

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal year ended December 31, 2018

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 333-207889

**GROWGENERATION CORP.**  
(Exact name of registrant as specified in its charter)

**Colorado**

(State or Other Jurisdiction of  
Incorporation or Organization)

**1000 W Mississippi Ave  
Denver, Colorado**

(Address of Principal Executive Offices)

**46-5008129**

(I.R.S. Employer  
Identification No.)

**80223**

(Zip Code)

**(800) 935-8420**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of class  
Not Applicable

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2018: \$73,391,900.

As of March 29, 2019, the Company had 28,844,552 shares of its common stock issued and outstanding, par value \$0.001 per share.

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## PART I

### Forward-Looking Information

*This Annual Report of GrowGeneration Corp. on Form 10-K contains forward-looking statements, particularly those identified with the words, “anticipates,” “believes,” “expects,” “plans,” “intends,” “objectives,” and similar expressions. These statements reflect management’s best judgment based on factors known at the time of such statements. The reader may find discussions containing such forward-looking statements in the material set forth under “Management’s Discussion and Analysis and Plan of Operations,” generally, and specifically therein under the captions “Liquidity and Capital Resources” as well as elsewhere in this Annual Report on Form 10-K. Actual events or results may differ materially from those discussed herein. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements. The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.*

*Unless the context otherwise requires, the terms “we”, “our”, “ours” “us” and “GrowGeneration”, refer to GrowGeneration Corp. and its subsidiaries, including GrowGeneration Pueblo Corp, GrowGeneration California Corp., Grow Generation Nevada Corp., GrowGeneration Washington Corp., GrowGeneration Rhode Island Corp., GrowGeneration Michigan Corp, GrowGeneration Oklahoma Corp, GrowGeneration New England Corp, GrowGeneration Canada Corp, GrowGeneration HG Corp, GrowGeneration Hemp Corp, GGen Distribution Corp. and GrowGeneration Management Corp., on a combined basis.*

### **ITEM 1. BUSINESS**

#### **Background**

GrowGeneration Corp. (together with all of its wholly-owned subsidiaries, collectively “GrowGeneration” the “Company”) was incorporated in Colorado in 2014 to build a national chain of hydroponic equipment and supply garden centers in the U.S. Today, GrowGeneration is a leading marketer and distributor of nutrients, growing media, advanced indoor garden, lighting and ventilation systems and accessories for hydroponic gardening. As of December 31, 2018, we have grown into a chain of eighteen (18) retail hydroponic/garden centers, in 7 states, with five (5) located in Colorado, six (6) in California, one (1) in Nevada, one (1) in the Washington, one (1) in Rhode Island, one (1) in Oklahoma and three (3) in Michigan. In the first quarter of 2019, we acquired three (3) new hydroponic stores, one each in California, Colorado and Nevada and we opened new stores in Oklahoma and Maine. In addition, during the first quarter of 2019, we consolidated two stores both in California and Colorado. GrowGeneration expansion plan includes both acquiring existing hydroponic operations, as well as opening up garden centers in selected markets. Our 21 garden stores have been owned and operated through 7 wholly owned subsidiaries.

## Products

GrowGeneration is one of the largest retailers of hydroponic products in the United States and is engaged in the business of marketing and distributing horticultural, organics, lighting and hydroponics products, including lighting fixtures, nutrients, seeds and growing media, systems, trays, fans, filters, humidifiers and dehumidifiers, timers, instruments, water pumps, irrigation supplies and hand tools.

- GrowGeneration is also actively seeking to either acquire or establishment private labeled products, which would be sold through GrowGeneration garden centers under brands owned or controlled by the Company. In this regard, the Company acquired a variety of trademarks in March 2019 to bolster its ability to supply branded 'house' products to our customers. From trellis netting, to plastic pots, to organic nutrients, GrowGeneration expects to roll out a complete line of private labeled products to offer our customers at great prices, which is expected to have a positive impact on margins and profitability in the near term.

A list of the product trademarks the Company acquired are listed below:

- Blueprint Controllers
  - Carbide
  - DuraBreeze
  - Elemental Solutions
  - GrowXcess
  - GaurdenWare
  - Harvester's Edge
  - Hydro Thrive
  - Ion
- MixSure +
- OptiLUME Enhanced
  - Pioneer
  - Predator Lighting
  - Smart Support
  - Sunleaves Garden
  - Sunspot
  - Super Starter
  - Utopian Systems
  - VitaLUME
- VitaPlant

## Markets

GrowGeneration serves a new, yet sophisticated community of commercial and urban cultivators growing specialty crops including organics, greens and plant-based medicines. Unlike the traditional agricultural industry, these cultivators use innovative indoor and outdoor growing techniques to produce specialty crops in highly controlled environments. This enables them to produce crops at higher yields without having to compromise quality, regardless of the season or weather and drought conditions.

Indoor growing techniques have primarily been used to cultivate plant-based medicines. Plant-based medicines often require high-degree of regulation and controls including government compliance, security, and crop consistency, making indoor growing techniques a preferred method. Cultivators of plant-based medicines often make a significant investment to design and build-out their facilities. They look to work with companies such as GrowGeneration that understand their specific needs and can help mitigate risks that could jeopardize their crops. Plant-based medicines are believed to be among the fastest-growing market in the U.S. and several industry pundits believe that plant-based medicines may even displace prescription pain medication by providing patients with a safer, more affordable alternative.

Indoor growing techniques, however, are not limited to plant-based medicines. Vertical farms producing organic fruits and vegetables are beginning to emerge in the market due to a rising shortage of farmland, and environmental vulnerabilities including drought, other severe weather conditions and insect pests. Indoor growing techniques enable cultivators to grow crops all-year-round in urban areas and take up less ground while minimizing environmental risks. Indoor growing techniques typically require a more significant upfront investment to design and build-out these facilities than traditional farmlands. If new innovations lower the costs for indoor growing, and the costs to operate traditional farmlands continue to rise, then indoor growing techniques may be a compelling alternative for the broader agricultural industry.

## **Research and Development**

The Company has not incurred any research and development expenses during the period covered by this report.

## **Customers and Suppliers**

Our key customers vary by state and are expected to be more defined as the Company moves from its retail walk-in purchasing sales strategy to serving cultivation facilities directly and under predictable purchasing activity. Currently, none of our customers accounted for more than 5% of our sales in 2018 or 2017.

Our key suppliers include several manufacturers and distributors such as FoxFarm Fertilizer, Canna, USA Mills Nutrients, Sunlight Supply, Hydrofarm, and others. All the products purchased and sold are applicable to indoor and outdoor growing for organics, greens, and plant-based medicines. As of December 31, 2018, and 2017, two suppliers represent 56% and 61% of our purchases, respectively. The Company is of the opinion that the loss of either supplier would not have a material adverse impact on our business, because both suppliers provide the same products and the Company maintains direct manufacturing agreements with vendors.

## **Demand for Products**

Demand for indoor and outdoor growing equipment is currently high due to legalization of plant-based medicines, primarily Cannabis, which requires equipment purchases for build-out and repeat purchases of consumable nutrients needed during the growing period. This demand is projected to continue to increase as a result of the approval of a comprehensive, publicly available medical marijuana/cannabis programs laws in 34 states and the District of Columbia as of the date thereof. Continued innovation and more efficient build-out technologies along with larger and consolidated cultivation facilities are expected to further expand market demand for GrowGeneration products and services. We expect the market to continue to segment into urban farmers serving groups of individuals, community cultivators, and large-scale cultivation facilities across the states. Each segment will be optimized to different distribution channels that GrowGeneration currently provides. We are of the opinion that as our volume increases, we will obtain volume discounts on purchasing that should allow us to maximize our revenues and expand gross profit margins.

## **E-Commerce Strategy**

The Company has developed its e-commerce website and portal, [www.growgeneration.com](http://www.growgeneration.com) and [www.heavygardens.com](http://www.heavygardens.com) which offers for sale hydroponic, specialty and organic gardening products. Online shoppers are able to shop from product departments, from nutrients to lighting to hydroponic and greenhouse equipment, delivering an easy and quick method to find the products that they want to purchase. Our e-commerce site is designed to appeal to the professional growers. Each product listed on the site contains product descriptions, product reviews and a picture so the customers can make an informed and educated purchase. Our product filters allow the customers to search by brand, manufacturer, or by function such as wattage. Designed as an information portal as well as an e-commerce store, the customers will find videos, articles, blogs and other relevant content, all generated by GrowGeneration's internal staff, which we call our "Grow Pros". The GrowGeneration customers are able to shop and order online 24/7 and, choose to receive products delivered directly to their grow operations, or for pick up at one of the GrowGeneration retail stores. In addition, customers may simply use our site as a resource and shop with our Grow Pros at one of our retail locations. Google advertising, social media and in store advertising are the primary advertising tools we use to drive traffic to [www.growgeneration.com](http://www.growgeneration.com).

## **Acquisitions**

On January 26, 2019, the Company entered into an asset purchase agreement through its wholly-owned subsidiary, GrowGeneration California Corp., to purchase the assets from Palm Springs Hydroponics, Inc. located in Palm Springs, California. In connection with the purchase of the assets, the Company also entered into a commercial lease agreement with a term of five years and three months, effective from February 7, 2019 to April 30, 2024, to rent the premises where the assets were located to open a new store.

On January 26, 2019, the Company entered into another asset purchase agreement through its wholly-owned subsidiary, GrowGeneration Nevada Corp., to purchase the assets from Reno Hydroponics, Inc. located in Reno, Nevada. In connection with the purchase of the assets, the Company also entered into a one-year commercial lease agreement, effective from February 1, 2019 to January 31, 2020, to rent the premises where the assets were located to open a new store.

On November 28, 2018, the Company entered into an asset purchase agreement through its wholly-owned subsidiary, GrowGeneration Pueblo Corp., to purchase the assets of Chlorophyll, Inc., located in Denver, Colorado. In connection with the purchase of the assets, the Company also entered into a five-year commercial lease agreement, effective from January 21, 2019, to rent the premises where the assets are located to open a new store.

On August 30, 2018, the Company entered into an asset purchase agreement, amended on September 14, 2018, with Virgus, Inc. d/b/a/ Heavy Gardens, an online store of hydroponic and garden supplies (“Heavy Gardens”) to purchase the assets of Heavy Gardens through its wholly-owned subsidiary, GrowGeneration HG Corp. The closing of the asset purchase took place on September 14, 2018.

On June 28, 2018, the Company entered into a restated and amended asset purchase agreement to purchase the assets of a retail hydroponic store, Santa Rosa Hydroponics & Grower Supply Inc., located in Santa Rosa, California. On July 13, 2018, the parties entered into an amendment to the purchase agreement and conducted the closing of the asset purchase. In connection with the purchase of the assets, the Company also entered into a commercial lease agreement, effective from July 14, 2018 to July 13, 2023, to rent the premises where the assets were located to open the new store.

On April 12, 2018, the Company entered into an asset purchase agreement through its wholly-owned subsidiary, GrowGeneration Michigan Corp., to purchase substantially all of the assets of Superior Growers Supply, Inc.’s business located in Michigan. In connection with the purchase of the assets, the Company also entered into a commercial lease, effective from April 12, 2018 to April 11, 2023, to rent the premises where a part of the assets are located. The Company entered into two additional leases. Following this acquisition, the Company opened three stores in the state of Michigan.

On December 22, 2017, the Company entered into an asset purchase agreement to purchase all of the assets of a retail hydroponic store, East Coast Hydroponic Warehouse, located in Warwick, RI. The closing of the asset purchase took place on January 23, 2018. In connection with the purchase of the assets, the Company also entered into a commercial lease, to be effective from January 24, 2018 to January 23, 2023, to rent the premises where the assets were located to open the new store.

On October 25, 2017, the Company entered into an asset purchase agreement through GrowGeneration California to purchase all of the assets of a retail hydroponic store, Humboldt Depot, located in Arcata, CA. The closing of the asset purchase took place on January 30, 2018. In connection with the purchase of the assets, the Company also entered into two commercial leases, to be effective from February 1, 2018 to January 31, 2021, to rent the premises where the assets were located to open the new store.

### **Seasonality**

Our business is subject to seasonal influences. Generally, our highest volume of sales occurs in our second and third fiscal quarter, and the lowest volume occurs during our first or fourth fiscal quarter.

### **Competition**

The markets in which we sell our products are highly competitive. Our key competitors include many local and national vendors of gardening supplies, local product resellers of hydroponic and other specialty growing equipment, as well as online product resellers and large online marketplaces such as Amazon.com and eBay. Our industry is a highly fragmented industry with over 1,000 retail outlets throughout the U.S. We compete with companies that have greater capital resources, facilities and diversity of product lines. Our competitors may also introduce new hydroponic growing equipment, manufacturers may sell equipment direct to consumers, and our distributors could cease sales of product to us.

Notwithstanding the foregoing, we do believe that our pricing, inventory and product availability and overall customer service provide us with the ability to compete in this marketplace. In addition, as we increase our number of stores and inventory per store, we expect to be able to purchase larger amounts of inventory at lower volume sale prices, which we expect will enable us to price competitively and deliver the products that our customers are seeking. We compete on supply chain competency, field sales support, in-store sales support, the strength of our relationships with major manufacturers, distributors and advertising, that as we expand our national brand with operations, in multiple states, we will be able to retain and acquire customers for our products

Based on our knowledge and communication with our suppliers, we do not believe our suppliers sell directly to the retail market or our customers.

## **Intellectual Property and Proprietary Rights**

Our intellectual property consists of our brands and their related trademarks, domain names and websites, customer lists and affiliations, product know-how and technology, and marketing intangibles. We also hold rights to website addresses related to our business including websites that are actively used in our day-to-day business such as www.GrowGeneration.com. We own the federally registered trademark for “GrowGeneration®” “Where the Pros Go to Grow®” and HeavyGardens®. In addition, we own several trademarks acquired March 2019 as detailed previously under the caption Products.

## **Government Regulation**

We sell products, including hydroponic gardening products, that end users may purchase for use in new and emerging industries or segments, including the growing of cannabis, that may not grow or achieve market acceptance in a manner that we can predict. The demand for these products depends on the uncertain growth of these industries or segments.

In addition, we sell products that end users may purchase for use in industries or segments, including the growing of cannabis, that are subject to varying, inconsistent, and rapidly changing laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions. For example, certain countries and 33 U.S. states have adopted frameworks that authorize, regulate, and tax the cultivation, processing, sale, and use of cannabis for medicinal and/or non-medicinal use, while the U.S. Controlled Substances Act and the laws of other U.S. states prohibit growing cannabis.

Our gardening products, including our hydroponic gardening products, are multi-purpose products designed and intended for growing a wide range of plants and are purchased by cultivators who may grow any variety of plants, including cannabis. Although the demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop, we cannot reasonably predict the nature of such developments or the effect, if any, that such developments could have on our business.

## **Employees**

As of December 31, 2018, we had 90 full time employees and 1 part-time employees. No employees are subject to collective bargaining agreements.

## **Principal Offices**

Our principal offices are located at 1000 W Mississippi Ave., Denver, CO 80223. As of December 31, 2018, for both stores and warehouses, we leased six (6) facilities in the State of Colorado, eight (8) in the State of California, one (1) in the State of Nevada, one (1) in the State of Washington, one (1) in the State of Rhode Island, one (1) in the State of Oklahoma and three (3) in the State of Michigan for our retail operations.

## **ITEM 1A. RISK FACTORS**

The risks and uncertainties described below could materially and adversely affect our business, financial condition and results of operations and could cause actual results to differ materially from our expectations and projections. You should read these Risk Factors in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and our Consolidated Financial Statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations.

***We face intense competition that could prohibit us from developing or increasing our customer base and generating revenue.***

The industry within which we compete is highly competitive. We compete with companies that have greater capital resources, facilities and diversity of product lines. We compete in the specialty gardening industry, selling hydroponic and organic nutrients, soils and other gardening related products. Additionally, if demand for our hydroponic growing equipment and products continues to grow, we expect many new competitors to enter the market, as there are no significant barriers to retail sales of hydroponic growing equipment and related gardening products. More established gardening companies with much greater financial resources which do not currently compete with us may be able to easily adapt their existing operations to sales of hydroponic growing equipment. Due to this competition, there is no assurance that we will not encounter difficulties in increasing revenues and maintaining market share. In addition, increased competition may lead to reduced prices and/or margins for products we sell. Our competitors may also introduce new hydroponic growing equipment, manufacturers may sell equipment direct to consumers, and our distributors could cease sales of product to us.

***If we need additional capital to fund our operations, we may not be able to obtain sufficient capital and may be forced to limit the scope of our operations.***

Our capital needs will depend on numerous factors, including (i) our profitability; (ii) the release of competitive products by our competition; (iii) the level of our investment in sales and marketing; and (iv) new store openings and or acquisitions. We cannot assure you that we will be able to obtain capital in the future to meet our needs. If we cannot obtain additional funding, we may be required to: (i) limit our expansion; (ii) limit our marketing efforts; and (iii) decrease or eliminate capital expenditures. Such reductions could materially adversely affect our business and our ability to compete. Moreover, even if we do find a source of additional capital, we may not be able to negotiate terms and conditions for receiving the additional capital that are favorable to us. In addition, any future capital investments could dilute or otherwise materially and adversely affect the holdings or rights of our existing shareholders.

***Our business depends substantially on the continuing efforts of our executive officers and our business may be severely disrupted if we lose their services.***

Our future success depends substantially on the continued services of our executive officers, especially our Chief Executive Officer, Darren Lampert, our President, Michael Salaman, our Chief Operating Officer, Joseph Prinzevalli and our Chief Financial Officer, Monty Lamirato. We do not maintain key man life insurance on any of our executive officers and directors. If one or more of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers.

***If we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.***

Our ability to compete in the highly competitive hydroponics and gardening industry depends in large part upon our ability to attract highly qualified managerial and sales personnel. In order to induce valuable employees to come and work for us or to remain with us, we intend to provide employees with stock options that vest over time. The value to employees of stock options that vest over time will be significantly affected by movements in our stock price that we will not be able to control and may at any time be insufficient to counteract more lucrative offers from other companies. Our success also depends on our ability to continue to attract, retain and motivate highly skilled junior, mid-level, and senior personnel.



***In order to increase our sales and marketing infrastructure, we will need to grow the size of our organization, and we may experience difficulties in managing this growth.***

As we continue to work to open and/or acquire additional retail store locations, we will need to expand the size of our employee base for managerial, operational, sales, marketing, financial and other resources. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, motivate and integrate additional employees. In addition, our management may have to divert a disproportionate amount of its attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. Our future financial performance and our ability to continue to grow our operation and compete in the hydroponics industry effectively will depend, in part, on our ability to effectively manage any future growth.

***Litigation may adversely affect our business, financial condition and results of operations.***

From time to time in the normal course of our business operations, we may become subject to litigation that may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend such litigation may be significant and may require a diversion of our resources. There also may be adverse publicity associated with litigation that could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition and results of operations.

***We may not obtain insurance coverage to adequately cover all significant risk exposures.***

We will be exposed to liabilities that are unique to the products we provide. We currently maintain property and casualty, automobile, and business interruption insurance and there can be no assurance that we will acquire or maintain insurance for certain risks, that the amount of our insurance coverage will be adequate to cover all claims or liabilities, or that we will not be forced to bear substantial costs resulting from risks and uncertainties of business. It is also not possible to obtain insurance to protect against all operational risks and liabilities. The failure to obtain adequate insurance coverage on terms favorable to us, or at all, could have a material adverse effect on our business, financial condition and results of operations.

