Glass House Brands (3Q26 Earnings)
November 16, 2026

Corporate Speakers:

- Kyle Kazan; Glass House Brand; Co-founder, Chairman and Chief Executive Officer
- Mark Vendetti; Glass House Brand; Chief Financial Officer
- Graham Farrar; Glass House Brand; Co-founder and President

Participants:

- Frederico Gomes; ATB Cormark Capital; Analyst
- Kenric Tyghe; Canaccord Genuity; Analyst

PRESENTATION

Operator^ Good afternoon, ladies, and gentlemen. Welcome to the Glass House Brand's Third Quarter 2026 Earnings Call.

Matters discussed during today's conference call may constitute forward-looking statements that are subject to risks and uncertainties relating to Glass House Brand's 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 Brand's periodic filings and registration statement. I'd also like to remind everyone that this call is being recorded today Monday November 16, 2026.

On today's call, we have Kyle Kazan, Co-founder, Chairman and Chief Executive Officer, and Mark Vendetti, Chief Financial Officer. Also joining for questions is Graham Farrar, Co-founder and President.

With that, I'll turn the call over to Kyle Kazan. Please go ahead.

Kyle Kazan^ Thank you, Operator.

First, I'll be discussing Glass House Brand's recent financial performance along with the company activities. Then our CFO, Mark Vendetti, will share the financials, after which I will wrap up before the three of us take your questions.

As the Co-founder, Chairman and Chief Executive Officer since day one, I'm one of the key architects of how our company was built and who we are today. Since that day Glass House Brand was built to be a company for the future, for the day when California cannabis would be legally accessible to consumers around the country and the world. However, we have been prepared and still are to succeed completely within the confines of our state until the walls come down and we're allowed to ship across our borders.

We are well-positioned as the Golden State has the beautiful California sunshine, appellation due to generations of legacy growers who created amazing strains, and the most discerning consumers of this wonderful plant. At Glass House, we are the largest cultivator on the planet, owning six million square feet of greenhouses.

We have not turned on our entire footprint and still have room to expand when we can sell outside of California.

Even though harnessing Mother Nature is not always easy, I proudly stand by the decision today to be a greenhouse grower in California, as most cannabis grown around the country is being done in warehouses at multiples more expensive than our costs.

But the road not travelled is certainly not easy, as evidenced by our recent financial performance.

As most of you know, pricing in California has been challenging when compared to other markets. As such, the average price outside of California is far higher than it is within our state. When interstate commerce becomes the reality, California pricing will improve and consumers in higher-priced states will get relief. The net effect, we believe, will be substantially higher pricing than what we are currently seeing in California.

To that end, since Medicinal Cannabis became Schedule III, a company priority has been to work closely at the highest levels with the California Department of Cannabis Control, or the DCC.

Our consultant Matt Murphy of Pharma Compliance Group is working with both the DCC and the Drug Enforcement Administration to understand how we can access other markets as soon as possible. Although interstate commerce is not currently a reality, we will remain focused given its importance to Glass House and consumers everywhere.

As we look outside of California, in October, we received Good Agriculture and Collection Practice, GACP, certifications for our Casitas and Padero Farms from Perry Johnson Registrar's Food Safety. These certifications confirm that the facilities meet the strict international and interstate safety and quality standards required for medical cannabis markets, and they represent a critical step towards supplying those markets, both domestically and internationally, once export is permitted.

Together, the two farms comprise more than half a million square feet of advanced greenhouse cultivation, making them amongst the largest GACP-certified facilities in the United States.

Markets such as Germany, the UK, and Switzerland require GACP-compliant operations, so these certifications expand our pathway to higher-priced medicinal markets and a meaningful, larger addressable opportunity as the regulatory environment continues to evolve. Now turning to our third quarter results. Third-quarter revenue was $56.8 million.

We produced 319,000 pounds of biomass during the quarter, a record for the company, and ahead of the 246,000 pounds produced last quarter. Third-quarter cost reduction was $109 a pound compared to the $122 per pound reported in the second quarter of 2026 and $175 per pound in the first quarter. This marks more than a 37% cost reduction improvement since the first quarter. The improvement comes from continued operational efficiency enhancement as our workforce gains experience every day and we benefit from higher production volume across a larger footprint.

We remain on track to produce approximately one million pounds of biomass this year and exit the year with cost of production around our current level, with our long-term target of $95 per pound intact. In the second quarter of 2026, it became clear that we were growing less flour in smalls and more trim.

The trim mix issue persisted into the third quarter, and our CFO estimates it costs us in excess of $10 million. As such, our average selling price for the quarter was $151 per pound, down from $211 per pound last quarter. Let me address this decrease directly.

