



MEMORANDUM

TO: CANNABIS REGULATORY COMMISSION BOARD
FROM: JEFF BROWN, EXECUTIVE DIRECTOR
SUBJECT: VERANO NJ LLC TRANSFER OF OWNERSHIP
DATE: JULY 18, 2023

BACKGROUND: On February 16, 2023, Verano NJ LLC submitted documentation proposing that the ownership group of Verano NJ Holdings LLC, subsidiary of Verano Holdings, LLC, would assign its membership interest in the New Jersey cannabis permittee/licensee Verano NJ, LLC, to Verano Holdings, LLC, thereby dissolving Verano NJ Holdings, LLC out of existence and eliminating the unnecessary corporate intermediary entity. Verano NJ LLC would then become wholly owned by Verano Holdings LLC, which in turn remains wholly owned (100%) by Verano Holding Corp., the ultimate parent company.

Verano Holdings, LLC is a limited liability company with corporate headquarters in Delaware and is wholly owned (100%) by Verano Holdings Corp., a British Columbia Corporation which is publicly listed on the Canadian Stock Exchange. Verano Holdings, LLC is one of the largest publicly traded, multi-state cannabis operators in the United States.

AUTHORITY: As an alternative treatment center permit holder, Verano NJ must abide by the enabling statute governing medicinal marijuana as well as the implementing regulations. Pursuant to N.J.S.A. 24:6I-7(k)(2), the sale or transfer of any interest of five percent or more in a medical cannabis cultivator, medical cannabis manufacturer, medical cannabis dispensary, or clinical registrant permit shall be subject to approval by the New Jersey Cannabis Regulatory Commission (the "Commission") and conditioned on the entity that is purchasing or receiving transfer of the interest in the medical cannabis cultivator, medical cannabis manufacturer, medical cannabis dispensary, or clinical registrant permit completing a criminal history record background check pursuant to the requirements of the statute.

Pursuant to N.J.A.C. 17:30A-7.5, an Alternative Treatment Center ("ATC") permit is not assignable or transferable without Commission approval, and it shall be immediately null and void if the alternative treatment center ceases to operate, if the alternative treatment center's ownership changes or if the alternative treatment center relocates.



Additionally, as an Expanded ATC license holder, Verano NJ must also abide by the New Jersey Cannabis Regulatory, Enforcement Assistance, and Marketplace Modernization Act (“CREAMM Act”) as well as the Commission’s personal use regulations under N.J.A.C. 17:30, et. seq.

The governing personal use regulations regarding transfers of ownership interest fall under N.J.A.C. 17:30-9.3.

Pursuant to N.J.A.C. 17:30A-7.10, the fee to apply for the transfer of ownership for an ATC is \$20,000.

Pursuant to N.J.A.C. 17:30-7.17(j)(3), the fee to apply for the transfer of more than 50 percent of ownership interest in a license holder is \$20,000.

COMPLETENESS REVIEW: Verano Holdings, LLC (“Verano”) was the start of Verano’s business operations, which was co-founded by [REDACTED], Verano’s current Chairman and CEO, in September 2017. Verano became a publicly traded company on February 17, 2021, several years after its initial approval to operate as an alternative treatment center (“ATC”) by the New Jersey Department of Health (“NJ-DOH”).

Verano NJ was awarded a New Jersey ATC permit pursuant to the NJ-DOH 2018 Request for Applications. Verano NJ’s ownership at the time was comprised of a mixture of Verano-owners, owners of Verano-affiliated entities, and others with varied relevant interests and experience. In turn, and given the infrastructure and funding required to support and operate a vertically integrated license, consisting of cultivation, manufacturing, and dispensary operations, Verano supported Verano NJ’s operations through loans, the licensing of intellectual property, and a management services agreement (MSA).

Verano NJ currently operates a 120,000 SF cultivation and manufacturing facility in Readington, and three (3) operational cannabis dispensaries in Elizabeth, Neptune, and Lawrence Township. Following the passage of New Jersey’s adult-use referendum and CREAMMA, Verano NJ became one of the first license holders (ATCs) to expand from medicinal cannabis sales, to now include adult-use cannabis sales.