***Federal practices could change with respect to providers of equipment potentially usable by participants in the medical cannabis industry, which could adversely impact us.***

If the federal government were to change its practices or were to expend its resources attacking providers of equipment that could be usable by participants in the medical or recreational cannabis industry, such action could have a materially adverse effect on our operations, our customers, or the sales of our products.

***Cannabis remains illegal under federal law and a change in federal enforcement practices could significantly and negatively affect our business indirectly.***

State laws legalizing medicinal and adult cannabis use are in conflict with the Federal Controlled Substances Act, which classifies cannabis as a Schedule-I controlled substance and makes cannabis use and possession illegal on a national level. The United States Supreme Court has ruled that the Federal government has the right to regulate and criminalize cannabis, even for medical purposes, and thus Federal law criminalizing the use of cannabis preempts state laws that legalize its use. While the prior Obama Administration had effectively stated that it was not an efficient use of resources to direct Federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical and recreational cannabis, on January 4, 2018, the United States Attorney General announced the rescission of the Obama Administration's policy, which indirectly negatively impacted our business.

***Continued legislative authorization of cannabis at the state level is uncertain, and slow or halt use of cannabis caused by state legislation would negatively impact our business.***

Our products are sold to growers of various crops, including cannabis. Disruption to the cannabis industry could cause some potential customers to be more reluctant to invest in growing equipment, including equipment we sell. Currently, 34 states and the District of Columbia allow its citizens to use medical cannabis. Additionally, Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont and Washington, and the District of Columbia have legalized cannabis for adult recreational use, and additional recreational measures are expected to be pursued by other states in the future. Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further, progress in the cannabis industry, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of cannabis, which would negatively impact our business.

***Our past private placements were made pursuant to an exemption from registration.***

Since 2014, various private placements conducted by the Company were made in reliance upon the so-called “private placement” exemption from registration with the Securities and Exchange Commission (the “SEC”) provided by Sections 4(a)(2) of the 1933 Securities Act, by Regulation D, Rule 506 adopted there under, and the exemptions from registration provided by the Blue-Sky laws of states in which our securities are offered. However, reliance upon these exemptions is highly technical and should not be viewed as a guarantee that such exemptions are indeed available. If for any reason the private placement exemption is not available for past private placements and no other exemption from registration is found to be available, the sale of the securities in such private placements would be deemed to have been made in violation of the applicable laws, thus requiring registration of those securities. As a remedy for such a violation, each investor would have the right to rescind its purchase and to have its full investment returned. If an investor requests return of its investment, it is possible that funds would not be available to us for that purpose, and that liquidation of us may be required. Any refunds made would reduce funds available to us for our operations. A significant number of requests for rescission would probably leave us without funds sufficient to respond to such requests or to proceed successfully with its activities.

***There are a significant number of shares of common stock eligible for sale, which could depress the market price of such shares.***

Our Registration Statement on Form S-1 has registered a total of 2,123,911 shares of our common stock available for sale in the public market. The availability of such a large number of shares of common stock for sale in the public market could harm the market price of the stock. Further, additional shares may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect as well.

***We are under the obligation to repay our convertible promissory notes upon maturity.***

On January 17, 2018, the Company completed a private placement of units of its securities and raised gross proceeds of \$9,000,000 from certain accredited investors in the offering. Each unit consists of (i) a .1% unsecured convertible promissory note of the principal amount of \$250,000, and (ii) a 3-year warrant entitling the holder to purchase 37,500 shares of Common Stock, at a price of \$.01 per share or through cashless exercise. The principal and interest of the promissory notes will be due and payable by the Company in three years from the date of issuance. Inability to repay the promissory notes on maturity, if the promissory notes are neither converted nor extended, will result in the financial condition of the Company to be materially adversely affected.

The promissory notes are convertible into shares of the Company’s Common Stock at the holders’ option at \$3 per share. If a large number of holders choose to convert their promissory notes, it may cause substantial dilution on other shareholders’ ownership of the Company’s securities.

During the year ended December 31, 2018, the principal amount of the promissory notes and accrued interest in the total amount of \$5,927,677, net of unamortized debt discount of \$2,305,746, was converted into 2,013,294 shares of common stock at the conversion rate of \$3.00 per share. At December 31, 2018, the remaining principal amount of the promissory notes totaled \$3,075,000, which is convertible into a large number of shares of our common stock.

If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

***If product liability lawsuits are brought against us, we may incur substantial liabilities.***

We face a potential risk of product liability as a result of any of the products that we offer for sale. For example, we may be sued if any product we sell allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for products that we may offer for sale;
- injury to our reputation;
- costs to defend the related litigation;
- a diversion of management's time and our resources;
- substantial monetary awards to trial participants or patients;
- product recalls, withdrawals or labeling, marketing or promotional restrictions; and
- a decline in our stock price.

We do not maintain any product liability insurance. Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we developed. Even if we obtain product liability insurance in the future, we may have to pay amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts.

***We may acquire businesses or products, or form strategic alliances, in the future, and we may not realize the benefits of such acquisitions.***

We may acquire additional businesses or products, form strategic alliances or create joint ventures with third parties that we believe will complement or augment our existing business. If we acquire businesses with promising markets or products, we may not be able to realize the benefit of acquiring such businesses if we are unable to successfully integrate them with our existing operations and company culture. We may encounter numerous difficulties in developing, manufacturing and/or marketing any new products resulting from a strategic alliance or acquisition that delay or prevent us from realizing their expected benefits or enhancing our business. We cannot assure you that, following any such acquisition, we will achieve the expected synergies to justify the transaction.

**Risks Related to Our Common Stock**

***Our officers and directors will control our company for the foreseeable future, including the outcome of matters requiring stockholder approval.***

At the date hereof, our officers and directors collectively beneficially own approximately 10.49% of our outstanding shares of Common Stock on a primary basis and 13.40% of our outstanding shares in Common Stock if they exercise all their options and warrants. Certain of these individuals also have significant control over our business, policies and affairs as officers or directors of our company. Therefore, you should not invest in reliance on your ability to have any control over our Company.

***Limited public market for our common stock currently exists, and an active trading market may not develop or be sustained.***

As we are in our early stages, an investment in our company will likely require a long-term commitment, with no certainty of return. The Company's common stock started trading on the OTCQB Marketplace on November 11, 2016 and started trading on the OTCQX Best Market on October 10, 2017. There is currently a limited public market for our common stock and there is no guarantee that any sustained trading market will develop in the near future or at all. In the absence of an active trading market:

- investors may have difficulty buying and selling or obtaining market quotations;
- market visibility for shares of our common stock may be limited; and
- a lack of visibility for shares of our common stock may have a depressive effect on the market price for shares of our common stock.

***The market price of our common stock may be significantly volatile.***

The market price for our common stock may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly or annual operating results;
- changes in financial or operational estimates or projections;
- conditions in markets generally;
- changes in the economic performance or market valuations of companies similar to ours; and
- general economic or political conditions in the United States or elsewhere.

The securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of shares of our common stock.

***Our common stock may be considered a “penny stock,” and thereby be subject to additional sale and trading regulations that may make it more difficult to sell.***

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or authorized for quotation on certain automated quotation systems, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The OTCBB and OTCQX Best Market do not meet such requirements and if the price of our common stock is less than \$5.00, our common stock will be deemed penny stocks. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document containing specified information. In addition, the penny stock rules require that prior to effecting any transaction in a penny stock not otherwise exempt from those rules, a broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive (i) the purchaser’s written acknowledgment of the receipt of a risk disclosure statement; (ii) a written agreement to transactions involving penny stocks; and (iii) a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our common stock, and therefore stock holders may have difficulty selling their shares.

***FINRA sales practice requirements may also limit your ability to buy and sell our common stock, which could depress the price of our shares.***

FINRA rules require broker-dealers to have reasonable grounds for believing that an investment is suitable for a customer before recommending that investment to the customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status and investment objectives, among other things. Under interpretations of these rules, FINRA believes that there is a high probability such speculative low-priced securities will not be suitable for at least some customers. Thus, FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our shares, have an adverse effect on the market for our shares, and thereby depress our share price.

***Our shareholders may face significant restrictions on the resale of their shares due to state “blue sky” laws.***

Each state has its own securities laws, often called “blue sky” laws, which (1) limit sales of securities to a state’s residents unless the securities are registered in that state or qualify for an exemption from registration, and (2) govern the reporting requirements for broker-dealers doing business directly or indirectly in the state. Before a security is sold in a state, there must be a registration in place to cover the transaction, or it must be exempt from registration. The applicable broker-dealer must also be registered in that state.

We do not know whether our securities will be registered or exempt from registration under the laws of any state. A determination regarding registration will be made by those broker-dealers, if any, who agree to serve as market makers for our common stock. There may be significant state blue sky law restrictions on the ability of investors to sell, and on purchasers to buy, our securities. The resale market for our common stock could be limited, as the holders of our common stock may be unable to resell their shares without the significant expense of state registration or qualification.

*The shares of our common stock may experience substantial dilution by exercises of outstanding warrants and options.*

As of the date hereof, we had outstanding warrants to purchase an aggregate of 3,643,250 shares of our common stock at a weighted average exercise price of \$1.75 per share, and options to purchase an aggregate of 1,525,500 shares of our common stock (out of which 1,093,831 are vested as of this date) at a weighted average exercise prices of \$1.87 per share. The exercise of such outstanding options and warrants will result in substantial dilution of your investment. In addition, our shareholders may experience additional dilution if we issue common stock in the future. Any of such dilution may have adverse effect on the price of our common stock.

*We are an “emerging growth company,” and will be able take advantage of reduced disclosure requirements applicable to “emerging growth companies,” which could make our common stock less attractive to investors.*

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, and, for as long as we continue to be an “emerging growth company,” we intend to take advantage of certain exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an “emerging growth company” for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

*There may be limitations on the effectiveness of our internal controls, and a failure of our control systems to prevent error or fraud may materially harm our company.*

Proper systems of internal controls over financial accounting and disclosure are critical to the operation of a public company. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures.

Moreover, we do not expect that disclosure controls or internal control over financial reporting, even if established, will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Failure of our control systems to prevent error or fraud could materially adversely impact us.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES****Description of Property**

Our principal offices are located at 1000 W Mississippi Ave., Denver, CO 80223. As of December 31, 2018, for both stores and warehouses, we leased six (6) facilities in the State of Colorado, eight (8) in the State of California, one (1) in the State of Nevada, one (1) in the State of Washington, one (1) in the State of Rhode Island, one (1) in the State of Oklahoma and three (3) in the State of Michigan for our retail operations. Information relating to our stores is set forth in the table below:

	<b>Number of Locations</b>	<b>Square feet</b>	<b>Lease Expiration Dates</b>
Colorado	6	2,000-12,500	April 2019 to October 2022
California	8	2,625-8,000	May 2020 to February 2022
Nevada	1	8,800	February 2022
Washington	1	3,200	April 2020
Rhode Island	1	9,000	January 2023
Michigan	3	5,300-11,000	March 2023 to September 2023
Oklahoma	1	9,800	September 2023

**ITEM 3. LEGAL PROCEEDINGS**

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### MARKET INFORMATION

We received approval from the OTCQB Market to trade our common stock, par value \$.001 per share (the "Common Stock") under the ticker symbol of "GRWG" as of October 19, 2016, and, commenced trading on November 11, 2016. On October 10, 2017, the Common Stock started trading on OTCQX Best Market. There is currently limited trading volume for our Common Stock and there is no guarantee that any sustained trading market will develop in the future.

The following table sets forth, for each quarter for the years ended December 31, 2018 and 2017, the reported high and low bid prices of our Common Stock.

<u>Quarter Ended</u>	<u>High Bid</u>	<u>Low Bid</u>
December 31, 2018	\$ 4.05	\$ 2.05
September 30, 2018	\$ 5.07	\$ 3.41
June 30, 2018	\$ 5.49	\$ 3.10
March 31, 2018	\$ 9.94	\$ 3.00
December 31, 2017	\$ 4.23	\$ 1.60
September 30, 2017	\$ 2.13	\$ 1.50
June 30, 2017	\$ 2.35	\$ 1.73
March 31, 2017	\$ 2.60	\$ 1.50

Future sales of substantial amounts of our shares in the public market could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through the sale of our equity securities.

#### HOLDERS

The approximate number of stockholders of record as of December 31, 2018 was 101. The number of stockholders of record does not include beneficial owners of our Common Stock, whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

#### DIVIDEND POLICY

We have never paid any cash dividends on our Common Stock. We anticipate that we will retain funds and future earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and other factors that our board of directors deems relevant. In addition, the terms of any future debt or credit financings may preclude us from paying dividends.

#### RECENT SALES OF UNREGISTERED SECURITIES

##### 2018 Private Placement

On January 17, 2018, the Company completed a private placement of a total of 36 units of its securities at the price of \$250,000 per unit. Each unit consists of (i) a .1% unsecured convertible promissory note of the principal amount of \$250,000, and (ii) a 3-year warrant entitling the holder to purchase 37,500 shares of Common Stock, at a price of \$.01 per share or through cashless exercise. The Company raised gross proceeds of \$9,000,000 from 23 accredited investors in the offering.

On May 9, 2018, the Company completed a private placement of a total of 33.33 units of its securities at a price of \$300,000 per unit to 3 accredited investors. Each unit consists of (i) 100,000 share of the Company's Common Stock and (ii) 50,000 3-year warrant to purchase one share of Common Stock at an exercise price of \$.35 per share. The Company raised an aggregate of \$10,000,000 gross proceeds in the offering.

### **2017 Private Placements**

On March 10, 2017, the Company completed a private placement of a total of 825,000 units of its securities to 4 accredited investors. Each unit consists of (i) one share of the Company's Common Stock and (ii) one 5-year warrant to purchase one share of Common Stock at an exercise price of \$2.75 per share. The Company raised an aggregate of \$1,650,000 gross proceeds in the offering.

On May 16, 2017, the Company completed a private placement of a total of 1,000,000 units of its securities to 27 accredited investors through GVC Capital LLC ("GVC Capital") as its placement agent. Each unit consists of (i) one share of the Company's Common Stock and (ii) one 5-year warrant to purchase one share of Common Stock at an exercise price of \$2.75 per share. The Company raised an aggregate of \$2,000,000 gross proceeds in the offering. The Company paid GVC Capital total compensation for its services, (i) for a price of \$100, 5-year warrants to purchase 75,000 shares at \$2.00 per share and 5-year warrants to purchase 75,000 shares at \$2.75 per share, (ii) a cash fee of \$150,000, (iii) a non-accountable expense allowance of \$60,000, and (iv) a warrant exercise fee equal to 3% of all sums received by the Company from the exercise of 750,000 warrants (not including 250,000 warrants issued to one investor) when they are exercised.

### **2016 Private Placements**

On April 29, 2016, the Company completed a private placement to which it sold 890,714 units to 10 accredited investors at a price of \$.70 per unit, with each unit consisting of one share of common stock and one warrant to purchase one share of Common Stock at an exercise price of \$.70 per share. The warrants have a five-year life for gross proceeds of \$623,500. We paid Cavu, our placement agent, a total compensation for its services of (i) five-year warrants to purchase 50,000 shares of our Common Stock, at an exercise price equal to \$.70 per share; and (ii) 50,000 shares of our Common Stock.

On October 6, 2016, the Company completed a private placement of a total of 1,000,000 units of its securities sold to 8 accredited investors at a price of \$0.70 per unit. Each unit consists of one share of Common Stock and one 5-year warrant to purchase one share of Common Stock at an exercise price of \$0.70 per share. The Company raised an aggregate of \$700,000 gross proceeds in the offering. The Company agreed to pay Cavu a cash fee of \$22,050 and five-year warrants to purchase 31,500 shares of Common Stock, at an exercise price equal to \$0.70 per share, on proceeds of \$315,000 raised by Cavu in connection with this offering.



### ***Stock Options and Stock Awards***

The Company has a 2014 Equity Compensation Plan and a 2018 Equity Compensation Plan.

From inception to December 31, 2018, we have granted stock options under our 2014 Equity Compensation Plan to purchase an aggregate of 2,238,500 shares at exercise prices ranging from \$0.60 to \$5.11 per share. Of the total options granted as of December 31, 2018, 1,068,333 have been exercised and 174,667 have been forfeited, resulting in 1,534,000 options outstanding. In addition, as of December 31, 2018, 375,000 stock awards have been issued under our 2014 Equity Compensation Plan.

From inception to December 31, 2018, we have granted stock options under our 2018 Equity Compensation Plan to purchase an aggregate of 281,500 shares at exercise prices ranging from \$2.25 to \$3.59 per share. No options have been exercised or forfeited under the 2018 Equity Compensation Plan. In addition, as of December 31, 2018, 9,500 stock awards have been issued under our 2018 Equity Compensation Plan.

### **PENNY STOCK REGULATION**

Shares of our Common Stock is subject to rules adopted the SEC that regulate broker-dealer practices in connection with transactions in “penny stocks.” Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the SEC, which contains the following:

- a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- a description of the broker’s or dealer’s duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities’ laws;
- a brief, clear, narrative description of a dealer market, including “bid” and “ask” prices for penny stocks and the significance of the spread between the “bid” and “ask” price;
- a toll-free telephone number for inquiries on disciplinary actions;
- definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- such other information and is in such form (including language, type, size and format), as the SEC shall require by rule or regulation.

Prior to effecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- the bid and offer quotations for the penny stock;
- the compensation of the broker-dealer and its salesperson in the transaction;
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and
- monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our Common Stock may have difficulty selling those shares because our Common Stock will probably be subject to the penny stock rules.

#### **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

#### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

*The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this report, particularly those under "Risk Factors." Dollars in tabular format are presented in thousands, except per share data, or otherwise indicated.*

#### **OVERVIEW**

GrowGeneration Corp. ("GrowGeneration, together with all of its wholly- subsidiaries or the "Company") was incorporated in Colorado in 2014 to build a national chain of hydroponic equipment and supply garden centers in the U.S. Today, GrowGeneration is a leading marketer and distributor of nutrients, growing media, advanced indoor garden, lighting and ventilation systems and accessories for hydroponic gardening. As of December 31, 2018, we have grown into a chain of eighteen (18) retail hydroponic/garden centers, in 7 states, with five (5) located in Colorado, six (6) in California, one (1) in Nevada, one (1) in the Washington, one (1) in Rhode Island, one (1) in Oklahoma and three (3) in Michigan. In the first quarter of 2019, we acquired three (3) new hydroponic stores, one each in California, Colorado and Nevada and we opened new stores in Oklahoma and Maine. In addition, during the first quarter of 2019, we consolidated two stores both in California and Colorado. GrowGeneration expansion plan includes both acquiring existing hydroponic operations, as well as opening up garden centers in selected markets. Our current 21 stores are owned and operated through seven wholly-owned subsidiaries.