The ASP is the combination of three main factors. The trim mix we sold, the yields we achieved on flour in smalls, and the underlying market. The largest driver this quarter was mix.

We sold a higher proportion of trim, roughly 63% of pounds sold, versus the high 40s and low 50s we saw in prior periods, and well above our historical best of around 45%. Flour in smalls together made up only about 37% of sales. In 2024, for comparison, flour alone was closer to 37% in that order, and our 2027 projections target a meaningfully better mix.

Part of this is timing.

As we finished the second quarter with higher inventory levels than expected, we sold more inventory in the third quarter from earlier production periods that were more trim heavy. The production mix improved during the quarter, and we expect further improvement in the fourth quarter.

Because of the normal lag between harvest and sale, the sales mix in any given quarter does not fully reflect the production improvements already underway. Production quality and mix better indicate where we are heading. Had we sold the mix that we actually produced during the quarter, the ESP would have been higher at today's prices at $180 a pound, about $29 higher per pound than we have achieved.

As previously stated, the market is a factor as well. Flour pricing in the second quarter of 26 was actually slightly higher than the prior year. However in the third quarter, that reversed and flour sold in the high 300s a pound this quarter versus the low 400s a year ago.

California wholesale price remains compressed relative to other markets and prior years, and we do not control that. Pricing is also subject to normal seasonal variation and has been softer in the back half of the year, consistent with historical patterns. What we do control is the mix and the yields, and those are the areas where we are focused.

On the production side, flour and smalls per square foot ran below 2024 levels this summer. The drivers are similar to what we talked about last quarter. The genetics we had to plan coming out of last year's disruption, a large share of the workforce still early on the learning curve as we expanded capacity, and the temporary offline status of a cogeneration unit that limited CO2.

Weather (inaudible) in the first half also played a role. These are near-term issues, not structural ones. The important point is that we are already seeing the term.

Production mix improved on the third quarter relative to the prior quarter. Operational changes, better screening, healthier plants, improved defoliation, and day-to-day execution are showing up in the numbers. We are seeing an improvement in production mix and continued progress on cost of production.

These operational gains are not yet fully reflected in the financial results given the timing of sales, but they give us confidence that the trajectory is improving. It's also important to note that none of the larger capital investments we already have underway or have planned are yet reflected in these results.

These investments are designed to further improve yields, mix, and consistency as we move through 2027 to optimize Greenhouse 5 and 6, the capital we are deploying is directed toward facility upgrades and process improvements that are intended to improve yields, mix, and to support further reductions in cost of production.

We recognize that the third quarter fell short on mix and average selling price. Since last year's disruption, greater scale and the use of third-party processing have made the lag between harvest and sale less predictable than it was previously and we are working to improve that visibility. Looking to the fourth quarter, we expect the sold mix to continue improving.

Our current forecast has flour and smalls together approaching 45% of pounds sold, up from 37% in the third quarter, even as flour pricing follows its normal seasonal decline from the high 300s into the low 300s. The blended ASP may therefore remain soft in the fourth quarter, but the underlying production quality and mix appear to be heading in the right direction.

As pricing typically strengthens seasonally in the first quarter, we should see the benefit of the improved mix more clearly.

During the third quarter, we also made the decision to pause our hemp operations after determining that the results did not support continued investment at this time. This action allows

us to concentrate resources on our core cannabis cultivation business, where we continue to see stronger opportunities for returns.

We will remain disciplined in evaluating any future hemp-related opportunities should market conditions or the economics improve.

When we're getting back on our feet during the quarter, we also turned on Greenhouse 2, which boasts 11,000 lights powered by our cogeneration facilities. Frankly, it is this greenhouse we are most excited about when we first visited the facility in October of 2018. Those lights change seasonality compared to non-light assisted greenhouses, and we believe they would produce some of the best quality cannabis on the planet.

In retrospect, while our excitement about Greenhouse 2 remains, turning on another massive greenhouse while we will continue to train and expand a new workforce took up a lot of the team's bandwidth and focus. Given the pre-release of our third quarter earnings, where we announced that we had $39 million in cash in the balance sheet, which we believe is enough to get us to cash flow positive, I want to address some of the tools that we have to get us there. An amazingly gritty team.

I have never been luckier to call a group of individuals my long-time teammates than I am now. I'm always amazed at how we execute even during challenging times.

Our preferred equity. As we created both existing rounds internally, we were deliberate that, if necessary, we could forego cash dividends and convert them to payment in kind. While we have never done this, it is a lever we can pull, which would save us almost $12 million over the course of a year.

Our $50 million in corporate debt. We chose a sophisticated bank, which has been very supportive. They have recently granted us a waiver for an additional four quarters of loan covenants, giving us further financial flexibility as we continue to address near-term concerns and prepare for a world with interstate commerce.

