has introduced multiple times the idea of importing cannabis.

You can look to new markets that don't have existing infrastructure and have not built cultivation supply chains and think about who would want to underwrite the construction of a new facility, in a new market where you're looking towards a year of permitting, a year of construction and a year of operation before you get a first harvest out of it. And then you can expect to see higher pricing and/or growing by definition right now building for a medical market.

There's markets like Georgia, we're at $6,500 a pound, right? At $6,500 a pound for what is medicine and what is available in California for as good a higher -- or higher quality for a tenth of price.

If you are operating for patients, you're going to be looking for the place that you can get the highest quality for the lowest cost and that currently exists.

So building new supply in places that are not long-term viable does not make a lot of sense, right? We do not build glass ponds in Texas to grow lobsters when lobsters can be imported from Maine. And that's the equivalent of what growing a new cultivation facility is in a market that's not going to be long-term viable is doing.

Kyle Kazan^ And let me just throw one more point.

I mean it is crystal clear right now that the American public is screaming about affordability. Screaming. They're so frustrated and that is across the country, north, south, east, west. And one of those big things is cost of energy because that -- we we're feeling in inflation.

We're all feeling inflation. And one of the biggest drags right now as you can see in the stock market is the urge and determination to build energy sucking data centers.

Now that said, pitchforks are out. I think this feels like an easy way to just not go down something that's going to cost the consumer a lot more money, as Graham said, and so for basically a fraction of the price, you can import from the West Coast of the United States, the same states incidentally, where wine grapes grow very well Washington, Oregon, and of course, California.

So this makes no sense and the consumer will ultimately win. And hopefully, our legislators are listening carefully to the consumer and the voter as opposed to just a few large special interests.

Operator^ Your next question comes from the line of Ryan Meyers with Lake Street Capital Markets.

Ryan Meyers^ First one for me. Just wondering if you can talk about what you're seeing so far in Q3 in terms of cost of production and if you're slowly turning towards that $95?

Graham Farrar^ I can -- welcome Ryan, I can take that. Thanks for your question. Good to have a new voice on here.

So I think I would start by saying that our long-term goal of $95 a pound remains intact, remains the target, remains to be -- remains something that we're firmly focused on and believe is attainable.

I think I would point towards the work that we did from Q1 to Q2, we went from $175 a pound down to $122 a pound. So I think that's the direction that we continue to expect to move.

We're seeing -- the challenge with what we went through was that everything is new. The good news about what we've gone through is at each day, there's a lot of parallel processes that are gaining steam and improving their experience, their consistency and their efficiency.

So I would expect to see that we continue to significantly reduce COGS and there's no reason that any of the transient stuff that we're going through here prevents us from getting to the long-term goal that we've been aimed at, frankly, from the beginning.

Ryan Meyers^ Got it. Great to hear. And then looking at ASPs, it was above, obviously the original target. Can you just sort of walk us through what you guys have seen specifically in California and maybe how sustainable that number potentially can be?

Graham Farrar^ Yes. So price -- go ahead. Just forecasting prices is one of the tougher things in the market. There's a few places where you can look to tangible items. One of those is the number of licenses.

So if you go back a few years, you would have seen about 8,000 cultivation licenses in the state. If you look now the numbers are around 4,000. So almost half of the cultivators have exited the market.

Now we see slight attrition on an ongoing basis, but it generally feels like we're kind of into a somewhat stable seasonality.

So I think I would look towards the pricing we saw and the fact that it was above forecast as opposed around the quality of the flower that we're growing, right? So which is separate from mix, mix means that we had less lower relatively to the amount of smalls and trim.

But of the flower we were growing, that flower was fetching a better-than-expected pricing. Again, as I mentioned, also backed up by 17 awards and a whole bunch of gold medals from the State of California.

So I think the team continues to grow good quality and we have seen the California market start to stabilize in terms of pricing. We still expect to see it have seasonal fluctuations. Historically, it goes down in the second half of the year as you have full sun and outdoor supply hit the market and then tightens back up.

One of the benefits that we should have coming is with the addition of Greenhouse 2 which is our first greenhouse with supplemental lights. It allows us to avoid some of the seasonal dip because we have a greenhouse now that is able to grow in those extra two hours when the sun doesn't come up and is able to supplement the winter time intensity at the sun to higher levels.