GrowGeneration is one of the largest distributors of hydroponic products in the United States and is engaged in the business of marketing and distributing horticultural, organics, lighting and hydroponics products, including lighting fixtures, nutrients, seeds and growing media, systems, trays, fans, filters, humidifiers and dehumidifiers, timers, instruments, water pumps, irrigation supplies and hand tools.

Management focuses on a variety of key indicators and operating metrics to monitor the financial condition and performance of the continuing operations of our business. These metrics include consumer purchases (point-of-sale data), market share, category growth, net sales, gross profit margins, income from operations, net income and earnings per share. We also focus on measures to optimize cash flow and return on invested capital, including the management of working capital and capital expenditures.

In 2018, the Company focused its efforts on increasing its distributions through acquisitions and opening of new locations. We increased our store footprint from 10 to 21 locations in 2018. Sales more than doubled between 2017 and 2018. The Company acquired an e-commerce operation, HeavyGardens.com which is the basis for an omni-channel strategy that is being developed now to enable e-commerce at all of the GrowGeneration locations. We formed wholly-owned subsidiary GrowGeneration Canada Corp, GrowGeneration Hemp Corp's in order to develop supply chain and sales strategies for the value markets, in the U.S and Canada. Furthermore, the Company began its implementation of an enterprise resource planning ("ERP") system which is business process management software that allows an organization to use a system of integrated applications to manage the business and automate many back office functions related to technology, services and human resources, that has been successfully implemented in all the operations of the Company in Colorado and Oklahoma.

Capital raised in 2018 totaled \$19 million, which was raised primarily from the 3 largest private equity firms, Gotham Green Partners, Navy Capital and Merida Capital Partners.

On October 19, 2016, the Company was approved to start trading its Common Stock on the OTCQB Marketplace under the ticker symbol of “GRWG”.

On January 30, 2017, the Company entered into a commercial lease to rent certain premises located in Trinidad, Colorado, to be effective from March 1, 2017 to February 28, 2022. This 7,383 square feet premise is used by the Company to open a new store to replace and consolidate its existing 3,000 square feet store in Trinidad as part of the Company’s expansion plan.

On February 1, 2017, the Company entered into a commercial lease to rent certain 12,837 square feet premises located in Denver, Colorado, to be effective from February 1, 2017 to February 1, 2022. The premise is used by the Company for a new retail store, warehouse space and as the Company’s principal offices.

On February 1, 2017, the Company’s wholly-owned subsidiary, GrowGeneration California Corp. (“GrowGeneration California”) entered into an asset purchase agreement with an individual to purchase certain assets in connection with a retail hydroponic and garden supply business located in Santa Rosa, CA. The assets subject to the sale under the asset purchase agreement included inventories, fixed assets, tangible personal property, intangible personal property, receivables and a custom list. In addition to the cash consideration for the purchase of such assets, GrowGeneration California also agreed to make certain cash payments and 25,000 shares of Common Stock of the Company to the seller contingent on the achievement of revenue goals by the business in 2017, 2018 and 2019. The closing of the asset purchase took place on February 8, 2017. The contingent consideration for achieving certain revenue goals in 2017 were achieved and the cash payment of \$10,000 and the issuance of 25,000 shares of Common Stock were issued to the seller.

In connection with the purchase of the assets, GrowGeneration California also entered into a commercial lease, effective from March 1, 2017 to February 28, 2022, to rent the premises where the former business was located. In connection therewith, we closed our existing store in Santa Rosa and consolidated those operations with the GrowGeneration California operations opened at the new location.

On March 10, 2017, the Company closed a private placement of a total of 825,000 units of the Company’s securities to 4 accredited investors. Each unit consists of (i) one share of the Company’s Common Stock and (ii) one 5-year warrant to purchase one share of Common Stock at an exercise price of \$2.75 per share. The Company raised an aggregate of \$1,650,000 gross proceeds in the offering.

On April 25, 2017, the Company entered into a commercial lease through GrowGeneration California to rent certain premises located in San Bernardino, California, to be effective from May 1, 2017 to May 1, 2020. The premises is used by the Company to operate as a new store.

On May 16, 2017, the Company closed a private placement of a total of 1,000,000 units of its securities to 27 accredited investors through GVC Capital LLC (“GVC Capital”) as its placement agent. Each unit consists of (i) one share of the Company’s Common Stock and (ii) one 5-year warrant to purchase one share of Common Stock at an exercise price of \$2.75 per share. The Company raised an aggregate of \$2,000,000 gross proceeds in the offering. The Company paid GVC Capital total compensation for its services, (i) for a price of \$100, 5-year warrants to purchase 75,000 shares at \$2.00 per share and 5-year warrants to purchase 75,000 shares at \$2.75 per share, (ii) a cash fee of \$150,000, (iii) a non-accountable expense allowance of \$60,000, and (iv) a warrant exercise fee equal to 3% of all sums received by the Company from the exercise of 750,000 warrants (not including 250,000 warrants issued to one investor) when they are exercised.

On August 15, 2017, the Company entered into a commercial lease to rent certain premises located in Boulder, Colorado, to be effective from September 1, 2017 to August 31, 2019 and opened a new store.

On September 19, 2017, the Company entered into a commercial lease, effective from October 1, 2017 to November 30, 2021, to rent certain office and warehouse space located in North Las Vegas, Nevada, to open its fourteenth store.

Effective as of October 10, 2017, the Company’s Common Stock started trading on OTCQX Best Market.

On October 25, 2017, the Company entered into an asset purchase agreement through GrowGeneration California to purchase all of the assets of a retail hydroponic store, Humboldt Depot, located in Arcata, CA. The closing of the asset purchase took place on January 30, 2018. In connection with the purchase of the assets, the Company also entered into two commercial leases, to be effective from February 1, 2018 to January 31, 2021, to rent the premises where the store is located.

On December 22, 2017, the Company entered into an asset purchase agreement to purchase all of the assets of a retail hydroponic store, East Coast Hydroponic Warehouse, located in Warwick, RI. The closing of the asset purchase took place on January 23, 2018. In connection with the purchase of the assets, the Company also entered into a commercial lease, to be effective from January 24, 2018 to January 23, 2023, to rent the premises where the store is located.

Effective as of December 31, 2017, we consolidated our store located in Denver north with our Denver south store and warehouse facility we leased on February 1, 2017.

On January 17, 2018, the Company completed a private placement of a total of 36 units of its securities at the price of \$250,000 per unit. Each unit consists of (i) a .1% unsecured convertible promissory note of the principal amount of \$250,000, and (ii) a 3-year warrant entitling the holder to purchase 37,500 shares of Common Stock, at a price of \$.01 per share or through cashless exercise. The Company raised gross proceeds of \$9,000,000 from 23 accredited investors in the offering.

In April 2018, the Company consolidated its store located in Pueblo West with its Pueblo Downtown store.

On April 12, 2018, the Company entered into an asset purchase agreement through its wholly-owned subsidiary, GrowGeneration Michigan Corp., to purchase substantially all of the assets of Superior Growers Supply, Inc.'s business located in Michigan. In connection with the purchase of the assets, the Company also entered into a commercial lease, effective from April 12, 2018 to April 11, 2023, to rent the premises where a part of the assets are located. The Company entered into two additional leases. Following this acquisition, the Company opened three stores in the state of Michigan.

On May 9, 2018, the Company completed a private placement of a total of 33.33 units of the Company's securities at the price of \$300,000 per unit. Each unit consists of (i) 100,000 shares of the Company's \$.001 par value common stock and (ii) 50,000 3-year warrants, each entitling the holder to purchase one share of the Company's common stock, at a price of \$.35 per share or through cashless exercise. The Company raised a total of \$10,000,000 from three accredited investors.

In May 2018, the Company consolidated its store located in Colorado Springs, CO with our Denver, CO store.

On June 28, 2018, the Company entered into a restated and amended asset purchase agreement to purchase the assets of a retail hydroponic store, Santa Rosa Hydroponics & Grower Supply Inc., located in Santa Rosa, California. On July 13, 2018, the parties entered into an amendment to the purchase agreement and conducted the closing of the asset purchase. In connection with the purchase of the assets, the Company also entered into a commercial lease agreement, effective from July 14, 2018 to July 13, 2023, to rent the premises where the assets were located.

On August 23, 2018, the Company signed a commercial lease to open a 10,000 Sq. Ft. warehouse and product showroom in Oklahoma City to service the emerging legal cannabis cultivators in the State of Oklahoma. The lease is effective from October 1, 2018 to September 30, 2023. The Company opened this store for business on October 1, 2018.

On August 30, 2018, the Company entered into an asset purchase agreement, amended on September 14, 2018, with Virgus, Inc. d/b/a/ Heavy Gardens, an online store of hydroponic and garden supplies ("Heavy Gardens") to purchase the assets of Heavy Gardens through its wholly-owned subsidiary, GrowGeneration HG Corp. The closing of the asset purchase took place on September 14, 2018.

In October 2018, the Company consolidated its store located in Boulder, CO with our Denver, CO store.

On December 1, 2018, the Company entered into a lease agreement through its wholly-owned subsidiary, GrowGeneration Rhode Island, Corp., to rent certain premises located in Brewer, Maine, to be effective from December 1, 2018 to February 28, 2023. This premises will be used by the Company to open a new store.

On November 28, 2018, the Company entered into an asset purchase agreement through its wholly-owned subsidiary, GrowGeneration Pueblo Corp., to purchase the assets of Chlorophyll, Inc., located in Denver, Colorado. In connection with the purchase of the assets, the Company also entered into a five-year commercial lease agreement, effective from January 21, 2019, to rent the premises where the assets are located to open a new store.

In November 2018, the Company signed a commercial lease to open a 9,600 Sq. Ft. warehouse and product showroom in Tulsa to service the emerging legal cannabis cultivators in the State of Oklahoma. The lease is effective from January 1, 2019 to December 31, 2024. The Company opened this store for business on February 1, 2019.

Effective January 1, 2019 our two Santa Rosa, CA stores were consolidated into a single store at our Santa Rosa Moorland location acquired in July 2018.

On January 26, 2019, the Company entered into an asset purchase agreement through its wholly-owned subsidiary, GrowGeneration California Corp., to purchase the assets from Palm Springs Hydroponics, Inc. located in Palm Springs, California. In connection with the purchase of the assets, the Company also entered into a commercial lease agreement with a term of five years and three months, effective from February 7, 2019 to April 30, 2024, to rent the premises where the assets were located to open a new store.

On January 26, 2019, the Company entered into another asset purchase agreement through its wholly-owned subsidiary, GrowGeneration Nevada Corp., to purchase the assets from Reno Hydroponics, Inc. located in Reno, Nevada. In connection with the purchase of the assets, the Company also entered into a one-year commercial lease agreement, effective from February 1, 2019 to January 31, 2020, to rent the premises where the assets were located to open a new store.

In March 2019, the Company consolidated its store located in Canon City, CO with its Pueblo West, CO store.

## RESULTS OF OPERATIONS

	<b>For the Year Ended</b>		<b>Year to Year Comparison</b>	
	<b>December 31,</b>		<b>Increase/</b>	<b>Percentage</b>
	<b>2018</b>	<b>2017</b>	<b>(decrease)</b>	<b>Change</b>
Sales	\$ 29,000,730	\$ 14,363,886	\$ 14,636,844	102%
Cost of Sales	22,556,172	11,094,331	11,461,841	103%
Gross profit	6,444,558	3,269,555	3,175,003	97%
Operating expenses	10,700,206	6,120,068	4,580,138	75%
Loss from operations	(4,255,648)	(2,850,513)	(1,405,135)	49%
Other income (expense)	(818,107)	307,931	(1,126,038)	365%
Net loss	\$ (5,073,755)	\$ (2,542,582)	\$ (2,531,173)	100%

## Revenue

Net revenue for the year ended December 31, 2018 were approximately \$29 million, compared to approximately \$14.4 million for the year ended December 31, 2017, an increase of \$14.6 million, or 102%. The increase in revenues is due to the addition of 9 new retail stores and one e-commerce site during 2018 for which there were no sales for these retail stores and e-commerce site for the year ended December 31, 2017 and 3 stores opened during various times during 2017 that were open for all of 2018. Sales in the 9 new stores, the e-commerce site and the 3 stores opened in 2017 were approximately \$19.8 million for the year ended December 31, 2018 compared to approximately \$2.1 million for the year ended December 31, 2017. The Company also had store closures and consolidations in 2018 and 2017. Sales of the closed and consolidated stores was approximately \$716,000 for the year ended December 31, 2018 and approximately \$3.3 million for the year ended December 31, 2017.

While the Company continues to focus on the 7 markets noted below and the growth opportunities that exist in each market, we also are focusing on new store acquisitions, proprietary products, and developing our online sales with HeavyGargens.com and Amazon sales.

	<b>Sales by Market</b>		
	<b>Year Ended</b>	<b>Year Ended</b>	<b>Variance</b>
	<b>December 31,</b>	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>	
Colorado market	\$ 7,238,059	\$ 6,280,842	\$ 957,217
California market	9,148,343	2,462,646	6,685,697
Rhode Island market	4,700,102	-	4,700,102
Michigan market	3,086,693	-	3,086,693
Nevada market	1,924,025	1,782,624	141,401
Washington market	939,231	533,742	405,489
Oklahoma	463,278	-	463,278
Closed/consolidated locations	716,083	3,304,033	(2,587,950)
E-commerce site	784,916	-	784,916
Total revenues	\$ 29,000,730	\$ 14,363,886	\$ 14,636,843

Overall sales in the Colorado market increased approximately \$957,200 or 15%, as noted above, comparing the year ended December 31, 2018 to the year ended December 31, 2017, with a majority of that increase attributable to the opening of our new Denver South store location in April 2017. We continue to focus selling efforts in building growth in this market.

Our sales in the California market have seen growth of approximately \$6.7 million primarily from the addition of 5 new stores through acquisitions during 2018, offset by a decline in revenues of approximately \$404,000 or 24% resulting from the Santa Rosa wildfires in October 2017, as discussed above, comparing the year ended December 31, 2018 to the year ended December 31, 2017. The California market experienced slower growth in the current year as a result of a change in the regulatory environment, and the implementation of new rules and regulations which have slowed the issuance of new licenses. However, the Company is positioned to grow as new licenses are issued. With the recent acquisition of Santa Rosa Hydro in July 2018, one of the country's largest hydroponic store, the Company projects to add an incremental \$8.0 million annually in sales in the Santa Rosa market.

Revenues in the Rhode Island and Michigan markets are the result of new acquisitions in 2018 for which there was no comparable revenue in 2017. Three stores were acquired in the Michigan market in April 2018 and one store was acquired in the Rhode Island market in January 2018. The Company is pursuing new store acquisitions in both of these markets and believes that these markets will be growth markets in 2019.

Our revenue in the Nevada market increased by approximately \$141,400 comparing the year ended December 31, 2018 to year ended December 31, 2017. The Company continues to focus on adding commercial customers in the Nevada market.

The increase in the Washington market is due to the new store acquisition in May 2017, for which there was only revenue for approximately eight months in 2017 compared to a full year for 2018.

Oklahoma is a new market for the Company. Our new store opened on October 1, 2018.

The Company had the same 6 stores (four in Colorado, one in CA and one in Nevada) opened for the entire year ended December 31, 2018 and 2017. These same stores generated \$8.4 million in sales for the year ended December 31, 2018, compared to \$8.9 million in sales for the same period ended December 31, 2017, a decrease of 5.4%. The decline in revenues in these six same store sales was substantially offset by sales from new stores opened in 2017 and 2018. In particular, one store opened in south Denver in mid-April 2017, had revenues of \$2.4 million in 2018, a 100% increase over 2017.

	<b>6 Same Stores</b>		
	<b>Year ended December 31, 2018</b>	<b>Year ended December 31, 2017</b>	<b>Variance</b>
Net revenue	\$ 8,448,949	\$ 8,926,734	\$ (477,785)

## **Cost of Goods Sold**

Cost of goods sold for the year ended December 31, 2018 increased approximately \$11.5 million, to \$22.6 million, an increase of 103%, as compared to \$11.1 million for the year ended December 31, 2017. The increase in cost of goods sold was due to the 102% increase in revenues comparing the year ended December 31, 2017 to 2018 primarily due to the increase in the number of stores between 2017 and 2018 as noted above.

Gross profit was \$6.4 million for the year ended December 31, 2018, as compared to \$3.3 million for the year ended December 31, 2017, an increase of approximately \$3.1 million or 97%. Gross profit as a percentage of sales was 22.2% for the year ended December 31, 2018, compared to 22.8% for the year ended December 31, 2017. The slight decrease in the gross profit percentage was primarily due to the increase in non-cash inventory valuation adjustments of approximately \$870,000 in 2018 compared to \$463,000 in 2017. The impact of the inventory valuation adjustments in 2018 and 2017 was to reduce margin percentage by 3%. The inventory valuation adjustments consist of a reserve for obsolete inventory as well as the write down of inventory to its current market value where vendor pricing has declined during the year and we still held inventory purchased at higher prices.

## **Operating Expenses**

Operating expenses are comprised of store operations, primarily payroll, rent and utilities, and corporate overhead. Store operating costs were approximately \$5.2 million for the year ended December 31, 2018 and approximately \$3.0 million for the year ended December 31, 2017, an increase of approximately \$2.2 million or 76%. The increase in store operating costs was due to 1) the addition of 9 new stores in 2018, and 2) the addition of three stores at various times in 2017 that were open for all of 2018. Revenues increased 102% but store operating costs increased only 76%. Store operating costs as a percentage of sales were 18% for the year ended December 31, 2018 compared to 20.6% for the year ended December 31, 2017, a 15% improvement. Corporate overhead is comprised of, share based compensation, depreciation and amortization, general and administrative costs and corporate salaries and related expenses and were approximately \$5.5 million for the year ended December 31, 2018 compared to approximately \$3.2 million for the year ended December 31, 2017. Corporate overhead costs were 19% of revenue for the year ended December 31, 2018 compare to 22% for the year ended December 31, 2017. The increase in salaries and related expense from 2017 to 2018 was due to the increase in corporate staff, primarily, accounting and finance, inventory management, sales and information technology, to support both current and future operations and to increase outside sales. Corporate salaries as a percentage of sales were 5.7% for the year ended December 31, 2018 and 6.3% for the year ended December 31, 2017. The decrease in this percentage is because corporate staff costs do not rise directly commensurate with the increase in revenues. In addition, current corporate staff levels will not rise commensurate with increase in revenues in the future and the percentage of salaries to sales will decline. General and administrative expenses, comprised mainly of advertising and promotions, travel & entertainment, professional fees and insurance, was approximately \$1.6 million for the year ended December 31, 2018 and approximately \$1 million for the year ended December 31, 2017 with a majority of the increase in advertising and promotion and travel and entertainment. General and administrative costs as a percentage of revenue was 5.5% for the year ended December 31, 2018 compared to 7.1% for the year ended December 31, 2017. The decrease in this percentage once again does not rise commensurate with the increase in revenues.

Corporate overhead includes non-cash expenses, consisting primarily of depreciation and share-based compensation, which was approximately \$2.2 million for the year ended December 31, 2018 compared to approximately \$1.2 for the year ended December 31, 2017.