Our deeply experienced team knows the California canvas market inside and out, and we will make whatever changes are necessary within our organization, so we have absolutely what we need to succeed.

At the end of June 2027, the multiple voting shares will expire, and I do not intend to ask the board of directors and shareholders to extend them. I also want to briefly address my related party transactions disclosed in our filings, as we know this is an area of interest for investors.

As you will hear, many have already been terminated or in the process to terminate. Some of these relate to real estate leases for retail properties. Several of these properties are partially owned by me, including through Beachfront Properties and related trusts. It should be noted that the retail properties have been deconsolidated from Glass House Brands, and the lease obligations are with Glass House Retail.

A couple of items worth highlighting.

One of the retail leases with 2000 De La Vina LLC was terminated in 2025 in connection with the sale of the underlying property. Subsequent to September 30, 2026, an agreement was entered into with 2000 De La Vina LLC, under which the remaining termination payment obligations under the terminated lease would cease effective October 1, 2026.

In August 2025, Glass House Brands acquired the remaining 76% undivided ownership interest in the Lompoc property that had been leased from Neos Brief Partners. This acquisition eliminates future related party ownership and rent expenses associated with that facility. In the case of the lease of our corporate headquarters, which is owned by an entity in which I have a 50% ownership stake, the lease was renewed effective January 1, 2025.

In 2026, the lease was modified in favor of Glass House Brands, allowing the company to terminate at its options with 30-day notice. Glass House Brands is evaluating its office needs and is strongly considering terminating in 2027 as part of our company optimization planning.

Outside of the leases, we had a long-standing consulting agreement with Beachfront Property Management for M&A advisory, real estate acquisition, and financing service.

The agreement allowed Glass House Brands to raise significant capital without using investment banks and broker dealers, saving many millions of dollars in fees for the company. I control Beachfront Property Management through the Kazan Trust, which owns 51% of its parent

holding company. The agreement was terminated on September 18, 2026. This termination eliminates the related party contract going forward.

We have used John A. New Insurance, which is a majority owned by Beachfront Properties, as a vendor for insurance brokerage services. When we first started the business and made these arrangements, it's important to remember that the cannabis industry was much different than it is now.

Regulatory reform was nowhere near where it is today and getting insurance in cannabis was difficult. In 2026, Glass House Brands instituted a formal process to obtain requests for proposals for all company services.

We expect to choose a non-related vendor by the end of the year.

My family trust, related entities, and my children's trusts are invested in the Series D preferred issuance and the E convertible preferred issuance and participate in the conversion of certain earlier series into Series E. All of these transactions were completed on the same terms and conditions as those applicable to non-related party holders. No preferential rights or special arrangements were provided.

Full details of each arrangements, including related party rent and other expense amounts, were included in the related party transactions note to our consolidated financial statements available on CDAR. I'm happy to take questions on any of these items. Now, before I turn the call over for our financial review, I'd like to recognize Mark Venditti, who recently announced he will be retiring from his role as Chief Financial Officer at the end of March 2027.

Mark is only the second CFO in Glass House's history, and over the past five years, he has been a dedicated member of our executive team and a true friend to many of us, including me. He has guided the company through significant milestones, including this year's deconsolidation and New York Stock Exchange uplisting, and his contributions have been important to where we stand today.

We are grateful for his commitment and the work he has done. We have initiated a search for his successor. I'd also like to note as previously announced, John Nichols, Jr. has resigned from our Board of Directors. We thank Jay for his service to Glass House and wish him well in his future endeavors.

I am hyper-focused on filling these key roles, including adding independent directors for both audit and medical roles. Interviews are underway and we will introduce new leaders as appropriate.

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

Mark Venditti^ Thank you, Kyle. Good afternoon, everyone. Before I get into the numbers, I want to note that all prior period results discussed today reflect continuing operations.

As a reminder, we recast our historical results to exclude Glass House Retail following its deconsolidation on June 12, consistent with how we presented our second quarter financials.

So the comparisons I'll walk through, including our third quarter 2025 figures, are on the same consistent basis. Third quarter revenue was $56.8 million, up from $26.2 million in the third quarter of 2025. This is comprised of $50 million in wholesale biomass and $6.3 million in CPG sales, which compares to $21.2 million and $5 million, respectively, in the third quarter of last year.

We produced 319,000 pounds of wholesale biomass in the third quarter, up from 246,000 pounds in the second quarter and 124,000 pounds in the third quarter of 2025. Third quarter pasta production was $109 per pound, compared to $122 per pound last quarter and $128 per pound in the third quarter of 2025. The improvements reflect continued operational efficiency gains as our workforce matures and we benefit from higher production volume across a larger footprint. At the end of Q3, we had over two million square feet of licensed cultivation in production.