On March 1, 2019, the initial owners of Verano NJ executed assignment agreements (“Assignment Agreements”) with Verano, whereby the Parties agreed to hold the Assignment Agreements in escrow. Verano stated that the goal of these Assignment Agreements was to provide a mechanism for consolidation into a singular holding company when the “legal landscape of cannabis improved.” An entity named Verano NJ Holdings, LLC (“VNJ Holdings”) was listed on the assignment agreements at the time of their execution. VNJ Holdings is a wholly owned (100%) subsidiary of Verano, formed solely for the purposes of serving as an intermediary holding company for the ownership interests of Verano NJ.



Verano NJ’s initial owners included [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], and [REDACTED] (the “Initial Owners”), though the operations were financed through the loan from Verano (initially in the amount of \$20M), with the New Jersey operations run by Verano through a separate Management Services Agreement.

As referenced earlier, on March 1, 2019, the various holders of the membership units (equity) in Verano NJ (permit/license holder) executed individual Assignment Agreements with Verano NJ Holdings, LLC (“VNJ Holdings”), an affiliate solely owned by Verano, to hold their various membership units (A, B, or C units) in escrow. At the time, the Initial Owners were offered certain economic consideration for their Assignment Agreement, consisting of either stock in Verano (when it was a pre-public company), cash, and the ultimate release of obligations under the Verano loan agreement. The following list reflects the financial consideration received by the Initial Owners as to their acceptance of either Verano stock or cash:

- [REDACTED] - 1.079%
- [REDACTED] - 1.32%
- [REDACTED] - 2.8808%
- [REDACTED] - \$75,000
- [REDACTED] - 0.034%
- [REDACTED] - \$75,000
- [REDACTED] - 0.0054%
- [REDACTED] - \$75,000
- [REDACTED] - 0.0161%

Verano provided redacted bank statements (Severn Bank) from 2019, identifying the cash payments made to [REDACTED], [REDACTED], and [REDACTED]. The company also provided a copy of its pro forma look through cap table (as of 2019) showing its individual stakeholders (owners).

Verano has provided the NJ-CRC with three (3) schematics showing the following organizational structure for Verano NJ: (Exhibit #3)

- Current Organizational Structure - Verano NJ
- Proposed Transaction - Verano NJ
- Ultimate Organizational Structure - Verano NJ

The current principals (senior management) of Verano Holdings Corp. are as follows:

- [REDACTED] - 5%+ owner, CEO, Board Chairman.



- [REDACTED] - Executive Vice President
- [REDACTED] - Chief Operating Officer
- [REDACTED] - President
- [REDACTED] - Chief Finance Officer
- [REDACTED] - Director
- [REDACTED] - Director

All the Verano officers and directors will remain in their positions post-closing; and have been previously found suitable by the NJ-CRC.

The current owners of Verano NJ were listed as [REDACTED] (5%), [REDACTED] (56%), [REDACTED] (20%), [REDACTED] (5%), [REDACTED] (5%), [REDACTED] (5%), [REDACTED] (2%), [REDACTED] (1%), and [REDACTED] (1%).

Under the proposed transaction, and upon approval by the NJ-CRC; the acquisition subsidiary (Verano NJ Holdings, LLC) immediately assigns its membership interests in the NJ cannabis licensee (Verano NJ, LLC) to Verano Holdings, LLC (“Verano”) and is dissolved out of existence to eliminate the unnecessary corporate intermediary entity. Verano NJ becomes wholly owned by Verano, which in turn remains wholly owned (100%) by Verano Holdings Corp., the ultimate parent.