## **Net Income (Loss)**

The net loss for the year ended December 31, 2018 was approximately \$5.1 million compared to approximately \$2.5 million for the year ended December 31, 2017, an increase in the net loss of \$2.6 million. The increase in the net loss comparing 2018 to 2017 was primarily due to 1) an increase in non-cash shares-based compensation of approximately \$817,000, 2) increases in other operating costs such as general and administrative costs and salaries of approximately \$1.3 million, 3) increase in depreciation and amortization of approximately \$200,000 and 4) non-cash amortization of debt discount of approximately \$990,000 for which there was none in 2017. The increases in these costs noted above in 2018 were primarily offset by the increase in store net profit (defined as gross profit less store operating costs) of approximately \$936,000.

## Operating Activities

Net cash used in operating activities for the year ended December 31, 2018 was approximately \$1.5 million compared to \$3.4 million for the year ended December 31, 2017, a decrease of approximately \$1.9 million. Cash provided by operating activities is driven by our net loss and adjusted by non-cash items as well as changes in operating assets and liabilities. Non-cash adjustments primarily include depreciation, amortization of intangible assets, share based compensation expense and changes in valuation allowances. Non-cash adjustment totaled approximately \$3.4 million and approximately \$1.4 for the years ended December 31, 2018 and 2017, respectively, so non-cash adjustments had a greater impact on net cash provided by operating activities for the year ended December 31, 2018 than the same period in 2017. The net cash used in operating activities for 2018 was primarily related to the increase in the net loss of approximately \$2.5 million over 2017, offset by the increase in non-cash adjustments of approximately \$2 million. The increase in inventory and other current assets totaling approximately \$1.2 million, is offset by the increase in accounts payable and other current liabilities of approximately \$1.3 million. The combination of these factors discussed above resulted in an overall decrease in net cash used in operating activities of approximately \$1.9 million comparing 2017 to 2018.

Net cash used in operating activities for the year ended December 31, 2017 was approximately \$3.4 million. This amount was primarily related the net loss of approximately \$2.5 million offset by non-cash adjustments totaling approximately \$1.4 million, increase in inventory of \$2.1 million, increase in accounts receivable and other current assets of \$ approximately \$864,000, partially offset by an increase in accounts payable and other current liabilities of approximately \$732,000. The increase in inventory and a corresponding increase in trade payables was attributable to both an increase in revenues and an increase in the number of operating stores between December 31, 2016 and December 31, 2017.

Net cash used in investing activities was approximately \$6.4 for the year ended December 31, 2018 and approximately \$1.2 million for the year ended December 31, 2017. The increase in 2018 was due to the multiple asset acquisition throughout 2018 and the purchase of vehicles and store equipment to support new store operations. Between January 1, 2017 and December 31, 2017, the Company opened 5 new locations, as such the net cash used in investing activities was equipment to support those new store openings

Net cash provided by financing activities for the year ended December 31, 2018 was approximately \$21.3 million and represented proceeds from the sale of Common Stock and exercise of warrants, net of offering costs, of \$12.9 million and proceeds from the issuance of convertible debt of approximately \$8.9 million. Net cash provided by financing activities for the year ended December 31, 2017 was approximately \$5.2 million and was primarily from proceeds from the sales of Common Stock and exercise of warrants.

## Use of Non-GAAP Financial Information

The Company believes that the presentation of results excluding certain items in "Adjusted EBITDA," such as non-cash equity compensation charges, provides meaningful supplemental information to both management and investors, facilitating the evaluation of performance across reporting periods. The Company uses these non-GAAP measures for internal planning and reporting purposes. These non-GAAP measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net income or net income per share prepared in accordance with generally accepted accounting principles.

Set forth below is a reconciliation of Adjusted EBITDA to net income (loss):

	Year ended	
	December 31, 2018	December 31, 2017
Net loss	\$ (5,073,755)	\$ (2,542,582)
Interest	23,565	15,339
Depreciation and Amortization	351,070	151,561
EBITDA	(4,699,120)	(2,375,682)
Lease termination fees	35,000	-
Audit fees related to business combinations	85,200	-
Inventory valuation adjustments	870,257	201,170
Amortization of debt discount	989,601	-
Share based compensation (option comp, warrant comp, stock issued for services)	1,895,219	1,077,932
Adjusted EBITDA	\$ (823,843)	\$ (1,096,580)



## LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2018, we had working capital of approximately \$21.6 million, compared to working capital of approximately \$5.6 million as of December 31, 2017, an increase of approximately \$16 million. The increase in working capital from December 31, 2017 to December 31, 2018 was due primarily to the proceeds from the sale of Common Stock, proceeds for a convertible debt offering and exercise of warrants totaling approximately \$21.8 million. At December 31, 2018, we had cash and cash equivalents of approximately \$14.6 million. We believe that existing cash and cash equivalents are sufficient to fund existing operations for the next twelve months.

We anticipate that we will need additional financing in the future to continue to acquire and open new stores. To date we have financed our operations through the issuance of the sale of Common Stock, warrants and convertible debentures.

### Financing Activities

#### 2017 Offerings

On March 10, 2017, the Company closed a private placement of a total of 825,000 units of its securities to 4 accredited investors. Each unit consists of (i) one share of the Company's Common Stock and (ii) one 5-year warrant to purchase one share of Common Stock at an exercise price of \$2.75 per share. The Company raised an aggregate of \$1,650,000 gross proceeds in the offering.

On May 15, 2017, the Company closed a private placement of a total of 1,000,000 units of its securities through GVC Capital LLC ("GVC Capital") as its placement agent. Each unit consists of (i) one share of the Company's Common Stock and (ii) one 5-year warrant to purchase one share of Common Stock at an exercise price of \$2.75 per share. The Company raised an aggregate of \$2,000,000 gross proceeds in the offering. The Company paid GVC Capital a total compensation for its services of (i) for a price of \$100 5-year warrants to purchase 75,000 shares at \$2.00 per share and 5-year warrants to purchase 75,000 shares at \$2.75 per share, (ii) a cash fee of \$150,000, (iii) a non-accountable expense allowance of \$60,000, and (iv) a warrant exercise fee equal to 3% of all sums received by the Company from the exercise of 750,000 warrants (not including the 250,000 warrants issued to Merida Capital Partners, LP) when they are exercised.

#### 2018 Offerings

On January 17, 2018, the Company completed a private placement of a total of 36 units of its securities at the price of \$250,000 per unit. Each unit consists of (i) a .1% unsecured convertible promissory note of the principal amount of \$250,000, and (ii) a 3-year warrant entitling the holder to purchase 37,500 shares of Common Stock, at a price of \$.01 per share or through cashless exercise. The Company raised gross proceeds of \$9,000,000 from 23 accredited investors in the offering.

On May 9, 2018, the Company completed a private placement of a total of 33.33 units of the Company's securities at the price of \$300,000 per unit pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder. Each unit consists of (i) 100,000 shares of the Company's \$.001 par value common stock and (ii) 50,000 3-year warrants, each entitling the holder to purchase one share of the Company's common stock, at a price of \$.35 per share or through cashless exercise. The Company raised a total of \$10,000,000 from three accredited investors.

### OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements (as that term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

### RECENTLY ISSUED ACCOUNTING STANDARDS

#### Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (Topic 230) ("ASU 2016-15") – *Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this update were effective for financial statements issued for annual periods that began after December 15, 2017, including interim periods within those annual periods, and early application was permitted. An entity should apply ASU 2016-15 using a retrospective transition method to each period presented. We adopted ASU 2016-15 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230) (“ASU 2016-18”) – *Restricted Cash*, which outlines that a statement of cash flows explains the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 was effective for public business entities for annual periods, including interim periods within those annual periods, that began after December 15, 2017, and early application was permitted. An entity should apply ASU 2016-18 using a retrospective transition method to each period presented. We adopted ASU 2016-18 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation* (Topic 718) (“ASU 2017-09”) – *Scope of Modification Accounting*, which provides clarity and reduces complexity when an entity has changes to the terms or conditions of a share-based payment award, and when an entity should apply modification accounting. The amendments in this update are effective for financial statements issued for annual periods that began after December 15, 2017, including interim periods within those annual periods, and early adoption was permitted for interim or annual periods. The amendments in ASU 2017-09 should be applied prospectively to awards modified on or after the adoption date. We adopted ASU 2017-09 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

#### **Recently Issued Accounting Pronouncements – Pending Adoption**

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) when the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. Additionally, the ASU 2016-01 changes the disclosure requirements for financial instruments. The new standard will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted for certain provisions. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt certain provisions early.

In January 2017, the FASB issued ASU 2017-04 simplifying the accounting for goodwill impairment for all entities. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). The ASU is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We are currently evaluating the impact of the new guidance on our goodwill impairment testing process and consolidated financial statements.

On August 28, 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging,” which better aligns risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and in some situations better align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The new standard will be effective for the Company as of January 1, 2019. Early adoption is permitted. We do not believe the adoption of this new standard will have any impact on our consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), which, among other things, requires an entity to recognize a right-of-use asset and a lease liability on the balance sheet for all leases, including operating leases, with a term greater than twelve months. Expanded disclosures with additional qualitative and quantitative information will also be required. ASU 2016-02 and its amendments are effective for interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. In July 2018, the FASB issued amendments in ASU 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the year of adoption and to recognize the effects of applying the new standard as a cumulative-effect adjustment to the opening balance of retained earnings. The Company has elected this transition approach and will recognize the cumulative impact of adoption in the opening balance of retained earnings as of January 1, 2019.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## Connolly, Grady & Cha, P.C.

Certified Public Accountants

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of GrowGeneration Corp and Subsidiaries

#### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of GrowGeneration Corp and Subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our audits also included evaluation of the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ Connolly, Grady & Cha, P.C.  
Certified Public Accountants

Springfield, Pennsylvania  
March 29, 2019

We have served as the Company's auditor since 2014

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 14,639,981	\$ 1,215,265
Accounts receivable, net of allowance for doubtful accounts of \$133,288 and \$97,829 at December 31, 2018 and 2017	862,397	653,568
Inventory	8,869,469	4,585,341
Prepaid expenses and other current assets	606,037	711,852
Total current assets	24,977,884	7,166,026
Property and equipment, net	1,820,821	1,259,483
Intangible assets, net	114,155	53,286
Goodwill	8,752,909	592,500
Other assets	227,205	183,113
<b>TOTAL ASSETS</b>	<b>\$ 35,892,974</b>	<b>\$ 9,254,408</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,819,411	\$ 1,067,857
Other accrued liabilities	40,151	70,029
Payroll and payroll tax liabilities	410,345	247,887
Customer deposits	516,038	92,350
Sales tax payable	191,958	73,220
Current portion of long-term debt	436,813	41,707
Total current liabilities	3,414,716	1,593,050
Long-term convertible debt, net of debt discount and debt issuance costs	2,044,113	-
Long-term debt, net of current portion	375,626	82,537
Total liabilities	5,834,455	1,675,587
Commitments and contingencies		
Stockholders' Equity:		
Common stock; \$.001 par value; 100,000,000 shares authorized; 27,948,609 and 16,846,835 shares issued and outstanding as of December 31, 2018 and 2017, respectively	27,949	16,846
Additional paid-in capital	38,796,562	11,254,212
Accumulated deficit	(8,765,992)	(3,692,237)
Total stockholders' equity	30,058,519	7,578,821
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 35,892,974</b>	<b>\$ 9,254,408</b>

The accompanying notes are an integral part of these audited consolidated financial statements.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Years Ended</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Sales	\$ 29,000,730	\$ 14,363,886
Cost of sales	<u>22,556,172</u>	<u>11,094,331</u>
Gross profit	6,444,558	3,269,555
Operating expenses:		
Store operations	5,202,330	2,963,306
General and administrative	1,603,421	1,022,401
Share based compensation	1,895,219	1,077,932
Depreciation and amortization	351,070	151,561
Salaries and related expenses	<u>1,648,166</u>	<u>904,868</u>
Total operating expenses	10,700,206	6,120,068
Net loss from operations	(4,255,648)	(2,850,513)
Other income (expense):		
Gain on settlements	-	322,058
Other income	115,875	1,633
Other expense	-	(421)
Interest income	79,184	-
Interest expense	(23,565)	(15,339)
Amortization of debt discount	<u>(989,601)</u>	<u>-</u>
Total non-operating income (expense), net	(818,107)	307,931
Net loss	<u>\$ (5,073,755)</u>	<u>\$ (2,542,582)</u>
Net loss per shares, basic and diluted	<u>\$ (.22)</u>	<u>\$ (.18)</u>
Weighted average shares outstanding, basic and diluted	<u>23,492,650</u>	<u>14,510,582</u>

The accompanying notes are an integral part of these audited consolidated financial statements.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated (Deficit)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balances, December 31, 2016	11,742,834	\$ 11,743	\$ 4,696,221	\$ (1,149,655)	\$ 3,558,309
Sale of Common stock and warrants, net of fees	1,825,000	1,825	3,289,740	-	3,291,565
Warrants issued for services	-	-	263,986	-	263,986
Stock option expense	-	-	188,666	-	188,666
Common stock issued upon warrant exercise	2,755,001	2,754	1,925,747	-	1,928,501
Common stock issued upon exercise of options	50,000	50	29,950	-	30,000
Stock issued for services	474,000	474	859,902	-	860,376
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,542,582)</u>	<u>(2,542,582)</u>
Balances, December 31, 2017	16,846,835	\$ 16,846	\$ 11,254,212	\$ (3,692,237)	\$ 7,578,821
Sale of Common stock and warrants, net of fees	3,333,333	3,333	9,956,544	-	9,959,877
Warrants issued for services	-	-	456,807	-	456,807
Stock option expense	-	-	546,370	-	546,370
Common stock issued upon warrant exercise	3,076,461	3,077	2,590,617	-	2,593,694
Common stock issued upon exercise of options	995,186	995	320,706	-	321,701
Common stock issued in connection with business combinations	1,550,000	1,550	5,303,600	-	5,305,150
Common stock issued upon conversion of convertible debt	2,013,294	2,014	3,619,917	-	3,621,931
Warrants issued with convertible debt	-	-	4,239,000	-	4,239,000
Common stock issued for services	107,500	108	400,395	-	400,503
Common stock issued for accrued share-based compensation	26,000	26	108,394	-	108,420
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,073,755)</u>	<u>(5,073,755)</u>
Balances, December 31, 2018	<u>27,948,609</u>	<u>\$ 27,949</u>	<u>38,796,562</u>	<u>\$ (8,765,992)</u>	<u>\$ 30,058,519</u>

The accompanying notes are an integral part of these audited consolidated financial statements.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2018	2017
Cash Flows from Operating Activities:		
Net loss	\$ (5,073,755)	\$ (2,542,582)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	351,069	151,561
Provision for doubtful accounts receivable	35,459	50,000
Inventory valuation reserve	153,397	73,648
Amortization of debt discount	989,601	
Stock based compensation	1,895,219	1,077,932
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(244,288)	(312,333)
Inventory	(792,575)	(2,084,551)
Prepaid expenses and other assets	(182,616)	(551,718)
Increase (decrease) in:		
Accounts payable and accrued liabilities	514,154	494,093
Customer deposits	423,688	40,678
Payroll and payroll tax liabilities	270,878	170,819
Sales taxes payable	118,738	26,278
Net Cash (Used In) Operating Activities	<u>(1,541,031)</u>	<u>(3,406,175)</u>
Cash Flows from Investing Activities:		
Assets acquired in business combinations	(5,680,409)	-
Purchase of furniture and equipment	(625,379)	(775,101)
Purchase of goodwill and other intangibles	(61,523)	(403,907)
Net Cash (Used In) Investing Activities	<u>(6,367,311)</u>	<u>(1,179,008)</u>
Cash Flows from Financing Activities:		
Principal payments on long term debt	(454,979)	(56,259)
Proceeds from issuance of convertible debt, net of expenses	8,912,765	
Proceeds from the sales of common stock and exercise of warrants and options, net of expenses	12,875,272	5,250,063
Net Cash Provided by Financing Activities	<u>21,333,058</u>	<u>5,193,804</u>
Net Increase in Cash and Cash Equivalents	13,424,716	608,621
Cash and Cash Equivalents at Beginning of Period	<u>1,215,265</u>	<u>606,644</u>
Cash and Cash Equivalents at End of Period	<u>\$ 14,639,981</u>	<u>\$ 1,215,265</u>
Supplemental Information:		
Common stock and warrants issued for prepaid services	<u>45,000</u>	<u>416,886</u>
Acquisition of vehicles with debt financing	<u>56,174</u>	<u>84,968</u>
Insurance premium financing	<u>-</u>	<u>30,366</u>
Interest paid during the period	<u>\$ 23,565</u>	<u>\$ 15,339</u>
Acquisition of assets with seller financing	<u>1,087,000</u>	<u>-</u>

The accompanying notes are an integral part of these audited consolidated financial statements.



**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

1. NATURE OF OPERATIONS

GrowGeneration Corp (the “Company”) was incorporated on March 6, 2014 in Colorado under the name of Easylife Corp and changed its name to GrowGeneration Corp. It maintains its principal office in Denver, Colorado.

GrowGeneration Corp is engaged in the business of operating retail hydroponic stores through its wholly owned subsidiaries, GrowGeneration Pueblo Corp, GrowGeneration California Corp, Grow Generation Nevada Corp, GrowGeneration Washington Corp, GrowGeneration Rhode Island Corp, GrowGeneration Oklahoma Corp, GrowGeneration Canada, GrowGeneration HG Corp, GrowGeneration Hemp Corp, GGen Distribution Corp, GrowGeneration Michigan Corp, GrowGeneration New England Corp and GrowGeneration Management Corp. Incorporated in Colorado in 2014, the Company has grown to currently own and operate, as of the date of this filing, a chain of 21 retail hydroponic/gardening stores, with 5 locations in Colorado, 6 locations in California, 2 location in Nevada, 1 location in Washington, 3 locations in Michigan, 1 location in Rhode Island, 2 locations in Oklahoma, and 1 location in Maine. Our primary strategic plan is to grow by acquisition of hydroponic/garden stores throughout the United States and rely on organic growth.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The financial statements are prepared under the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 105-10, *Generally Accepted Accounting Principles*, in accordance with accounting principles generally accepted in the U.S. (“GAAP”).

The consolidated financial statements include the Company and its wholly-owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

Reclassifications

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported consolidated net loss.

Use of Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

Segment Reporting

Management makes significant operating decisions based upon the analysis of the entire Company and financial performance is evaluated on a company-wide basis. Accordingly, the various products sold are aggregated into one reportable operating segment as under guidance in the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC or codification”) Topic 280 for segment reporting.

Revenue Recognition

The Company recognizes revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or receives services. When the Company receives payment from customers before the customer has taken possession of the merchandise or the service has been performed, the amount received is recorded as Deferred Revenue in the accompanying Consolidated Balance Sheets until the sale or service is complete.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels. These vendor allowances are accrued as earned, with those allowances received as a result of attaining certain purchase levels accrued over the incentive period based on estimates of purchases.

Volume rebates earned are initially recorded as a reduction in Merchandise Inventories and a subsequent reduction in Cost of Sales when the related product is sold.

Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company's cash equivalents are carried at fair market value and consist primarily of money market funds.