We sold 329,000 pounds of wholesale biomass in the quarter, up from 137 pounds last year in the third quarter. Third quarter gross profit was $14.6 million and gross margin was 26%. Gross margin compares to 34% last quarter and 21% in the third quarter of last year.

As noted in our preliminary results announcement and as Kyle mentioned earlier, while seasonally lower pricing and trim-heavy sales mix from Q2 production pressured margin during the third quarter, higher volume kept gross profit close to what we reported for the second quarter.

Adjusted EBITDA for the third quarter was positive $0.8 million, compared to positive $5.7 million last quarter and negative $2.3 million in the third quarter of 2025. The decrease in Q3 adjusted EBITDA versus Q2 is primarily driven by higher professional fees related to uplisting to the New York Stock Exchange and consulting fees related to stocks, as well as lower gross profit. Third quarter operating cash flow was negative $0.1 million, compared to positive $0.2 million last quarter and negative $5.1 million in the third quarter of 2025.

It's worth noting that last quarter's and prior year quarter's figures include the operating cash flows of our former retail business, so this isn't a fully like-for-like comparison.

We ended the quarter with $39.7 million in cash and restricted cash, compared to $22.1 million last quarter. During the quarter, we raised $10.1 million in proceeds from the accelerated call of the company series B, C, and D preferred equity warrants. In total, we issued 4,848,000 shares from the redemption of these warrants.

We also raised $18 million in net proceeds from the companies at market facility, issuing 2,262,000 equity shares at an average price of $8.11 per share. In total, we raised $28.1 million in proceeds and issued 7.1 million shares.

At quarter end, the company had no outstanding warrants left. These actions demonstrate our efforts to meaningfully simplify our cap table. After the quarter end in October, we raised an additional $3.6 million in net proceeds from the at the market facility, issuing 708,000 equity shares at an average growth price of $5.16 per share.

We currently have no plans to use the ATM beyond what was raised in October.

We believe our cap position at the end of September is sufficient to allow the company to execute its business plan, including $20 million of capex investment designed to improve production, primarily of high-value flour and smalls, and move through the seasonally lowest period of cash lasting through the first half of 2027. Turning to guidance, our target of roughly one million pounds of biomass production for the year remains unchanged.

We expect fourth quarter cost of production to be in line with $109 per pound reported in the third quarter. Continued operational improvements help offset lower seasonal production in Q4 versus Q3. This will get us back to our Q4 record low production achieved in 2024 of $110.

Our long-term target of $95 per pound remains intact. I want to conclude my remarks by addressing our recent change of auditor, as there has been some confusion about it. In September, MGO resigned as our auditor upon request.

This was to appoint BDO, who we chose as our new auditor based on their experience and stated ability to meet our Q3 reporting deadline of November 16th. However in mid-October, BDO advised us that they had not completed their review of the accounting of the deconsolidation transactions we completed earlier this year to facilitate our listing on the New York Stock Exchange and suggested the possibility of filing Q3 results without completing their review. This was disconcerting as the ability to complete review of 2026 transactions and filing Q3 results on time was discussed with them prior to our engagement.

We found the prospect of missing a reporting deadline or not filing with an auditor's review is suggested to be unacceptable for our shareholders. Therefore, we reached out to MGO, who previously reviewed the company's accounting for the deconsolidation and completed this review without identifying any material modification. MGO indicated that it expected to complete the Q3 review within the applicable filing timeline.

This is why we decided to reappoint MGO as the company's auditor. BDO concluded this was an unresolved issue because they did not finish their review when we told BDO we were going back to MGO. We believe their interpretation of the applicable Canadian reporting rule is wrong as no resolved issue would arise unless they completed their work and we did not agree.

We were obliged to disclose BDO's position even though we believe BDO is wrong. As a result, we issued a press release to meet regulatory requirements.

As you can see, we have met our reporting with MGO deadline as we are here today. Also, I want to point out that BDO did not actually issue an auditor's report or a review report on our financial statements during its brief tenure with us.

With that, I'll turn the call back to Kyle for closing remarks before opening up the call to Q&A.

Kyle Kazan^ Earlier this year, President Trump gave a full pardon to Jerry Haman, a former cannabis prisoner from Fresno, California. Thanks to that decision, we were finally able to hire him and I'm proud to be Jerry's teammate. There are many more like him still serving a hard time, some with life sentences.

We hope that our President will continue to change the lives of more prisoners of the war on cannabis.

Heading into 2027, we are encouraged by the progress we are seeing on the farm. Production mix improved during the quarter. Cost of production continued to come down, and we remain on track for approximately one million pounds of biomass this year. The capital we are deploying is directed towards tangible facility upgrades intended to improve yields and mix and to support further cost reductions. There is still work to do to get yields and mix back to the levels we expect, and we are focused on finishing that work.