RECOMMENDATION: The Office of Compliance and Investigations recommends approval for the application to amend the permits and licenses held by Verano NJ LLC and authorize the ownership structure change as presented by Counsel for Verano NJ LLC. All owners and officers that will retain their positions have been previously vetted as required by the statutes and regulations and have been deemed qualified to hold their positions in the medicinal and adult use cannabis markets. The consolidation of corporate entities does not result in additional members or owners of the New Jersey cannabis permits and licenses, and it is the opinion of the Director of the Office of Compliance and Investigations that the structural change, as submitted, is regulatorily compliant and the owners are qualified to operate the alternative treatment centers and expanded alternative treatment centers currently being operated by Verano NJ LLC.

APPENDIX

N.J.A.C. 17:30A-7.5 Permit issuance; nontransferability of permit

(a) Upon approval of the application for an ATC permit and payment of the required fee, the permitting authority may conduct an onsite assessment of the alternative treatment center to determine if the facility adheres to the Act and this chapter.

(b) An ATC permit is not assignable or transferable without Commission approval, and it shall be immediately null and void if the alternative treatment center ceases to operate, if the alternative treatment center's ownership changes or if the alternative treatment center relocates.

(c) This chapter does not prohibit a political subdivision of this State from limiting the number of alternative treatment centers that may operate in the political subdivision or from enacting reasonable local ordinances applicable to alternative treatment centers.

N.J.A.C. 17:30A-7.10 Fees

(a) The following fees apply:

1. The annual fee for the review of a permit renewal application for an alternative treatment center is \$ 20,000;
2. The fee to apply for a change of location of the alternative treatment center is \$10,000;
3. The fee to apply for a change of capacity or any physical modification or addition to the facility is \$ 2,000; and
4. The fee to apply for the transfer of ownership of a permit is \$ 20,000.

17:30-9.3 Transfers of ownership interest

(a) From the submission of a conditional license conversion application or an annual license application to at least two years after the cannabis business commences operations, a license holder holding an annual license shall not make any change to more than 50 percent of its ownership interest, except that a transfer of the ownership interest license applicant or license holder from a deceased owner to the deceased:

1. Owner's heir shall not be prohibited;
2. Owner's surviving spouse, domestic partner, or civil union partner, if the license was issued jointly to both the parties, shall not be prohibited.

(b) From the submission of the conditional license conversion application or an annual license application to least two years after the cannabis business commences operations, a license holder may add new loans from new or existing financial sources or gifts.

(c) Until at least two years after the cannabis business commences operations, a diversely owned business license holder shall maintain all conditions required to qualify as eligible for its diversely owned business certification.

(d) Until at least two years after the cannabis business commences operations, a social equity business license holder shall maintain the conditions required to qualify for its social equity business status

(e) A license holder operating as a microbusiness shall not transfer ownership interest such that the license holder no longer qualifies as a microbusiness.

(f) If the cannabis business ceases operations during the two-year period after the cannabis business commences operations, the license holder may not transfer the license to another entity; the license will be considered to be abandoned and will be returned to the Commission.

(g) A cannabis business license holder shall not provide, transfer, or sell, or offer to provide, transfer, or sell any ownership interest to or employ or offer to employ any Commission member or employee restricted from such transactions by the provisions of sections 33 through 35 of P.L. 2019, c. 153 (N.J.A.C. 24:6I-26 through 28).

(h) The Commission retains discretion to determine when a transfer of ownership interests has occurred.

17:30-7.17 Cannabis business and testing laboratory fees

(j) The following material change fees shall be paid by license holders, as applicable:

1. The fee to apply for a change of location of a cannabis business premises is:

i. Standard cannabis business annual license holder: \$10,000; or

ii. Microbusiness license holder: \$1,000;

2. The fee to apply for a change or modification of the cannabis business' capacity or physical plant is \$2,000;

i. This fee shall not apply to a microbusiness converting to a standard cannabis business pursuant to N.J.A.C. 17:30-7.15; and

3. The fee to apply for the transfer of more than 50 percent of ownership interest in a license holder is \$20,000.

i. Any financial source, management services contractor, owner, or principal may be required to pay background investigation fees as part of an ownership interest transfer