So we should see yields on seasonally, so front half of the year in 2027, should see stronger production than we have historically, thanks to the supplemental lights made with our own power here on site from our cogens that we haven't had any time before. So that should make for a nice front half of 2027.

Operator^ And your next question comes from the line of Marc Cohodes with Alder Lane.

Marc Cohodes^ So I might as well go all of them. Are you guys going to have a supply or plural supply agreement between now and the end of the year? That's question one.

Kyle Kazan^ I'll take that one. Marc, I would tell you -- I believe we will absolutely have more than one supply agreement before the end of the year.

Marc Cohodes^ Okay. That's excellent. The probability of shipping to one or more states or one or more countries by the end of the year?

Kyle Kazan^ I would tell you, we get up every day and are pushing against that wall. And from everything that I'm seeing, if I had to, and this is a guesstimation, I think we have a better chance of international coming first of those two.

Marc Cohodes^ Okay. And the third question is given the price that Curaleaf wants to pay for Aurora for only 150,000 pounds a year. Does that surprise you? Does that surprise you where this bottleneck is? Because it doesn't even solve their problem.

Mark Vendetti^ You broke up a little bit there. I don't know if Kyle got the question, but I you're asking about the price?

Kyle Kazan^ I get it, Mark.

Marc Cohodes^ I mean if -- okay, here's where I'm trying to go, if you use what Aurora is selling its cannabis product for and the volume, given what Curaleaf pays, I do back of the envelope math, you get to about $30 a share in Glass House stock.

So given Boris has said that he throws 70% of this product away to get to Europe, it appears the -- Boris is at least recognizing the supply bottleneck of the product you grow. So what I'm trying to say is that Boris sees this supply bottleneck. When does the entire world begin to see this?

Kyle Kazan^ So we see this as a very bullish sign for us. We cheer on all of our fellow cannabis companies and see Boris is out there.

So to me, this is quite bullish because we can grow better quality at a far lower price than Aurora. And it's basically showing how desperate, he is for supply. And I don't blame him.

He also, I think, is very bullish on the growth of England and the continued growth in Germany. So we took this as a very, very positive sign for Glass House. And in this case, Aurora doesn't appear to want to go on board. And so we just got our popcorn out and we're just sort of watching to see how this plays out.

But for us, this makes us happy.

Graham Farrar^ Yes. I think, Mark, I might say if that supply is worth what they are offering for it, it's not hard math to look at how many pounds they're producing versus how many pounds we're producing and get to a valuation that would make a lot of people excited.

So if that's representative of demand out there, the price people are willing to pay to fill it, as Kyle said, very bullish for the strategy and what we're building.

Kyle Kazan^ And by the way, if you even further look at the assets of Aurora, you almost think he's only paid for the growth. So that only makes us even more bullish about us.

Marc Cohodes^ So the final question, given Dr. Oz and President Trump's desire for this product to become a component in the country's health and wellness platform, what are you guys doing to get more into the consumer health and wellness? Balm, tincture, ointments, things like that?

Graham Farrar^ Well I think you're asking a very steep question. One of the things that we're watching and part of the reason we're taking the stamp and doing some of the R&D work and keeping the optionality open at the same time with hemp is because it does look like the administration from various different angles is interested in cannabinoids as part of health care.

As some people may know we have a health and wellness balm prototype that we have been working on that has worked very well for a number of people and think that it could be a fantastic candidate for the Medicare CMS CBD pilot.

It is contingent. And I think part of the reason you're seeing a vocalness from the administration, it is contingent on the current McConnell language not going into effect because that would restrict us to 0.4 milligrams of THC per container which would effectively notify that Medicare program.

So I do think that there's pressure to make changes there so that, that lane stays open and do think that we have a number of strains with our partners at Berkeley within our own library and even with products that we have brought to market and are starting to hit the shelves in

California dispensaries now that could bring a lot of relief for a lot of people without any of the addictive risk or pharmaceuticals and for a far better price.

So we anticipate that to be a lane that we might not even have seen when we started the company but could potentially be a very large opportunity for us going forward.

Operator^ And with no further questions in queue, I'll now hand the call back over to Kyle Kazan for closing remarks.

Kyle Kazan^ Thank you, Operator. And thank you to everybody, all of our investors, everybody who took the time to listen to this call.

We look forward to speaking with you in a few more months. Have a great day.

Operator^ Thank you once again for joining us today. This does conclude today's conference call. You may now disconnect.