At the same time, the GACP certifications received in October, together with a medical Schedule III framework, give us the building blocks toward higher-priced domestic medical in our national markets. In those markets, the same production and an improved mix supports a much greater economic result for Glass House. The operational issues still need to be fixed, but the structure we have built is intended for that broader opportunity that has only gotten better over the past 12 months.

I want to thank the entire Glass House team for the work they have put in this year. Between optimizing the farms, completing the deconsolidation uplisting, and preparing for the opportunities ahead, the team has shown continued dedication, and I am proud to lead this group. Please consider coming to our investor session in June so you can meet our amazing team and tour the finest cultivation facility in the entire world.

Thank you again to everyone who joined us today. 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 Frederico Gomes with ATB Cormark. Your line is open.

Frederico Gomes^ There's a question about the mix of trim and flower.

I appreciate the color you provided there. When do you expect to actually reach the target mix that you think you can get out of your facilities?

And I believe in Q2 you mentioned there was an issue with the cogeneration unit that was offline.

Did that still have an impact in the mix for Q3 and Q4 as well?

And is there any meaningful cost associated with that, I guess with fixing that cogent plant?

Graham Farrar^ We can take both of those, Frederico.

So a couple of things. One is on the mix, just as a reminder that Q3 was record production for biomass and flower.

So we grew almost 317,000 pounds of biomass, which was about a 30% increase and a record for the company at any time, both of total biomass as well as flower.

So I want to make sure that it doesn't get lost in there, that the work we're doing is actually record setting.

What we're talking about when we talk about the mix is there's two ways that you can have a higher mix of trim.

One is to have more trim. The other is to have less flower. More trim is not a problem. It's the less flower that is. In the front half of the year, particularly in Q2, our flower yield on a square foot basis ran about 25% lower than it did in our best ever third[ph] quarters.

So as we've moved through that, once we've grown it, now the sales have to sell it.

So a lot of what we saw in Q3 was actually selling through the trim heavy inventory that we produced in Q2. The good news is that operationally the production leads sales.

So while we were about 25% below historical best ever in Q2, in Q3 what we actually produced, we closed the gap to about 10%.

So far into Q4, we're running currently in the single digit.

So the team's rapidly making progress, getting back to our best ever historical baselines. And we can already see it happening in the production that's actually being put into inventory, which, of course, harvest leads to production, production leads to sales.

So in the pipeline, if we look at one step before where the sales are, that production is rapidly improving and not at this point, not very far away from our historical best ever. Now I will say be cautious because in Q4, we tend to see a seasonally lower prices.

So a lot of that operational improvement may get swallowed up in the lower prices that are typical for that time of the year, but the operational improvements will be durable.

So when we head into the front half of next year, we should see the benefits of that when the prices start to come back up. There's two primary components behind those challenges.

One is operational, which we can see that we're already fixing. The other is facilities, which is where we've launched some projects to make some improvements.

We had a tough time this summer, particularly in greenhouses five and six with their ability to cool the greenhouses, fans that weren't moving as much air as they used to, resulting in the growers trying to screen to control temperature, which hurt light and impacted yields.

So we've been able to make a bunch of improvements operationally there. The next step is actually going to be to upgrade the facilities, which should get us not only back to our historical baseline, but should give us the opportunity, particularly with Greenhouse 2, to do even better than that.

On your Cogen question, yes, the Cogen has been offline for a bit.

There's three things that we get from the Cogen.

One is electricity, which we used to sell and still do in the evening time, but predominantly used to run the lights in Greenhouse 2. The other thing you get from it is heat and CO2. Every one of those is valuable at a farm, which is why the Cogens are so nice to have.

We can make electricity at $0.80 a kilowatt instead of buying it for $28, and we get that free heat and the free CO2 at the same time. Now that we have the lights, the Cogen being down has multiple impacts, one of which is that we don't have all the power we want to turn on all the lights that we want.

And the more light we have, the better yields we have. The other, and this is something we've historically had that we've been without, is the exhaust from that Cogen that we put into the greenhouses, and the CO2 helps improve yields. It also makes the plants more tolerant to heat.

So with not being able to supplement with that CO2, it reduced the yields. The plants don't grow quite as fast, and they grow bigger leaves rather than the bigger buds that we're after.

So they just did the commissioning on that. The engine's been worn in, and if things go well sometime this week, we'll actually see it go back into service.

So we have not had any of the benefit of it up until at this moment, but hopefully before this week is over, we will see that change. Plant growth cycle is about 60 days from there, another 30 days to process it, and then a little bit of time to sell it.