Accounts Receivable

Accounts receivable are stated at the amount the Company expects to collect from balances outstanding at year-end, based on the Company's assessment of the credit history with customers having outstanding balances and current relationships with them. A reserve for uncollectable receivables is established when collection of amounts due is deemed improbable. Indicators of improbable collection include client bankruptcy, client litigation, client cash flow difficulties or ongoing service or billing disputes. Credit is generally extended on a short-term basis thus receivables do not bear interest. At December 31, 2018 and 2017, the Company established an allowance for doubtful accounts of \$133,288 and \$97,829, respectively.

Inventory

Inventory consists primarily of gardening supplies and materials and is recorded at the lower of cost (first-in, first-out method) or market. The company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. Write-downs and write-offs are charged to cost of goods sold.

Property and Equipment

Property and equipment are carried at cost. Leasehold Improvements are amortized using the straight-line method over the original term of the lease or the useful life of the improvement, whichever is shorter. Renewals and betterment that materially extend the life of the asset are capitalized. Expenditures for maintenance and repairs are charged against operations. Depreciation of property and equipment is provided on the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

	<b>Estimated Lives</b>
Vehicle	5 years
Furniture and fixtures	5-7 years
Computers and equipment	3-5 years
Leasehold improvements	10 years

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

The fair value of certain of our financial instruments including cash and cash equivalents, accounts receivable, prepaid assets, employee advances, accounts payable, customer deposits, payroll and payroll tax liabilities, sales tax payable and notes payable approximate their carrying amounts because of the short-term maturity of these instruments.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, Income Taxes, which requires the recognition of deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate principally to depreciation of property and equipment, reserve for obsolete inventory and bad debt. Deferred tax assets and liabilities represent the future tax consequence for those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized.

The Company adopted the provisions of FASB ASC 740-10-25, which prescribes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in income tax returns. FASB ASC 740-10-25 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, and accounting for interest and penalties associated with tax positions. The Company's tax returns are subject to tax examinations by U.S. federal and state authorities until respective statute of limitation. Currently, the 2017, 2016, and 2015 tax years are open and subject to examination by taxing authorities. However, the Company is not currently under audit nor has the Company been contacted by any of the taxing authorities. The Company does not have any accruals for uncertain tax positions as of December 31, 2018. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date.

Advertising

The Company expenses advertising and promotional costs when incurred. Advertising and promotional expenses for the years ended December 31, 2018 and 2017 amounted to \$269,550 and \$264,632, respectively.

Concentration of Risk

Financial instruments that potentially expose us to concentrations of risk consist primarily of cash and cash equivalents and accounts receivable, which are generally not collateralized. Our policy is to place our cash and cash equivalents with high quality financial institutions, in order to limit the amount of credit exposure. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. At December 31, 2018 and 2017, the Company had \$12,962,958 and \$750,141, respectively, in excess of the FDIC insurance limit. The Company generally does not require collateral from its customers, but its credit extension and collection policies include analyzing the financial condition of potential customers, establishing credit limits, monitoring payments, and aggressively pursuing delinquent accounts. The Company maintains allowance for potential credit losses.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets. The Company accounts for goodwill in accordance with the provisions of FASB Accounting Standards Update (ASU) 2014-02, Intangibles – Goodwill and Other (Topic 350) Accounting for Goodwill. In accordance with FASB ASC Topic 350 for Intangibles – Goodwill and Other, goodwill is not amortized but is reviewed for potential impairment on an annual basis, or if events or circumstances indicate a potential impairment, at the reporting unit level. The Company’s review for impairment includes an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its’ carrying value, including goodwill. If it is determined that it is more likely than not that the fair value of a reporting unit is less than its’ carrying value, including goodwill, the first step of the two-step quantitative goodwill impairment test is performed, which compares the fair value of the reporting unit with its’ carrying amounts, including goodwill. If the fair value of the reporting unit exceeds its’ carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit exceeds its fair value, additional procedures must be performed. That additional procedure compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

Earnings (Loss) Per Share

The Company computes net earnings (loss) per share under Accounting Standards Codification subtopic 260-10, “Earnings Per Share” (“ASC 260-10”). Basic earnings or loss per share (“EPS”) is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) by the weighted-average of all potentially dilutive shares of common stock that were outstanding during the periods presented.

The treasury stock method is used in calculating diluted EPS for potentially dilutive stock options and share purchase warrants, which assumes that any proceeds received from the exercise of in-the-money stock options and share purchase warrants, would be used to purchase common shares at the average market price for the period.

Stock Based Compensation

The Company records stock-based compensation in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation* (“ASC 718”). The Company estimates the fair value of stock options using the Black-Scholes option pricing model. The fair value of stock options granted is recognized as an expense over the requisite service period. Stock-based compensation expense for all share-based payment awards are recognized using the straight-line single-option method.

The Black-Scholes option pricing model requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the expected life of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company’s stock price. These factors could change in the future, affecting the determination of stock-based compensation expense in future periods.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

3. RECENT ACCOUNTING PRONOUNCEMENTS

**Recently Adopted Accounting Pronouncements**

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows* (Topic 230) (“ASU 2016-15”) – *Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this update were effective for financial statements issued for annual periods that began after December 15, 2017, including interim periods within those annual periods, and early application was permitted. An entity should apply ASU 2016-15 using a retrospective transition method to each period presented. We adopted ASU 2016-15 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230) (“ASU 2016-18”) – *Restricted Cash*, which outlines that a statement of cash flows explains the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 was effective for public business entities for annual periods, including interim periods within those annual periods, that began after December 15, 2017, and early application was permitted. An entity should apply ASU 2016-18 using a retrospective transition method to each period presented. We adopted ASU 2016-18 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation* (Topic 718) (“ASU 2017-09”) – *Scope of Modification Accounting*, which provides clarity and reduces complexity when an entity has changes to the terms or conditions of a share-based payment award, and when an entity should apply modification accounting. The amendments in this update are effective for financial statements issued for annual periods that began after December 15, 2017, including interim periods within those annual periods, and early adoption was permitted for interim or annual periods. The amendments in ASU 2017-09 should be applied prospectively to awards modified on or after the adoption date. We adopted ASU 2017-09 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

**Recently Issued Accounting Pronouncements – Pending Adoption**

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires that (i) all equity investments, other than equity-method investments, in unconsolidated entities generally be measured at fair value through earnings and (ii) when the fair value option has been elected for financial liabilities, changes in fair value due to instrument-specific credit risk will be recognized separately in other comprehensive income. Additionally, the ASU 2016-01 changes the disclosure requirements for financial instruments. The new standard will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted for certain provisions. The Company is in the process of determining the effects the adoption will have on its consolidated financial statements as well as whether to adopt certain provisions early.

In January 2017, the FASB issued ASU 2017-04 simplifying the accounting for goodwill impairment for all entities. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (Step 2 of the current two-step goodwill impairment test under ASC 350). Instead, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (Step 1 of the current two-step goodwill impairment test). The ASU is effective prospectively for reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We are currently evaluating the impact of the new guidance on our goodwill impairment testing process and consolidated financial statements.

On August 28, 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging,” which better aligns risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and in some situations better align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The new standard will be effective for the Company as of January 1, 2019. Early adoption is permitted. We do not believe the adoption of this new standard will have any impact on our consolidated financial statements and footnote disclosures.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

3. RECENT ACCOUNTING PRONOUNCEMENTS, continued

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which, among other things, requires an entity to recognize a right-of-use asset and a lease liability on the balance sheet for all leases, including operating leases, with a term greater than twelve months. Expanded disclosures with additional qualitative and quantitative information will also be required. ASU 2016-02 and its amendments are effective for interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. In July 2018, the FASB issued amendments in ASU 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the year of adoption and to recognize the effects of applying the new standard as a cumulative-effect adjustment to the opening balance of retained earnings. The Company has elected this transition approach and will recognize the cumulative impact of adoption in the opening balance of retained earnings as of January 1, 2019.

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 consists of the following:

	December 31,	
	2018	2017
Vehicle	\$ 535,857	\$ 243,264
Leasehold improvements	441,725	181,724
Furniture, fixtures and equipment	1,417,061	1,057,902
	2,394,643	1,482,890
Accumulated depreciation	(573,822)	(223,407)
Property and equipment, net	<u>\$ 1,820,821</u>	<u>\$ 1,259,483</u>

Depreciation expense was \$350,415 and \$150,440 for the years ended December 31, 2018 and 2017, respectively.

5. INCOME TAXES

The Company and subsidiaries file a consolidated federal income tax return. The Company's consolidated provision for income taxes for the years ended December 31, 2018 and 2017 consists of the following:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Income Tax Expense (benefit)		
Current federal tax expense		
Federal	\$ -0-	\$ -0-
State	-0-	-0-
Deferred tax (benefit)		
Federal	\$ -0-	\$ -0-
State	-0-	-0-
Total	<u>\$ -0-</u>	<u>\$ -0-</u>

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

5. INCOME TAXES, continued

A summary of deferred tax assets and liabilities as of December 31, 2018 and 2017 is as follows:

	<u>Year Ended December 31, 2018</u>	<u>Year Ended December 31, 2017</u>
<b>Deferred tax assets:</b>		
Net operating losses	2,165,100	1,259,000
Share based compensation	663,300	273,500
Amortization of debt discount	346,400	-
Reserve for inventory obsolescence	\$ 53,700	\$ 41,700
Reserve for bad debt	12,400	34,200
Less valuation allowance	<u>(2,882,900)</u>	<u>(1,398,400)</u>
Total Deferred Tax Asset	<u>\$ 358,000</u>	<u>\$ 210,000</u>
<b>Deferred tax liabilities:</b>		
Accumulated depreciation and amortization	<u>\$ (358,000)</u>	<u>\$ (210,000)</u>
Total deferred tax liabilities	<u>(358,000)</u>	<u>(210,000)</u>
NET DEFERRED TAX	<u>\$ -0-</u>	<u>\$ -0-</u>

As of December 31, 2018, the Company had approximately \$6.2 million of operating loss carryforwards, which results in a Federal and State deferred tax asset of approximately \$2.2 million, expiring in 2035 through 2039.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred since inception. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2018, a valuation allowance of approximately \$2.9 million has been recorded to record only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

6. LONG-TERM DEBT

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Long term debt is as follows:		
Chrysler Capital, interest ranging from 9.8% and 10.9% per annum, payable in monthly installments of \$3,070 beginning May 2017 through May 2023, secured by vehicles with a book value of \$205,000	\$ -	\$ 79,479
Hitachi Capital, interest at 8.0% per annum, payable in monthly installments of \$631.13 beginning September 2015 through August 2019, secured by delivery equipment with a book value of \$24,910	3,211	11,781
Wells Fargo Equipment Finance, interest at 3.5% per annum, payable in monthly installments of \$518.96 beginning April 2016 through March 2021, secured by warehouse equipment with a book value of \$25,437	12,976	18,641
RMT Equipment, interest at 10.9% per annum, payable in monthly installments of \$1,154.79 beginning June 2016 through October 2018, secured by delivery equipment with a book value of \$31,130	-	10,916
Note payable insurance premium financing, interest at 4.74% per annum, payable in 10 installments of \$3,441, due January 2018	-	3,427
Notes payable issued in connection with seller financing of assets acquired, interest at 1%, payable in 24 installments of \$24,996, due February 2020	350,000	-
Notes payable issued in connection with seller financing of assets acquired, interest at 1%, payable in 12 installments of \$6,003, due September 2019	54,000	-
Notes payable issued in connection with seller financing of assets acquired, interest at 8.125%, payable in 60 installments of \$8,440, due August 2023	392,252	
	<u>\$ 812,439</u>	<u>\$ 124,244</u>
Less Current Maturities	<u>(436,813)</u>	<u>(41,707)</u>
Total Long-Term Debt	<u>\$ 375,626</u>	<u>\$ 82,537</u>

Debt maturities as of December 31, 2018 are as follows:

2019	436,816
2020	134,200
2021	85,748
2022	91,860
2023	63,816
	<u>\$ 812,439</u>

Interest expense for the years ended December 31, 2018 and 2017 was \$23,565 and \$15,339, respectively.



**GROWGENERATION CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

7. CONVERTIBLE DEBT

On January 12, 2018, the Company completed a private placement of a total of 36 units of the Company's securities at the price of \$250,000 per unit pursuant to Section 4(a) (2) of the Securities Act of 1933, as amended (the "Securities Act") and Rule 506 of Regulation D promulgated thereunder. Each unit consisted of (i) a .1% unsecured convertible promissory note of the principal amount of \$250,000, and (ii) a 3-year warrant entitling the holder to purchase 37,500 shares of the Company's common stock, par value \$.001 per share, at a price of \$.01 per share or through cashless exercise.

The convertible debt has a maturity date of January 12, 2021 and the principal balance and any accrued interest is convertible by the holder at any time into Common Stock of the Company at conversion price of \$3.00 a share. Principal due and interest accrued on the notes will automatically convert into shares of Common Stock, at the conversion price, if at any time during the term of the notes, commencing twelve (12) months from the date of issuance, the Common Stock trades minimum daily volume of at least 50,000 shares for twenty (20) consecutive days with a volume weighted average price of at least \$4.00 per share.

In relation to this transaction, the Company recorded a debt discount of \$4,239,000 related to the fair market value of warrants issued as noted above. The debt discount, which was based on an imputed interest rate, is being amortized on a straight-line basis over the life of the convertible debt.

During the year ended December 31, 2018, convertible debt and accrued interest of \$5,927,677, net of unamortized debt discount of \$2,305,746, was converted into 2,013,294 shares of common stock at the conversion rate of \$3.00 per share.

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Convertible debt	\$ 3,075,000	-
Remaining unamortized debt discount and debt issue costs	(1,030,887)	-
Convertible debt, net of debt discount and debt issue costs	\$ 2,044,113	-

Amortization of debt discount for the year ended December 31, 2018 was \$998,601. There was no amortization of debt discount in 2017.

At December 31, 2018 there were 536,250 warrants outstanding related to the issuance of convertible debt.

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8. SHARE BASED PAYMENTS AND STOCK OPTIONS

On March 6, 2014, the Company's Board of Directors (the "Board") approved the 2014 Equity Incentive Plan ("2014 Plan") pursuant to which the Company may grant incentive, non-statutory options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock or cash awards to employees, nonemployee members of our Board, consultants and other independent advisors who provide services to the Company. The maximum shares of common stock which may be issued over the term of the plan shall not exceed 2,500,000 shares. Awards under this plan are made by the Board or a committee designated by the Board. Options under the plan are to be issued at the market price of the stock on the day of the grant except to those issued to holders of 10% or more of the Company's common stock which is required to be issued at a price not less than 110% of the fair market value on the day of the grant. Each option is exercisable at such time or times, during such period and for such numbers of shares shall be determined by the plan administrator. No option may be exercisable for more than ten years (five years in the case of an incentive stock option granted to a 10% stockholder) from the date of grant.

On January 7, 2018, the Board adopted the 2018 Equity Compensation Plan (the "2018 Plan") and on April 20, 2018, the shareholders approved the 2018 Plan. The 2018 Plan will be administered by the Board. The Board may grant options to purchase shares of Common Stock, stock appreciation rights, restricted stock units, restricted or unrestricted shares of Common Stock, performance shares, performance units, other cash-based awards and other stock-based awards. The Board also has broad authority to determine the terms and conditions of each option or other kind of equity award, adopt, amend and rescind rules and regulations for the administration of the 2018 Plan and amend or modify outstanding options, grants and awards.

No options, stock purchase rights or awards may be made under the 2018 Plan on or after the ten-year anniversary of the adoption of the 2018 Plan by the Board, but the 2018 Plan will continue thereafter while previously granted options, stock appreciation rights or awards remain subject to the 2018 Plan. The maximum shares of Common Stock which may be issued over the term of the plan shall not exceed 2,500,000 shares. Options granted under the 2018 Plan may be either "incentive stock options" that are intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or "nonstatutory stock options" that do not meet the requirements of Section 422 of the Code. The Board will determine the exercise price of options granted under the 2018 Plan. The exercise price of stock options may not be less than the fair market value, on the date of grant, per share of our Common Stock issuable upon exercise of the option (or 110% of fair market value in the case of incentive options granted to a ten-percent stockholder). No option may be exercisable for more than ten years (five years in the case of an incentive stock option granted to a 10% stockholder) from the date of grant.

Awards issued under the 2014 Plan as of December 31, 2018 are summarized below:

	<b>2018</b>
Total Shares available for issuance pursuant to the 2014 Plan	2,500,000
Options outstanding, December 31 2018	(995,500)
Total options exercised under 2014 Plan	(1,118,333)
Total shares issued pursuant to the 2014 Plan	(375,000)
Awards available for issuance under the 2014 Plan, December 31, 2018	11,167

Awards issued under the 2018 Plan as of December 31, 2018 are summarized below:

	<b>2018</b>
Total Shares available for issuance pursuant to the 2018 Plan	2,500,000
Options outstanding, December 31 2018	(281,500)
Total options exercised under 2018 Plan	-
Total shares issued pursuant to the 2018 Plan	(9,500)
Awards available for issuance under the 2018 Plan, December 31, 2018	2,209,000

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8. SHARE BASED PAYMENTS AND STOCK OPTIONS, continued

	<b>2018</b>	<b>2017</b>
Expected volatility	72.91%-90.81%	73.28% -96.92%
Expected dividends	None	None
Expected term	2.5 years	2.5 years
Risk-free rate	1.64%	1.64%-1.70%

The table below summarizes all the options granted by the Company during years ended December 31, 2017 and 2018:

<b>Options</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term</b>	<b>Weighted-Average Grant Date Fair Value</b>
Outstanding at January 1, 2017	1,862,000	\$ .62		
Granted	845,000	\$ 1.80		\$ .83
Exercised	(50,000)	\$ .60		\$ .07
Forfeited or expired	(35,000)	\$ .60		\$ .07
Outstanding at December 31, 2017	<u>2,622,000</u>	<u>\$ .99</u>	2.35 years	\$ .32
Vested and exercisable at December 31 2017	<u>2,057,332</u>	<u>\$ .77</u>	1.73 years	
Outstanding at January 1, 2018	2,622,000	\$ .99		\$ .32
Granted	386,500	\$ 3.21		\$ 1.91
Exercised	(1,068,333)	\$ .67		\$ .12
Forfeited or expired	(124,667)	\$ .76		\$ .16
Outstanding at December 31, 2018	<u>1,815,500</u>	<u>\$ 1.66</u>	2.65 years	\$ .78
Vested and exercisable at December 31, 2018	<u>1,393,831</u>	<u>\$ 1.39</u>	2.22 years	

Share-based payment expense to officers, directors and employees and the years ended December 31, 2018 and 2017 was approximately \$901,900 and \$730,500, respectively.

Expense related to issuance of shares, options and warrants to consultants for the years ended December 31, 2018 and 2017 was approximately \$501,800 and \$347,500, respectively.

9. STOCK PURCHASE WARRANTS

A summary of the status of the Company's outstanding stock warrants as of December 31, 2018 is as follows:

	3,885,729	<b>Weighted Average Exercise Price</b>
Outstanding January 1, 2017	3,885,729	\$ .70
Granted/issued	2,475,000	2.55
Exercised	(2,755,001)	.70
Forfeited	-	
Outstanding December 31, 2017	<u>3,605,728</u>	<u>\$ 1.84</u>
Granted/issued	1,916,500	\$ 1.01
Exercised	(2,242,728)	\$ 1.16
Forfeited	-	
Outstanding December 31, 2018	<u>3,279,500</u>	<u>\$ 1.94</u>

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10. STOCKHOLDERS' EQUITY

Common Stock

The Company's current Certificate of Incorporation authorizes it to issue 100,000,000 shares of common stock, par value \$0.001 per share. As of December 31, 2018, and 2017, there were 27,948,609 and 16,846,835 shares of common stock issued and outstanding, respectively.