But as soon as we can start putting that CO2 back into the greenhouses, we will get the benefit from it, and the crops that are in there will start to reflect that when they're harvested.

Frederico Gomes^ Great. Second question, I believe that interstate commerce and exports are a big part of the story here. Can you talk about the realistic timeline for that to actually happen?

When do you expect to actually be able to have a first export shipment out of California?

And in terms of supply agreements, I believe in the last call you mentioned you would expect, I guess a supply agreement by the end of the year. I guess we're approaching that. Is that still -- do you still stand by that potential supply agreement this year?

Graham Farrar^ Maybe I'll take the first half, and Kyle can talk to the supply agreements.

So on the DEA part, I'm going to back up a little bit there. The timing of when they do it certainly is not something that's in our control.

I think there's been a lot of confusion, which I totally understand on this topic. I do think people are missing the forest for the trees a little bit. The forest is that this process is actually happening. I mean we can, at this point say, it has happened. There are now 900 plus stores federally allowed and licensed by the DEA to sell cannabis, right?

That is a step change, a paradigm shift, 50 years of cannabis prohibition that has now at least started to end, right?

Their stores today as we said here, can sell cannabis federally, legally. There's a lot of questions about how does that happen and the letters that are going out. I think it's worth noting that no licenses have been rejected yet.

There have been letters, not that they won't be, but they have not been yet. There are the letters to show cause, they call them, which have been issued to some dispensaries, which also hold adult use licenses. No letters have, no show cause letters have been issued to any operator who holds only a medical license, which is what Glass House has.

So right now, it's an open question, right?

And so, if you think about what it means, they're basically telling these stores that also sell adult use why they shouldn't be denied, right?

Which is, I think understandable from the DEA's point of view, the ALJ hearing hasn't concluded.

So if they're applying their playbook and they don't have adult use in it, what else can they say at this moment?

I think the key piece there though, is they're applying their existing playbook, right?

They are treating cannabis as a Schedule III drug. There is no Schedule III drug that's not available in all states. There's no Schedule III drug that doesn't ship with interstate commerce. There's no Schedule III drug that doesn't have international exports.

So the fact that they're applying the Schedule III rule book all the way down to the ledgers that they use to transfer the product is the key piece. The process is happening; the football's in the air. Of course, there are things that have to be worked out, right?

There's no question. There's never been the opportunity to interface state and federal programs together until now.

So will they get figured out?

Yes, because now they can be.

So I think it is certainly something that we're watching closely. Don't know the exact timing, but to me, it's very encouraging that there actually is a process to work on because we've been waiting 50 years for that.

If the DEA main canvass stance that says any licensing program with adult use isn't eligible, the result of that would be 55% of the population is not covered. 85% of the cannabis sales are not addressed. You've built a system that isn't really a system if you leave 85% of it out.

So I don't think it's either tenable from their side. If they stick to that though, you can -- I can guarantee the states are going to adapt to it, right?

If California needs to make her licensing regime and California and 24 other states plus DC need to make licensing regimes that fit the medical model like we had for the first 25 years of legal cannabis in California under Prop 215, then they will because otherwise their operators are going to be left out with no 280E.

So one way or the other, these pieces are going to get put together. I think the exciting part is that we finally have the opportunity to work on that. I mean you've got cannabis being sold in Georgia and pharmacies.

I'd encourage people to look up where Trulieve just started. We're talking regular shops, right?

Boots in the UK just started selling their equivalent of the CVS is now selling as a medical cannabis program, right?

So all this normalization is happening, and I think that's the important part to focus on. We're doing everything on the GACP, did it for Padero, did it for Casitas. Now we're working on Camarillo. The team there is even working on what we can do on the GMP side.

So we're putting in all the foundational pieces for when this goes together, because those are the standards that we expect to be required. The fact that there's a system that we can now work with is the opportunity that we've been waiting a long, long time for.

Kyle Kazan^ And I'll follow up, Graham. I'll follow up Frederico in regards to interest for our supply.

There is absolute interest in other states for our cannabis and also internationally. There's really nothing to press release because while they've said, hey, we really want your cannabis, and we say we really want to get it to you. Right now, we don't have enough information that if we put out a press release, I think people would be saying, when is this going to happen?

And we just need a little bit more guidance.

As Graham is describing, we think it's coming, but until it does, we just -- it would be more fluff than anything else at this point. But suffice to say that buying something from us grown at $109 a pound from California versus something that's grown at $800 a pound in a warehouse in Canada, it's an absolute no-brainer for folks internationally and also in other states.

So I wish I could just say hey, here are all the details, but lacking some of those very important details, we're just not going to go ahead and PR it.

Operator^ Our next question comes from the line of Kenric Tyghe with Canaccord Genuity. Your line is open.