**2018**

During the year ended December 31, 2018, the Company sold 3,333,333 shares of common stock for net proceeds of \$9,959,877.

During the year ended December 31, 2018, the Company issued 3,076,461 shares of common stock upon exercise of 3,056,478 warrants resulting in proceeds to the Company of \$2,593,694.

During the year ended December 31, 2018, the Company issued 995,186 shares of common stock upon exercise of 1,068,333 options resulting in proceeds to the Company of \$321,701.

During the year ended December 31, 2018, the Company issued 2,013,294 shares of common stock upon conversion of convertible debt and accrued interest. (See Note 7)

During the year ended December 31, 2018, the Company issued 1,550,000 shares of common stock in connection with business combinations. (See Note 14)

During the year ended December 31, 2018, the Company issued 123,500 shares of common stock to employees valued at \$463,922 and issued 10,000 shares of common stock to consultants valued at \$45,001.

**2017**

During the year ended December 31, 2017, the Company sold 1,825,000 shares of common stock for net proceeds of \$3,291,565.

During the year ended December 31, 2017, the Company issued 2,755,001 shares of common stock upon exercise of 2,755,001 warrants resulting in proceeds to the Company of \$1,928,501.

During the year ended December 31, 2017, the Company issued 50,000 shares of common stock upon exercise of 50,000 options resulting in proceeds of \$30,000

During the year ended December 31, 2017, the Company issued 194,000 shares of common stock to employees valued at \$433,376 and issued 280,000 shares of common stock to consultants valued at \$427,000.

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11. EARNINGS PER SHARE

Basic net loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding. Diluted net loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares. Potentially dilutive securities are excluded from the calculation when their effect would be antidilutive. For all years presented in the consolidated financial statements, all potentially dilutive securities have been excluded from the diluted share calculations as they were anti-dilutive as a result of the net losses incurred for the respective years. Accordingly, basic shares equal diluted shares for all years presented.

Potentially dilutive securities were comprised of the following:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Warrants	3,279,500	3,605,728
Convertible debt warrants	536,250	-
Options	1,815,500	2,083,500
Total	<u>5,631,250</u>	<u>5,689,228</u>

The following table sets forth the composition of the weighted average shares (denominator) used in the basic and dilutive earnings per share computation for the years ended December 31, 2018 and 2017.

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Net loss	<u>\$ (5,073,755)</u>	<u>\$ (2,542,582)</u>
Weighted average shares outstanding, basic	23,492,650	14,510,582
Effect of dilutive common stock equivalents	-	-
Adjusted weighted average shares outstanding, dilutive	<u>23,492,650</u>	<u>23,492,650</u>
Basic loss per shares	<u>\$ (.22)</u>	<u>\$ (.18)</u>
Dilutive loss per share	<u>\$ (.22)</u>	<u>\$ (.18)</u>

12. LEASE COMMITMENTS

The Company leases its store facilities under operating leases ranging from \$900 to \$8,000 per month. The following is a schedule of future minimum rental payments required under the terms of the operating leases as of December 31, 2018:

<b>Year Ending December 31</b>	<b>Amount</b>
2019	\$ 1,251,800
2020	1,207,900
2021	1,085,400
2022	781,600
Thereafter	<u>357,700</u>
	<u>\$ 4,684,400</u>

Rent expense under all operating leases for the year ended December 31, 2018 and 2017 was \$1,145,837 and \$641,408, respectively.

**GROWGENERATION CORP. AND SUBSIDIARIES**  
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13. VENDOR CONCENTRATIONS

As of December 31, 2018, and 2017, two suppliers represent 56% and 61% of our purchases, respectively. Although the Company expects to maintain relationships with these vendors, the loss of either supplier would not have a material adverse impact on our business, because both suppliers provide the same products.

14. ACQUISITIONS

The Company accounts for acquisitions in accordance with ASC 805 "Business Combinations." Assets acquired and liabilities assumed are recorded in the accompanying consolidated balance sheets at their estimated fair values, as of the acquisition date. Results of operations are included in the Company's financial statements from the date of acquisition. For the acquisitions noted below, the Company used the income approach to determine the fair value of the customer relationships, the relief from royalty method to determine the fair value of trademarks and the comparison of economic income using the with/without approach to determine the fair value of non-compete agreements. The Company used Level 3 inputs to determine the fair value of all these intangible assets.

	<b>East Coast Hydro</b>	<b>Humboldt Depot</b>	<b>Superior Growers Supply</b>	<b>Central Coast Garden</b>	<b>Santa Rosa Hydro</b>	<b>Heavy Gardens</b>	<b>Total</b>
Inventory	\$ 1,002,300	\$ 389,800	\$ 517,950	\$ 254,900	\$ 1,500,000	\$ -	\$ 3,664,950
Prepays and other current assets	30,200	6,800	-	-	-	-	37,000
Furniture and equipment	45,600	30,000	50,000	4,600	100,000	-	230,200
Goodwill	1,341,400	654,000	540,250	136,400	4,884,500	433,000	7,989,550
<b>Total</b>	<b>\$ 2,419,500</b>	<b>\$ 1,080,600</b>	<b>\$ 1,108,200</b>	<b>\$ 395,900</b>	<b>\$ 6,484,500</b>	<b>\$ 433,000</b>	<b>\$ 11,921,700</b>

The table below represents the consideration paid for the net assets acquired in business combinations.

	<b>East Coast Hydro</b>	<b>Humboldt Depot</b>	<b>Superior Growers Supply</b>	<b>Central Coast Garden</b>	<b>Santa Rosa Hydro</b>	<b>Heavy Gardens</b>	<b>Total</b>
Cash	\$ 1,201,200	\$ 896,600	\$ 817,950	\$ 257,000	\$ 2,425,000	\$ 150,000	\$ 5,747,750
Assumption of payables	66,300	-	-	-	-	-	66,300
Seller financing	600,000	-	-	-	415,000	72,000	1,087,000
Common stock	552,000	184,000	290,250	138,900	3,644,500	211,000	5,020,650
<b>Total</b>	<b>\$ 2,419,500</b>	<b>\$ 1,080,600</b>	<b>\$ 1,108,200</b>	<b>\$ 395,900</b>	<b>\$ 6,484,500</b>	<b>\$ 433,000</b>	<b>\$ 11,921,700</b>

The following table discloses the date of the acquisitions noted above and the revenue and earnings included in the consolidated income statement from the date of acquisition to the period ended September 30, 2018

	<b>East Coast Hydro</b>	<b>Humboldt Depot</b>	<b>Superior Growers Supply</b>	<b>Central Coast Garden</b>	<b>Santa Rosa Hydro</b>	<b>Heavy Gardens</b>	<b>Total</b>
Acquisition date	1/23/2018	1/30/2018	4/12/2018	6/8/2018	7/13/2018	9/14/2018	
Revenue	\$ 3,450,600	\$ 2,030,200	\$ 1,926,400	\$ 498,000	\$ 1,594,900	\$ 121,500	\$ 9,621,600
Earnings	\$ 613,000	\$ 147,600	\$ 178,200	\$ 56,000	\$ 165,300	\$ 5,800	\$ 1,165,900

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14. ACQUISITIONS, continued

The following represents the proforma consolidated income statement as if the acquisitions had been included in the consolidated results of the Company for the entire period for the year ended December 31, 2017.

Pro forma consolidated income statement

	<b>December 31,</b>
	<b>2017</b>
Revenue	\$ 40,887,900
Earnings	\$ (1,547,300)

15. GAIN ON SETTLEMENTS

For the year ended December 31, 2017, the Company recorded \$322,058 in settlements which were comprised of two events.

In 2017, a fire in northern California resulted in our Santa Rosa store being closed for approximately 10 days. In addition to the loss of revenue, the contents of the store were damaged due to smoke from the fire. The Company had insurance coverage for both the contents of the store and business interruption. The settlement with our insurance carrier was \$126,278.

In 2017, the Company entered into an asset purchase agreement to acquire the assets of an entity in California. One of the non-executing shareholders of the seller had various objections to the acquisition and asserted certain rights, claims and demands. The Company became aware that a third party was also interested in acquiring the target entity. The Company entered into an agreement to assign all its rights, title and interest in its asset purchase agreement to the third party in exchange for a payment of \$75,000 and inventory from the third party valued at approximately \$140,000, resulting in a gain on the settlement of approximately \$195,000 after deducting costs of approximately \$20,000.

16. SUBSEQUENT EVENTS

On November 28, 2018, the Company entered into an asset purchase agreement to purchase all of the assets of a retail hydroponic store, Chlorophyll Inc, located in Denver, CO. The closing of the asset purchase took place on January 22, 2019.

The assets subject to the sale under the asset purchase agreement included inventories, fixed assets, tangible personal property, intangible personal property and contracts. The Company paid the sellers a total of \$3.7 million in cash and 194,553 shares of common stock of the Company, valued at approximately \$500,000, as consideration for the assets acquired.

On January 26, 2019, the Company entered into two asset purchase agreements to purchase all of the assets of two retail hydroponic stores, located in Reno, NV and Palm Springs, CA. The closing of the asset purchases took place on February 7 and February 11, 2019, respectively.

The assets subject to the sale under the asset purchase agreements included inventories, fixed assets, tangible personal property, intangible personal property and contracts. The Company paid the two sellers a total of \$1,325,000 in cash and 150,000 shares of common stock of the Company, valued at approximately \$489,000, as consideration for the assets acquired.

## **ITEM 9. CHANGES AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to be effective in providing reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute assurance of achieving the desired objectives. Also, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, management concluded that our disclosure controls and procedures were effective as of December 31, 2018 to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our chief executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **Management’s Report on Internal Control Over Financial Reporting**

As required by the SEC rules and regulations for the implementation of Section 404 of the Sarbanes-Oxley Act, our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

In making the assessments on the effectiveness of our internal controls over financial reporting as of December 31, 2018, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). Based on our assessments and those criteria, management determined that we maintained effective internal controls over financial reporting as of December 31, 2018.

This Report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. As an emerging growth company, management’s report is not subject to attestation by our registered public accounting firm.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the most recent fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information.**

On March 26, 2019, Darren Lampert resigned from the Audit Committee as a member and Chairman. The Board of Directors of the Company accepted Mr. Lampert’s resignation from the Audit Committee on the same day, and appointed Sean Stiefel, an independent director, unto the Audit Committee and appointed Stephen Aiello as Chairman of the Audit Committee. As of the date of this report, the Audit Committee is comprised of the following independent directors: Stephen Aiello (Chairman), Sean Stiefel and Peter Rosenberg.



### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

All directors of the Company hold office for one-year terms until the election and qualification of their successors. Officers are appointed by our Board and serve at the discretion of the board, subject to applicable employment agreements. The following table sets forth information regarding our executive officers and the members of our Board.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Darren Lampert	58	Chief Executive Officer and Director
Michael Salaman	56	President and Director
Monty Lamirato	63	Chief Financial Officer and Secretary
Joe Prinzevalli	38	Chief Operating Officer
Stephen Aiello	58	Director
Peter Rosenberg	56	Director
Sean Stiefel	31	Director

**Darren Lampert** has been our Chief Executive Officer and a Director since our inception in 2014. Mr. Lampert began his career in 1986 as a founding member of the law firm of Lampert and Lampert (1986-1999), where he concentrated on securities litigation, NASD (now FINRA) compliance and arbitration and corporate finance matters. Mr. Lampert has represented clients in actions and investigations brought before government agencies and self-regulatory bodies. Mr. Lampert has spent the past 15 years working as a portfolio manager and proprietary trader at Schonfeld Securities (1999-2005), Schottenfeld Group (2007) and Incremental Capital (2008-2010). From 2010 to 2014, Mr. Lampert was a private investor. Mr. Lampert graduated in 1982 with a Bachelor of Science degree in business administration from Ithaca College. Mr. Lampert received a JD from Bridgeport University School of Law in 1985. Mr. Lampert was admitted to practice law in New York in 1986 and is also admitted to practice before the United States District Courts for the Southern and Eastern Districts of New York.

**Michael Salaman** has been our President and a Director since our inception. Mr. Salaman served as the Chairman of Skinny Nutritional Corp. since January 2002 and as Chief Executive Officer and President of Skinny Nutritional Corp. since June 2010. He also served as Chief Executive Officer of Skinny Nutritional Corp. Skinny Nutritional Corp. filed for Chapter 11 Bankruptcy protection in 2013 and the assets were sold to a private equity firm in March 2014. Mr. Salaman has over 20 years' experience in the area of start-ups, new product development, distribution and marketing. Mr. Salaman began his business career as Vice President of Business Development for National Media Corp., an infomercial marketing company in the United States from 1985-1993. From 1995-2001, Mr. Salaman started a Digital Media company called American Interactive Media, Inc., a developer of Web TV set-top boxes and ISP services. In 2002, Mr. Salaman became the principal officer of that entity and directed its operations as a marketing and distribution company and in 2005 focused its efforts in the enhanced water business. Mr. Salaman received a Bachelor of Business Administration degree in business from Temple University in 1986.

**Monty Lamirato** joined the Company as Chief Financial Officer and Secretary in May 2017. From March 2009 to just prior to joining GrowGen, Mr. Lamirato worked as an independent consultant providing chief financial officer and financial reporting consulting services to companies of various sizes in a variety of industries. In this capacity, he prepared and reviewed SEC filings and GAAP-compliant financial statements, provided technical accounting assistance, designed and developed inventory and logistics systems for inventory management, developed scalable accounting and reporting systems, internal accounting controls and annual budgets and evaluated short-term investment alternatives for idle cash. From March 2013 until November 2016, Mr. Lamirato served as Chief Financial Officer of Strategic Environmental & Energy Resources, Inc., a publicly traded holding company that provides a wide range of environmental, renewable fuels and industrial waste stream management services, where he was responsible for all SEC filings, prepared all GAAP and SEC compliant financial statements and developed financial and operating metrics and other key performance indicators for evaluation of business results by management. Mr. Lamirato has also served as Chief Financial Officer and Treasurer of ARC Group Worldwide, Inc. from June 2001 to March 2009, Vice President of Finance at GS2.net, LLC from November 2000 to May 2001, and also Vice President of Finance for PlanetOutdoors.com, Inc. from June 1999 to October 2000. He began his career as an audit staff member with Coopers & Lybrand in 1977, where he remained until he served as an Audit Manager and Audit Partner with Mitchell Finley and Company, P.C. from 1986 to 1993. Mr. Lamirato received a Bachelor of Science, cum laude, from Regis College in Denver and is a Certified Public Accountant.

**Joe Prinzivalli** has been our Chief Operating Office since April 2017. Prior to joining the Company, Mr. Prinzivalli spent 6 years with a Colorado based hydroponic retail company, Way to Grow. He identified the need for, and implemented, all distribution operations for Way to Grow. As Inventory Manager, from July 2014 to December 2016, Mr. Prinzivalli was responsible for overseeing the movement and integrity of all Way-To-Grow physical inventories, managed analytical/reporting functions, and implemented standard operating procedures across all company functions.

**Stephen Aiello** has been a Director of the Company since May 2014. Mr. Aiello was a partner at Jones and Company from 2004-2008. From 2001-2003, he worked at 033 Asset Management. From 1986-2001, he was a partner at Montgomery Securities. Mr. Aiello received a B.A. in Psychology from Ithaca College and an MBA from Fordham University. Since 2010, Mr. Aiello has been a private investor and owner of real estate properties.

**Peter Rosenberg** has been a Director of the Company since July 2017. He has about 30 years of experience in the financial services industry, specifically in leveraged finance, capital markets, strategic advisory, private equity and asset management. Throughout his career, he has executed capital raising, mergers and acquisitions, and restructuring transactions. Mr. Rosenberg was previously with Duff & Phelps as a Managing Director in the Consumer and Retail Merger and Acquisitions Group. Prior to Duff & Phelps, Mr. Rosenberg was a Managing Director with Wells Fargo Securities, where he was responsible for sourcing and executing financing and mergers and acquisitions transactions for independent and financial sponsor-backed middle market companies. Previously, Mr. Rosenberg established and managed the San Francisco office for Barrington Associates, a boutique mergers and acquisitions advisory firm. At Barrington, he completed divestiture and recapitalization transactions in the consumer, retail, industrial and business services sectors and was responsible for coverage of middle market private equity firms. Prior to Barrington, Mr. Rosenberg was a Director at Salomon Smith Barney, focusing on corporate finance and mergers and acquisitions transactions for West Coast consumer product, specialty retail, financial services and industrial companies. Mr. Rosenberg has also held positions at Richard C. Blum & Associates (now BLUM Capital) and Comann, Howard & Flamen. He graduated magna cum laude from the University of Colorado with a B.S. degree in Business and Administration and was a member of the Beta Gamma Sigma academic honor society. Mr. Rosenberg holds Series 7, 24, and 63 securities industry registrations.

**Sean Stiefel** has been a Director of the Company since January 2018. Mr. Stiefel founded Navy Capital LLC in 2014, where he is currently a Portfolio Manager and is responsible for all aspects of stock selection, investment due diligence and portfolio construction. Mr. Stiefel launched the Navy Capital Green Fund, LP in 2017 as a global public equity focused cannabis dedicated fund. Navy Capital has been involved in cannabis related investing since early 2016. Prior to founding Navy Capital, Mr. Stiefel was a research analyst and trader for Northwoods Capital Management Partners, a global equity fund with a fundamental value and special situations investment strategy. Mr. Stiefel had previously served as an associate within an equity long/short fund at Millennium Partners, and he began his career as an equities trading analyst for Barclays Capital. He is a graduate of the University of Southern California's Marshall school of Business.

### ***Involvement in Certain Legal Proceedings***

To our knowledge, during the past ten years, none of our directors, executive officers, promoters, control persons, or nominees other than Michael Salaman (see biographical information of Michael Salaman above regarding the Chapter 11 Bankruptcy protection filed by Skinny Nutritional Corp. in 2013) has:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;
- been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

### **Board Committees**

The Company currently maintains a board of directors that is composed of a majority of “independent” directors.

The Company has an audit committee, which is comprised of, Steven Aiello (Chairman) Sean Stiefel and Peter Rosenberg as of the date of this report. The Board has determined that all of Messrs. Aiello, Stiefel and Rosenberg are independent directors.

The Company does not expect to appoint nominating committee and/or compensation committee, or to adopt charters relative to each such committees at this time but may do so as required in the future.

### **Code of Business Conduct and Ethics**

The Company has not adopted a Code of Business Conduct and Ethics. The Company has adopted an Insider Trading Policy which sets forth the procedure regarding trading by insiders in securities of the Company.

### **Limitation of Directors Liability and Indemnification**

The Colorado Business Corporations Act authorizes corporations to limit or eliminate, subject to certain conditions, the personal liability of directors to corporations and their stockholders for monetary damages for breach of their fiduciary duties.