Kenric Tyghe^ Can we just push a little harder here on improving mix from 63% to 55% in the fourth quarter, operational improvements, supporting improving yields, and obviously some pricing headwind that you've called out.

I think what perhaps we need to try and triangulate and hoping the team can do it is a better indication of some sort of bridge on how does that translate in terms of an average selling price range here in the fourth quarter and any commentary around a gross margin range given the fear that is currently baked into the share price.

I think any incremental color there would obviously be particularly useful if you could translate the moving parts here into some ranges that we could start to work with or work around.

Graham Farrar^ I can take the operational part and then maybe, Mark, you want to do margin?

Mark Vendetti^ Yes. Go ahead, Graham, and then I'll talk numbers.

Graham Farrar^ Great. Yes, so it's totally fair to push. Obviously it's a big deal.

The best -- the way that I prefer to think of it is less about the percentages and more about the yield, which, as I mentioned, we started the front half of the year about 25% lower than we would historically have been, and we've closed that gap in Q3. It was about 10 points lower than historical, and so far into Q4, it's only about five points behind.

Of course, we don't just want to get back where we were. We want to get better, so plenty of work to do. And again, with Greenhouse 2 in the mix now, we should be able to do not only as good but better than we have been.

I think probably the best way to think of it is if we had sold what we actually produced in Q3 rather than having to work our way through the trim heavy inventory that was produced in Q2, at Q3's prices, the ASP probably would have been more in the $180s instead of the $150s, so there's quite a bit of upside there.

(Inaudible) did a phenomenal job dropping another 10% or so in price. That makes us about a 40% price reduction from the beginning of the year from $179 to $109. It's also, for reference, I think it's about five or six bucks away from our best ever Q3 historically, so the pricing is also getting back into the range that we would expect it to be, which I think is best in class.

We're currently in second place, but second place to what we've achieved ourself historically. And based on what we're seeing for Q4, I would say we probably get back and match our best ever Q4 COGS as well, which are two ways to help margin, right?

One is higher pricing and the other is lower cost and then more pounds to maximize gross profits.

So I think we're making good progress on both of those. That said, as I mentioned, Q4 pricing typically softens versus Q3, so even with an improved mix, some of those gains are likely to be hidden until we get the pricing swinging back the other way in the front half of ‘27. Go ahead, Mark.

Graham Farrar^ Kenric, so just a couple numbers that you guys can deduce from what we've said. Given our year-to-date production and to get to a million pounds for the year, I think that means we have to do 284,000 or 285,000 pounds of production in the fourth quarter.

I'm going to say we generally now that inventory I think is better aligned. We worked through some of the higher inventory levels in Q3. I mean we're typically going to sell 10,000 to 15,000 pounds less because that's how much we end up sending over to our CPG unit.

The other bit of information we provided is we said pricing is going to fall on flour from the high 300s to the low 300s.

So you're going to have -- f you go, I'm going to mix up out of trim, which trim, let's call it $15 to $20 a pound into flower, which is, let's say selling at a low $300. That's going to help the ASP quite a bit, but on the flip side, you're going from a high 300 to a low 300.

So when you put both of those together, and I think we said, there probably is not going to be a significant change in the average ASP for Q4 versus Q3. And again, this is an easy general rule of thumb to help with margin.

There may be a few percentage point difference quarter to quarter, but if you look at the average selling price you calculate or forecast minus the cost of production in that quarter and just go -- it was very close for Q3, as an example.

If you take 151 and Q3 minus 109 cost of production, it gets you to a 28% margin, which was actually pretty down [ph] close to what we reported.

So I would work through an ASP number. We already gave you our cost of production number for Q4, and that'll help you figure out what gross margin should be in Q4.

Kenric Tyghe^ I appreciate the call. I was wanting to just try and go a little more closely. I think obviously a lot of noise and expectations and a lot of fear and expectations.

What I'm hearing from you, Mark, is that this is a high 20s on rough math. We probably don't push back into that lower to mid-30s until the first quarter of 2027. Is that a fair characterization?

Mark Vendetti^ So I will actually -- I think if you look at gross margin, it should be very similar to what Q3 is because the underlying ASP is not going to be much different and the cost of production is not going to be much different. The dynamics are going to be different. Again, more flower but offset by lower price is going to get you back to roughly the same consolidated average selling price.

Kenric Tyghe^ I appreciate that. And just with respect, a quick follow-up on the -- while it's a small part of the story, it was -- it was certainly gathering some headlines earlier in the year. Your hemp pause, as you put it, is that just a reflection of a state-level driven reset given some of the regulatory headwinds and changes?

Or is that something that was within your control and you're stepping back for reasons other?