Bylaws of the Company provide that the Company will indemnify its directors and officers who, by reason of the fact that he or she is one of the Company’s officers or directors, is involved in a legal proceeding of any nature.

The Company has purchased director and officer liability insurance to cover certain liabilities its directors and officers may incur in connection with their services to the Company.

There is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification will be required or permitted. The Company is not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

#### Indemnification Agreements

The employment agreements the Company entered into with each of its current executive officers provides for indemnification to the fullest extent permitted by applicable law for the executive officers against all debts, judgments, costs, charges or expenses whatsoever incurred or sustained by an executive officer in connection with any action, suit or proceeding to which the executive officer may be made a party by reason of his being or having been an officer of the Company, or because of actions taken by the executive officer which were believed by the executive officer to be in the best interests of the Company.

#### ITEM 11. EXECUTIVE COMPENSATION

The following table presents information regarding the total compensation awarded to, earned by, or paid to our chief executive officer and the three most highly-compensated executive officers (other than the chief executive officer) who were serving as executive officers as of the Record Date for services rendered in all capacities to us for the years ended December 31, 2018 and 2017.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Option Awards (\$)(3)</u>	<u>Stock Based Awards (\$)(4)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Darren Lampert	2018	192,500	105,000	58,000	-	-	355,500
<i>Chief Executive Officer</i>	2017	164,600	31,900	233,800	-	-	430,300
Michael Salaman	2018	192,500	105,000	58,000	-	-	355,500
<i>President and Secretary</i>	2017	164,600	31,900	233,800	-	-	430,300
Monty Lamirato (2)	2018	162,500	-	46,600	-	-	209,100
<i>Chief Financial Officer and Secretary</i>	2017	93,800	-	156,200	276,000	-	526,000
Joe Prinziavalli (1)	2018	110,000	-	23,300	-	-	133,300
<i>Chief Operating Officer</i>	2017	75,900	10,000	-	303,000	-	388,900

(1) As of April 10, 2017, Joe Prinziavalli started to provide his services to the Company as Chief Operating Officer.

(2) As of May 15, 2017, Monty Lamirato started to provide his services to the Company as Chief Financial Officer and Secretary.

(3) The amounts in the Option Awards column reflect the aggregated grant date fair value of awards granted during 2018 and 2017 as computed in accordance with FASB ASC Topic 718.

(4) The amounts in the Stock Based Awards column reflect the aggregated grant date fair value of awards granted during 2018 and 2017 as computed in accordance with FASB ASC Topic 718.

#### Employment and Consulting Agreements

On September 22, 2017, the Company entered into employment agreements with Darren Lampert, Chief Executive Officer, and Michael Salaman, President, who have each agreed to devote their full time and attention to the Company's business and each receive compensation of \$175,000 per annum, subject to a 10% increase each January 1 during the term of the agreements. In addition, commencing with the year ending December 31, 2017, each of Mr. Lampert and Mr. Salaman is eligible for a cash bonus payment equal to 0.5% multiplied by the difference between revenue in each fiscal year less \$7,980,471, and is granted up to 300,000 options to purchase shares of Common Stock of the Company, of which 30,750 have been granted as of the date of their respective agreements.

On May 15, 2017, the Company entered into a three-year executive employment agreement with Monty Lamirato as Chief Financial Officer and Secretary, pursuant to which the Company agreed to pay Mr. Lamirato a salary of \$150,000 per annum for the first year, \$162,500 for the second year and \$175,000 for the third year. The Company also agreed to issue to Mr. Lamirato 25,000 shares of Common Stock and 50,000 stock options as of July 10, 2017, May 15, 2018 and May 15, 2019, respectively.

On January 1, 2017, the Company entered into an employment agreement with Joe Prinzivalli, pursuant to which Mr. Prinzivalli agreed to provide his services to the Company as Inventory Controller, and, as a part of the consideration for his services, among other compensations, the Company agreed to grant him 10,000 options upon signing of the agreement. The 10,000 options were deemed issued as of July 10, 2017 when the Company filed a Registration Statement on Form S-8 registering the shares of Common Stock issuable under its 2014 Plan. On April 10, 2017, the Company entered into a three-year executive employment agreement with Mr. Prinzivalli (which replaced the previous agreement), pursuant to which Mr. Prinzivalli agreed to provide his services to the Company as Chief Operating Officer. The Company agreed to pay Mr. Prinzivalli a salary of \$100,000 per annum with a 10% annual raise and issue to Mr. Prinzivalli 50,000 shares of Common Stock as of the date of the agreement, 50,000 shares as of December 31, 2017 and 50,000 shares as of December 31, 2018.

Additionally, each member of Management may receive a year-end cash bonus and options as determined by the Board of Directors.

On January 30, 2018, the Company entered into a six-month Advisor Agreement with Brian Tantalo, pursuant to which the Company agreed to pay Mr. Tantalo \$6,000 per month and one-year warrants to purchase 250,000 shares of Common Stock at the price of \$5.75 per share. This agreement was extended an additional six months to December 31, 2018 and was not extended thereafter.

On November 7, 2017, the Company entered into a two-year Advisor Agreement with Kevin McGrath, pursuant to which the Company agreed to issue to Mr. McGrath 150,000 shares of Common Stock, with 50,000 shares vested as of the date of the agreement, 50,000 shares to vest as of November 7, 2018 and 50,000 shares to vest as of November 7, 2019.

On April 3, 2017, the Company entered into a three-year Consulting Agreement with Merida Capital Partners, LP, pursuant to which the Company agreed to pay Merida Capital a cash fee of \$60,000 per annum, payable quarterly, 80,000 shares of Common Stock, and five-year warrants to purchase 150,000 shares of Common Stock at the price of \$2.75 per share.

## Outstanding Equity Awards

The following table summarizes, for each of the named executive officers, the number of shares of Common Stock underlying outstanding stock options held as of December 31, 2018.

Name	Option Awards		Option exercise price (\$)	Option expiration date
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable		
Darren Lampert	250,000	0	\$ 66/\$.60 <sup>1</sup>	March 16, 2019
Darren Lampert	30,750	0	\$ 1.94	September 22, 2022
Darren Lampert	169,250	100,000	\$ 1.76	September 22, 2022
Darren Lampert	8,334	16,666	\$ 3.59	October 23, 2023
Michael Salaman	30,750	0	\$ 1.94	September 22, 2022
Michael Salaman	169,250	100,000	\$ 1.76	September 22, 2022
Michael Salaman	8,334	16,666	\$ 3.59	October 23, 2023
Monty Lamirato	50,000	50,000	\$ 1.90	May 15, 2022
Monty Lamirato	20,000	0	\$ 2.25	December 31, 2023
Joe Prinzivalli	10,000	0	\$ 1.90	January 1, 2022
Joe Prinzivalli	10,000	0	\$ 2.25	December 31, 2023

<sup>1</sup> The first \$100,000 of options may be deemed to be incentive stock options and are exercisable at a price of \$.66 per share. The balance of the options may be deemed to be non-qualified options and are exercisable at a price of \$.60 per share.

## 2014 Equity Compensation Plan

On March 6, 2014, the Board of the Company adopted an Equity Compensation Plan (the "2014 Plan"). The 2014 Plan was approved by the shareholders on March 6, 2014.

The general purpose of the 2014 Plan is to provide an incentive to our employees, directors, consultants and advisors by enabling them to share in the future growth of our business. Our Board believes that the granting of stock options, restricted stock awards, unrestricted stock awards and similar kinds of equity-based compensation promotes continuity of management and increases incentive and personal interest in the welfare of our Company by those who are primarily responsible for shaping and carrying out our long-range plans and securing our growth and financial success.

The Board believes that the 2014 Plan will advance our interests by enhancing our ability to (a) attract and retain employees, consultants, directors and advisors who are in a position to make significant contributions to our success; (b) reward our employees, consultants, directors and advisors for these contributions; and (c) encourage employees, consultants, directors and advisors to take into account our long-term interests through ownership of our shares.

## Description of the 2014 Equity Incentive Plan

**Administration.** The 2014 Plan will be administered by our Board of Directors. Our Board of Directors may grant options to purchase shares of our Common Stock, stock appreciation rights, restricted stock units, restricted or unrestricted shares of our Common Stock, performance shares, performance units, other cash-based awards and other stock-based awards. The Board of Directors also has broad authority to determine the terms and conditions of each option or other kind of equity award, adopt, amend and rescind rules and regulations for the administration of the 2014 Plan and amend or modify outstanding options, grants and awards. The Board of Directors may delegate authority to the chief executive officer and/or other executive officers to grant options and other awards to employees (other than themselves), subject to applicable law and the 2014 Plan. No options, stock purchase rights or awards may be made under the Plan on or after the ten-year anniversary of the adoption of the 2014 Plan by our Board of Directors, but the 2014 Plan will continue thereafter while previously granted options, stock appreciation rights or awards remain subject to the 2014 Plan.

**Eligibility.** Persons eligible to receive options, stock appreciation rights or other awards under the 2014 Plan are those employees, consultants, advisors and directors of our Company and our subsidiaries who, in the opinion of the Board of Directors, are in a position to contribute to our success.

**Shares Subject to the 2014 Plan.** The aggregate number of shares of Common Stock available for issuance in connection with options and awards granted under the 2014 Plan is 2,500,000, subject to customary adjustments for stock splits, stock dividends or similar transactions. Incentive Stock Options may be granted under the 2014 Plan with respect to all of those shares. If any option or stock appreciation right granted under the 2014 Plan terminates without having been exercised in full or if any award is forfeited, or if shares of Common Stock are withheld to cover withholding taxes on options or other awards, the number of shares of Common Stock as to which such option or award was forfeited, or which were withheld, will be available for future grants under the 2014 Plan. No employee, consultant, advisor or director may receive options or stock appreciation rights relating to more than 1,000,000 shares of our Common Stock in the aggregate in any calendar year.

**Terms and Conditions of Options.** Options granted under the 2014 Plan may be either “incentive stock options” that are intended to meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”) or “nonstatutory stock options” that do not meet the requirements of Section 422 of the Code. The Board of Directors will determine the exercise price of options granted under the 2014 Plan. The exercise price of stock options may not be less than the fair market value, on the date of grant, per share of our Common Stock issuable upon exercise of the option (or 110% of fair market value in the case of incentive options granted to a ten-percent stockholder).

If on the date of grant the Common Stock is listed on a stock exchange or is quoted on the automated quotation system of Nasdaq, the fair market value shall generally be the closing sale price on the last trading day before the date of grant. If no such prices are available, the fair market value shall be determined in good faith by the Board of Directors based on the reasonable application of a reasonable valuation method.

No option may be exercisable for more than ten years (five years in the case of an incentive stock option granted to a ten-percent stockholder) from the date of grant. Options granted under the 2014 Plan will be exercisable at such time or times as the Board of Directors prescribes at the time of grant. No employee may receive incentive stock options that first become exercisable in any calendar year in an amount exceeding \$100,000. The Board of Directors may, in its discretion, permit a holder of an option to exercise the option before it has otherwise become exercisable, in which case the shares of our Common Stock issued to the recipient will continue to be subject to the vesting requirements that applied to the option before exercise.

Generally, the option price may be paid (a) in cash or by certified bank check, (b) through delivery of shares of our Common Stock having a fair market value equal to the purchase price, or (c) a combination of these methods. The Board of Directors is also authorized to establish a cashless exercise program and to permit the exercise price (or tax withholding obligations) to be satisfied by reducing from the shares otherwise issuable upon exercise a number of shares having a fair market value equal to the exercise price.

No option may be transferred other than by will or by the laws of descent and distribution, and during a recipient’s lifetime an option may be exercised only by the recipient. However, the Board of Directors may permit the holder of an option, stock appreciation right or other award to transfer the option, right or other award to immediate family members or a family trust for estate planning purposes. The Board of Directors will determine the extent to which a holder of a stock option may exercise the option following termination of service with us.

**Stock Appreciation Rights.** The Board of Directors may grant stock appreciation rights independent of or in connection with an option. The Board of Directors will determine the other terms applicable to stock appreciation rights. The exercise price per share of a stock appreciation right will be determined by the Board of Directors, but will not be less than 100% of the fair market value of a share of our Common Stock on the date of grant, as determined by the Board of Directors. The maximum term of any SAR granted under the 2014 Plan is ten years from the date of grant. Generally, each SAR stock appreciation right will entitle a participant upon exercise to an amount equal to:

- the excess of the fair market value on the exercise date of one share of our Common Stock over the exercise price, *multiplied by*
- the number of shares of Common Stock covered by the stock appreciation right.

Payment may be made in shares of our Common Stock, in cash, or partly in Common Stock and partly in cash, all as determined by the Board of Directors.

**Restricted Stock and Restricted Stock Units.** The Board of Directors may award restricted Common Stock and/or restricted stock units under the 2014 Plan. Restricted stock awards consist of shares of stock that are transferred to a participant subject to restrictions that may result in forfeiture if specified conditions are not satisfied. Restricted stock units confer the right to receive shares of our Common Stock, cash, or a combination of shares and cash, at a future date upon or following the attainment of certain conditions specified by the Board of Directors. The Board of Directors will determine the restrictions and conditions applicable to each award of restricted stock or restricted stock units, which may include performance-based conditions. Dividends with respect to restricted stock may be paid to the holder of the shares as and when dividends are paid to stockholders or at the time that the restricted stock vests, as determined by the Board of Directors. Dividend equivalent amounts may be paid with respect to restricted stock units either when cash dividends are paid to stockholders or when the units vest. Unless the Board of Directors determines otherwise, holders of restricted stock will have the right to vote the shares.

**Performance Shares and Performance Units.** The Board of Directors may award performance shares and/or performance units under the 2014 Plan. Performance shares and performance units are awards, denominated in either shares or U.S. dollars, which are earned during a specified performance period subject to the attainment of performance criteria, as established by the Board of Directors. The Board of Directors will determine the restrictions and conditions applicable to each award of performance shares and performance units.

**Effect of Certain Corporate Transactions.** The Board of Directors may, at the time of the grant of an award, provide for the effect of a change in control (as defined in the 2014 Plan) on any award, including (i) accelerating or extending the time periods for exercising, vesting in, or realizing gain from any award, (ii) eliminating or modifying the performance or other conditions of an award, or (iii) providing for the cash settlement of an award for an equivalent cash value, as determined by the Board of Directors. The Board of Directors may, in its discretion and without the need for the consent of any recipient of an award, also take one or more of the following actions contingent upon the occurrence of a change in control: (a) cause any or all outstanding options and stock appreciation rights to become immediately exercisable, in whole or in part; (b) cause any other awards to become non-forfeitable, in whole or in part; (c) cancel any option or stock appreciation right in exchange for a substitute option; (d) cancel any award of restricted stock, restricted stock units, performance shares or performance units in exchange for a similar award of the capital stock of any successor corporation; (e) redeem any restricted stock, restricted stock unit, performance share or performance unit for cash and/or other substitute consideration with a value equal to the fair market value of an unrestricted share of our Common Stock on the date of the change in control; (f) cancel any option or stock appreciation right in exchange for cash and/or other substitute consideration based on the value of our Common Stock on the date of the change in control, and cancel any option or stock appreciation right without any payment if its exercise price exceeds the value of our Common Stock on the date of the change in control; or (g) make such other modifications, adjustments or amendments to outstanding awards as the Board of Directors deems necessary or appropriate.

**Amendment, Termination.** The Board of Directors may amend the terms of awards in any manner not inconsistent with the 2014 Plan, provided that no amendment shall adversely affect the rights of a participant with respect to an outstanding award without the participant's consent. In addition, our board of directors may at any time amend, suspend, or terminate the 2014 Plan, provided that (i) no such amendment, suspension or termination shall materially and adversely affect the rights of any participant under any outstanding award without the consent of such participant and (ii) to the extent necessary to comply with any applicable law or stock exchange rule, the 2014 Plan requires us to obtain stockholder consent. Stockholder approval is required for any plan amendment that increases the number of shares of Common Stock available for issuance under the 2014 Plan or changes the persons or classes of persons eligible to receive awards.



## **2018 Equity Compensation Plan**

On January 7, 2018, the Board adopted the 2018 Equity Compensation Plan (the "2018 Plan"), which was approved and ratified by the shareholders on April 20, 2018. As of the date hereof, there are a total of 281,500 options issued under the 2018 Plan, none of which have been exercised, and 9,500 shares of Common Stock issued. There are a total of 2,209,000 shares of Common Stock available to be issued under the 2018 Plan.

The general purpose of the 2018 Plan is to provide an incentive to the Company's employees, directors, consultants and advisors by enabling them to share in the future growth of the Company's business. The Board believes that the granting of stock options, restricted stock awards, unrestricted stock awards and similar kinds of equity-based compensation promotes continuity of management and increases incentive and personal interest in the welfare of the Company by those who are primarily responsible for shaping and carrying out its long-range plans and securing its growth and financial success.

The Board believes that the 2018 Plan will advance the Company's interests by enhancing its ability to (a) attract and retain employees, consultants, directors and advisors who are in a position to make significant contributions to the Company's success; (b) reward the Company's employees, consultants, directors and advisors for these contributions; and (c) encourage employees, consultants, directors and advisors to take into account the Company's long-term interests through ownership of its shares.

### **Description of the 2018 Equity Incentive Plan**

The following description of the principal terms of the 2018 Plan is a summary and is qualified in its entirety by the full text of the 2018 Plan, which is filed as an exhibit to this report.

**Administration.** The 2018 Plan will be administered by our Board. Our Board may grant options to purchase shares of our common stock, stock appreciation rights, restricted stock units, restricted or unrestricted shares of our common stock, performance shares, performance units, other cash-based awards and other stock-based awards. The Board also has broad authority to determine the terms and conditions of each option or other kind of equity award, adopt, amend and rescind rules and regulations for the administration of the 2018 Plan and amend or modify outstanding options, grants and awards. The Board may delegate authority to the chief executive officer and/or other executive officers to grant options and other awards to employees (other than themselves), subject to applicable law and the 2018 Plan. No options, stock purchase rights or awards may be made under the Plan on or after the ten-year anniversary of the adoption of the 2018 Plan by our Board, but the 2018 Plan will continue thereafter while previously granted options, stock appreciation rights or awards remain subject to the 2018 Plan.

**Eligibility.** Persons eligible to receive options, stock appreciation rights or other awards under the 2018 Plan are those employees, consultants, advisors and directors of our Company and our subsidiaries who, in the opinion of the Board, are in a position to contribute to our success.

**Shares Subject to the 2018 Plan.** The aggregate number of shares of common stock available for issuance in connection with options and awards granted under the 2018 Plan is 2,500,000, subject to customary adjustments for stock splits, stock dividends or similar transactions. Incentive Stock Options may be granted under the 2018 Plan with respect to all of those shares. If any option or stock appreciation right granted under the 2018 Plan terminates without having been exercised in full or if any award is forfeited, or if shares of common stock are withheld to cover withholding taxes on options or other awards, the number of shares of common stock as to which such option or award was forfeited, or which were withheld, will be available for future grants under the 2018 Plan. No employee, consultant, advisor or director may receive options or stock appreciation rights relating to more than 1,000,000 shares of our common stock in the aggregate in any calendar year.