Mark Vendetti^ I can take that one. A lot of it is just wanting to get some clarity on what the regulations are. The things are moving pretty dynamically right now.

I know that technically the first phase of the ban took effect a few days ago. The next phase is, unless something changes, currently slated to take effect. If they put in the McConnell language, there's just not a whole lot that fits within that definition. 0.4 milligrams of THC per package (inaudible). Even balms and things like that don't fit within that.

So while we're certainly hoping that there's something more common sense that comes along right now, it's a pretty tight window. And it looks like we'll at least have clarity one way or the other in the next 30 days or so.

So wanting to make sure that we know what we're operating to. Also, as we've discussed, plenty of work to do on the core business.

So what we have one thing that we know we're good at and we know how to make that work. We want to get that back to best-ever performance in the other, which is moving around pretty quickly. I thought it made sense to focus in on the one, get clarity on the other, and then reevaluate.

Kyle Kazan^ One other point, though.

We were disappointed -- we were disappointed with the overall financial results we were getting.

You combine that with what Graham said. It just made sense to step back and pause and see what's going on with the broader environment.

Operator^ That concludes the question-and-answer session. I would now like to turn the call back over to Kyle Kazan for closing remarks.

Kyle Kazan^ Thank you, Operator. Graham, did you want -- did you want to make a statement or a comment?

Graham Farrar^ Yes. I just wanted to say I don't think we've ever had more people on the call.

So I'm sure that a lot of people are here wondering what's going on. Obviously the decline in the stock is not lost on anybody, though, not directly addressed here.

And I just -- I wanted to say that we've got plenty of work left to do, but I think our demise has been greatly exaggerated and set's step back for a second and remember the why and listen for the signal through the noise, so to speak.

What we do here at Glass House is hard. And not to be overly philosophical, but we use photons from outer space and turn it into a product that at least we think improves the human condition.

Walking around the farm looks nothing like our stock price. I think the farm is looking as good as it has looked. It's looking the best it's looked since the raid.

And I want to say I'm incredibly proud of the team at the farm. I think every day I see them put passion, love, caring, hard work into what they do. At this point, they've done what a lot of people said was impossible.

We rebuilt the largest cannabis greenhouse on the planet from scratch with a workforce that's like no other in agriculture.

The farm just it looks beautiful. It's a really interesting juxtaposition to walk through there with a smile on my face again for the first time in a while and then walk out and see the share price next to it because the two things are very disconnected.

So there's clearly a lot more to do, but the progress the team is making and continues to make is remarkable. I think Glass House continues to be incredibly well positioned for the goal that we set out for ourselves. The reality is you can't solve three million square foot problems at 30,000 or even 300,000 square feet, and because of the work the team's done, we're lucky to have the opportunity to work on those.

They're not easy, but they are the problems that need to be solved for the world that we believe that we're building for where cannabis is normalized and it's on every shelf, and you need a supply chain that can support national and global markets.

I don't think there's another team out there, partially because of all the hard work that they've done, that even has a chance to solve those problems. At Humboldt, we need to work alongside them.

I believe what we do matters. I think more and more society is realizing that as well, and that cannabis is part of the solution, that we're identical with nature, and that nature has answers to a lot of our problems, and cannabis is part of that. The federal government now agrees, which is awesome, that cannabis is medicine. That joined Canada, Germany, the UK, and a growing list on a daily or monthly basis.

As I mentioned, cannabis is now being sold in pharmacies in Georgia, as well as Germany. The UK just launched a medical cannabis program, so just a reminder to keep your ear out for the signal through all the noise, because whatever the weather looks like in the morning, the thesis hasn't changed.

The operations are getting back to their best. The destination is the same. We're closer to it than we've ever been, which is ironic with everything else going on.

If you ever believed that we were the right team, in the right place, at the right farm, doing the right thing, that is as true now as it has ever been.

We certainly didn't come this far to only come this far, and we're going to get where we're going. That's the important part, I think and I appreciate everybody showing up to listen.

Kyle Kazan^ Thanks, Graham.

If I can just finish up by saying, I've been asked by a lot of people about our share price, and am I regretful that owning millions of shares, I didn't sell near the peak.

I said, absolutely not. I'm a long-term investor since day one. I don't like that our stock has been on a wild ride, for sure, but at the end of the day I believe to my soul that the best days of our stock price are ahead of us and not in the rearview mirror.

So I'm still a very happy shareholder and will be happier when we hit new record prices in the future. And as Graham said, we are built for the future, and we look forward to it.

All of that said, thank you, everybody, for joining our call. We look forward to seeing you at the farm and on future investor calls.

Thank you, Operator.

Operator^ Ladies and gentlemen, that concludes today's call.

Thank you all for joining. You may now disconnect.