**Terms and Conditions of Options.** Options granted under the 2018 Plan may be either “incentive stock options” that are intended to meet the requirements of Section 422 of the Code or “nonstatutory stock options” that do not meet the requirements of Section 422 of the Code. The Board will determine the exercise price of options granted under the 204 Plan. The exercise price of stock options may not be less than the fair market value, on the date of grant, per share of our common stock issuable upon exercise of the option (or 110% of fair market value in the case of incentive options granted to a ten-percent stockholder).

If on the date of grant the common stock is listed on a stock exchange or is quoted on the automated quotation system of Nasdaq, the fair market value shall generally be the closing sale price on the last trading day before the date of grant. If no such prices are available, the fair market value shall be determined in good faith by the Board based on the reasonable application of a reasonable valuation method.

No option may be exercisable for more than ten years (five years in the case of an incentive stock option granted to a ten-percent stockholder) from the date of grant. Options granted under the 2018 Plan will be exercisable at such time or times as the Board prescribes at the time of grant. No employee may receive incentive stock options that first become exercisable in any calendar year in an amount exceeding \$100,000. The Board may, in its discretion, permit a holder of an option to exercise the option before it has otherwise become exercisable, in which case the shares of our common stock issued to the recipient will continue to be subject to the vesting requirements that applied to the option before exercise.

Generally, the option price may be paid (a) in cash or by certified bank check, (b) through delivery of shares of our common stock having a fair market value equal to the purchase price, or (c) a combination of these methods. The Board is also authorized to establish a cashless exercise program and to permit the exercise price (or tax withholding obligations) to be satisfied by reducing from the shares otherwise issuable upon exercise a number of shares having a fair market value equal to the exercise price.

No option may be transferred other than by will or by the laws of descent and distribution, and during a recipient’s lifetime an option may be exercised only by the recipient. However, the Board may permit the holder of an option, stock appreciation right or other award to transfer the option, right or other award to immediate family members or a family trust for estate planning purposes. The Board will determine the extent to which a holder of a stock option may exercise the option following termination of service with us.

**Stock Appreciation Rights.** The Board may grant stock appreciation rights independent of or in connection with an option. The Board will determine the other terms applicable to stock appreciation rights. The exercise price per share of a stock appreciation right will be determined by the Board, but will not be less than 100% of the fair market value of a share of our common stock on the date of grant, as determined by the Board. The maximum term of any SAR granted under the 2018 Plan is ten years from the date of grant. Generally, each SAR stock appreciation right will entitle a participant upon exercise to an amount equal to:

- the excess of the fair market value on the exercise date of one share of our common stock over the exercise price, *multiplied by*
- the number of shares of common stock covered by the stock appreciation right.

Payment may be made in shares of our common stock, in cash, or partly in common stock and partly in cash, all as determined by the Board.

**Restricted Stock and Restricted Stock Units.** The Board may award restricted common stock and/or restricted stock units under the 2018 Plan. Restricted stock awards consist of shares of stock that are transferred to a participant subject to restrictions that may result in forfeiture if specified conditions are not satisfied. Restricted stock units confer the right to receive shares of our common stock, cash, or a combination of shares and cash, at a future date upon or following the attainment of certain conditions specified by the Board. The Board will determine the restrictions and conditions applicable to each award of restricted stock or restricted stock units, which may include performance-based conditions. Dividends with respect to restricted stock may be paid to the holder of the shares as and when dividends are paid to stockholders or at the time that the restricted stock vests, as determined by the Board. Dividend equivalent amounts may be paid with respect to restricted stock units either when cash dividends are paid to stockholders or when the units vest. Unless the Board determines otherwise, holders of restricted stock will have the right to vote the shares.

**Performance Shares and Performance Units.** The Board may award performance shares and/or performance units under the 2018 Plan. Performance shares and performance units are awards, denominated in either shares or U.S. dollars, which are earned during a specified performance period subject to the attainment of performance criteria, as established by the Board. The Board will determine the restrictions and conditions applicable to each award of performance shares and performance units.

***Effect of Certain Corporate Transactions.*** The Board may, at the time of the grant of an award, provide for the effect of a change in control (as defined in the 2018 Plan) on any award, including (i) accelerating or extending the time periods for exercising, vesting in, or realizing gain from any award, (ii) eliminating or modifying the performance or other conditions of an award, or (iii) providing for the cash settlement of an award for an equivalent cash value, as determined by the Board. The Board may, in its discretion and without the need for the consent of any recipient of an award, also take one or more of the following actions contingent upon the occurrence of a change in control: (a) cause any or all outstanding options and stock appreciation rights to become immediately exercisable, in whole or in part; (b) cause any other awards to become non-forfeitable, in whole or in part; (c) cancel any option or stock appreciation right in exchange for a substitute option; (d) cancel any award of restricted stock, restricted stock units, performance shares or performance units in exchange for a similar award of the capital stock of any successor corporation; (e) redeem any restricted stock, restricted stock unit, performance share or performance unit for cash and/or other substitute consideration with a value equal to the fair market value of an unrestricted share of our common stock on the date of the change in control; (f) cancel any option or stock appreciation right in exchange for cash and/or other substitute consideration based on the value of our common stock its exercise price exceeds the value of our common stock on the date of the change in control; or (g) make such other modifications, adjustments or amendments to outstanding awards as the Board deems necessary or appropriate.

***Amendment, Termination.*** The Board may amend the terms of awards in any manner not inconsistent with the 2018 Plan, provided that no amendment shall adversely affect the rights of a participant with respect to an outstanding award without the participant's consent. In addition, our board of directors may at any time amend, suspend, or terminate the 2018 Plan, provided that (i) no such amendment, suspension or termination shall materially and adversely affect the rights of any participant under any outstanding award without the consent of such participant and (ii) to the extent necessary to comply with any applicable law or stock exchange rule, the 2018 Plan requires us to obtain stockholder consent. Stockholder approval is required for any plan amendment that increases the number of shares of common stock available for issuance under the 2018 Plan or changes the persons or classes of persons eligible to receive awards.

#### **Tax Withholding**

As and when appropriate, the Company has the right to require each optionee purchasing shares of common stock and each grantee receiving an award of shares of common stock under the 2014 Plan and the 2018 Plan to pay any federal, state or local taxes required by law to be withheld.

#### **Option Grants and Stock Awards**

The grant of options and other awards under the 2014 Plan and the 2018 Plan is discretionary, and the Company cannot determine now the specific number or type of options or awards to be granted in the future to any particular person or group.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth the number of shares of Common Stock beneficially owned as of March 29, 2019 by:

- each of our stockholders who is known by us to beneficially own 5% or more of our Common Stock;
- each of our executive officers;
- each of our directors; and
- all of our directors and current executive officers as a group.

Beneficial ownership is determined based on the rules and regulations of the Commission. A person has beneficial ownership of shares if such individual has the power to vote and/or dispose of shares. This power may be sole or shared and direct or indirect. Applicable percentage ownership in the following table is based on the total of 28,844,552 shares of Common Stock outstanding as of March 29, 2019. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock that are subject to options or warrants held by that person and exercisable as of, or within 60 days of, the date hereof. These shares, however, are not counted as outstanding for the purposes of computing the percentage ownership of any other person(s). Except as may be indicated in the footnotes to this table and pursuant to applicable community property laws, each person named in the table has sole voting and dispositive power with respect to the shares of Common Stock set forth opposite that person's name. Unless indicated below, the address of each individual listed below is c/o GrowGeneration Corp., 1000 W Mississippi Ave., Denver, CO 80223.

<b>Name of Beneficial Owner</b>	<b>Number of Shares Beneficially Owned</b>	<b>Percentage of Shares Beneficially Owned</b>
Michael Salaman, President and Director	1,681,253 <sup>1</sup>	5.79%
Darren Lampert, Chief Executive Officer and Director	1,681,253 <sup>2</sup>	5.74%
Joe Prinziavalli, Chief Operating Officer	122,500 <sup>3</sup>	*
Monty Lamirato, Chief Financial Officer and Secretary	100,000 <sup>4</sup>	*
Stephen Aiello, Director	328,328 <sup>5</sup>	1.13%
Peter Rosenberg, Director	41,667 <sup>6,9</sup>	*
Sean Stiefel, Director	41,667 <sup>7</sup>	*
All Officers and Directors (7 Persons)	3,996,607	13.40%
Merida Capital Partners, L.P	4,051,196 <sup>8,9</sup>	13.61%
Gotham Green Fund 1, L.P.	2,500,000	8.67%

\* Less than 1%

<sup>1</sup> Includes i) 1,472,919 shares of common stock; and ii) 208,334 vested stock options. Mr. Salaman also owns 100,000 options exercisable commencing September 22, 2019, 8,333 options exercisable commencing October 23, 2019 and 8,333 options exercisable commencing October 23, 2020.

<sup>2</sup> Includes i) 1,222,919 shares of common stock; and ii) 458,334 vested stock options. Mr. Lampert also owns 100,000 options exercisable commencing September 22, 2019, 8,333 options exercisable commencing October 23, 2019 and 8,333 options exercisable commencing October 23, 2020.

<sup>3</sup> Includes i) 102,500 shares of common stock; and ii) 20,000 vested options.

<sup>4</sup> Includes i) 30,000 shares of common stock issued to Mr. Lamirato; and ii) 70,000 vested stock options. Mr. Lamirato also owns 50,000 options exercisable commencing May 15, 2019.

<sup>5</sup> Includes i) 47,080 shares of common stock owned directly by Mr. Aiello; ii) 150,000 shares of common stock owned by Aiello Family Trust; iii) 75,000 vested stock options; iv) 56,250 shares of common stock underlying warrants purchased in a private placement of the Company at \$0.01 per share. Mr. Aiello also owns 8,334 options exercisable commencing September 22, 2019, 8,333 options exercisable commencing October 23, 2019 and 8,333 options exercisable commencing October 23, 2020.

<sup>6</sup> Includes 41,667 vested stock options issued under the 2014 Plan. Mr. Rosenberg also owns 16,667 options exercisable commencing September 22, 2019, 8,333 options exercisable commencing October 23, 2019 and 8,333 options exercisable commencing October 23, 2020.

<sup>7</sup> Includes 41,667 vested stock options. Mr. Stiefel also owns 16,667 options exercisable commencing January 4, 2020, 8,333 options exercisable commencing October 23, 2019 and 8,333 options exercisable commencing October 23, 2020.

<sup>8</sup> Includes i) 2,338,029 shares held by Merida Capital Partners, LP; ii) 743,167 shares held by Merida Capital Partners II, LLP, an affiliated entity; and iii) 950,000 shares of common stock underlying warrants held by Merida Capital Partners, LP exercisable at \$2.75 per share.

<sup>9</sup> Mr. Rosenberg is a partner at Merida Capital Partners, LP. Accordingly, Mr. Rosenberg may be deemed to indirectly beneficially own the shares held by Merida Capital Partners, LP and Merida Capital Partners II, LLP, and vice versa.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Unless described below, since March 5, 2014 (inception), there are no transactions or series of similar transactions to which the Company was a party or will be a party, in which:

- the amounts involved exceeded or will exceed \$120,000; and
- any of the Company's directors, executive officers or holders of more than 5% of its capital stock, or any member of the immediate family of the foregoing persons, had or will have a direct or indirect material interest.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Connolly Grady & Cha served as our independent registered public accounting firm for 2018 and 2017. The following table shows the fees that were billed for the audit and other services provided by this firm for 2018 and 2017.

	<b>2018</b>	<b>2017</b>
Audit Fees	\$ 124,800	\$ 45,000
Audit-Related Fees	\$ -	\$ -0-
Tax Fees	\$ -	\$ -0-
All Other Fees	\$ 28,900	\$ 7,500
Total	\$ 153,700	\$ 52,500

*Audit Fees* — This category includes the audit of our annual financial statements, review of financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided by the independent registered public accounting firm in connection with engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

*Audit-Related Fees* — This category consists of assurance and related services by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under "Audit Fees." The services for the fees disclosed under this category include consultation regarding our correspondence with the Securities and Exchange Commission and other accounting consulting.

*Tax Fees* — This category consists of professional services rendered by our independent registered public accounting firm for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

*All Other Fees* — This category consists of fees for other miscellaneous items.

Our Board has adopted a procedure for pre-approval of all fees charged by our independent registered public accounting firm. Under the procedure, the Board approves the engagement letter with respect to audit, tax and review services. Other fees are subject to pre-approval by the Board, or, in the period between meetings, by a designated member of Board. Any such approval by the designated member is disclosed to the entire Board at the next meeting. The audit and tax fees paid to the auditors with respect to 2018 were pre-approved by the entire Board.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

3.1	<a href="#">Certificate of Incorporation of GrowGeneration Corp. (Incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 as filed on November 9, 2015)</a>
3.2	<a href="#">Bylaws of GrowGeneration Corp. (Incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 as filed on November 9, 2015)</a>
4.1	<a href="#">Form of Warrant for private placement in March 2017 (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K as filed on March 16, 2017)</a>
4.2	<a href="#">Form of Investor Warrant for second 2017 private placement (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K as filed on May 19, 2017)</a>
4.3	<a href="#">Form of Placement Agent Warrant (\$2.75 Per Share) for second 2017 private placement (Incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K as filed on May 19, 2017)</a>
4.4	<a href="#">Form of .1% Unsecured Convertible Promissory Note for private placement in January 2018 (Incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K as filed on January 12, 2018)</a>
4.5	<a href="#">Form of Warrant for private placement in January 2018 (Incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K as filed on January 12, 2018)</a>
4.6	<a href="#">Form of Promissory Note issued to Santa Rosa Hydroponics &amp; Grower Supply, Inc. (Incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K as filed on July 16, 2018)</a>
4.7	<a href="#">Form of Warrant for private placement in May 2018 (Incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K as filed on May 9, 2018)</a>
10.1	<a href="#">GrowGeneration Corp. 2014 Equity Incentive Plan (Incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 as filed on November 9, 2015)</a>
10.2	<a href="#">Form of GrowGeneration Corp. Stock Option Agreement in connection with the 2014 Equity Incentive Plan (Incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 as filed on November 9, 2015)</a>
10.3	<a href="#">GrowGeneration Corp. 2018 Equity Incentive Plan (Incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K as filed on March 27, 2018)</a>
10.4	<a href="#">Form of GrowGeneration Corp. Stock Option Agreement in connection with the 2018 Equity Incentive Plan (Incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K as filed on March 27, 2018)</a>
10.5	<a href="#">Form of Securities Purchase Agreement for first 2017 private placement (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on March 16, 2017)</a>
10.6	<a href="#">Form of Subscription Agreement for second 2017 private placement (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on May 19, 2017)</a>

10.7	<a href="#"><u>Form of Securities Purchase Agreement for 2018 private placement (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on January 12, 2018)</u></a>
10.8	<a href="#"><u>Form of Supplement to Securities Purchase Agreement for 2018 private placement (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K as filed on January 12, 2018)</u></a>
10.9	<a href="#"><u>Form of Asset Purchase Agreement, dated April 12, 2018, by and among GrowGeneration, Corp., GrowGeneration Michigan Corp. and Superior Growers Supply, Inc. (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on April 16, 2018)</u></a>
10.10	<a href="#"><u>Form of Securities Purchase Agreement for second 2018 private placement (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on May 9, 2018)</u></a>
10.11	<a href="#"><u>Form of Side Letter by and between GrowGeneration Corp. and Gotham Green Fund I, L.P. (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K as filed on May 9, 2018)</u></a>
10.12	<a href="#"><u>Employment Agreement, dated September 22, 2017, between of GrowGeneration Corp. and Darren Lampert (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q as filed on November 8, 2017)</u></a>
10.13	<a href="#"><u>Employment Agreement, dated September 22, 2017, between of GrowGeneration Corp. and Michael Salaman (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q as filed on November 8, 2017)</u></a>
10.14	<a href="#"><u>Employment Agreement, dated April 10, 2017, between of GrowGeneration Corp. and Joe Prinzivalli (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on April 14, 2017)</u></a>
10.15	<a href="#"><u>Employment Agreement, dated May 15, 2017, between of GrowGeneration Corp. and Monty Lamirato (Incorporated by reference to Exhibit 99.5 to the Current Report on Form 8-K as filed on May 19, 2017)</u></a>
10.16	<a href="#"><u>Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 as filed on November 9, 2015)</u></a>
10.17	<a href="#"><u>Consulting Agreement with Merida Capital Partners, LP, dated April 3, 2017 (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on April 5, 2017)</u></a>
10.18	<a href="#"><u>Separation and Release Agreement with Jason Dawson, dated April 10, 2017 (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K as filed on April 14, 2017)</u></a>
10.19	<a href="#"><u>Asset Purchase Agreement, dated February 1, 2017, by and among GrowGeneration Corp., GrowGeneration California Corp., and Morgan Pagenkopf (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on February 14, 2017)</u></a>
10.20	<a href="#"><u>Agreement to Purchase and Sell Assets, dated March 6, 2017, by and among GrowGeneration Corp., Seattle's Hydro Spot LLC and David G. Iacovelli (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on May 22, 2017)</u></a>
10.21	<a href="#"><u>Form of Revised Asset Purchase Agreement, dated June 28, 2018, by and among GrowGeneration Corp., Santa Rosa Hydroponics &amp; Grower Supply Inc., Rick Barretta and Jason Barretta (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on July 16, 2018)</u></a>
10.22	<a href="#"><u>Form of Amendment to Revised Asset Purchase Agreement, dated July 13, 2018 (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K as filed on July 16, 2018)</u></a>

10.23	<a href="#">Form of Asset Purchase Agreement, dated August 30, 2018, by and among GrowGeneration Corp., GrowGeneration HG Corp. and Virgus, Inc. d/b/a/ Heavy Gardens (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on September 20, 2018)</a>
10.24	<a href="#">Form of Asset Purchase Agreement, dated November 28, 2018, by and among GrowGeneration Corp., GrowGeneration Pueblo Corp. and Chlorophyll, Inc. (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on January 22, 2019)</a>
10.25	<a href="#">Form of Asset Purchase Agreement, dated January 26, 2019, by and among GrowGeneration Corp., GrowGeneration California Corp. and Palm Springs Hydroponics, Inc. (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K as filed on February 12, 2019)</a>
10.26	<a href="#">Form of Asset Purchase Agreement, dated January 26, 2019, by and among GrowGeneration Corp., GrowGeneration Nevada Corp. and Reno Hydroponics, Inc. (Incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K as filed on February 12, 2019)</a>
10.27	<a href="#">Form of Commercial Lease (Tulsa, OK), effective January 1, 2019 (Filed herewith)</a>
21.1	<a href="#">List of Subsidiaries of GrowGeneration Corp. (Filed herewith)</a>
23.1	<a href="#">Consent of Connolly Grady &amp; Cha, P.C. (Filed herewith)</a>
101.INS	<a href="#">XBRL Instance Document (Filed herewith.)</a>
101.SCH	<a href="#">XBRL Taxonomy Extension Schema Document (Filed herewith.)</a>
101.CAL	<a href="#">XBRL Taxonomy Extension Calculation Linkbase Document (Filed herewith.)</a>
101.LAB	<a href="#">XBRL Taxonomy Extension Label Linkbase Document (Filed herewith.)</a>
101.PRE	<a href="#">XBRL Taxonomy Extension Presentation Linkbase Document (Filed herewith.)</a>
101.DEF	<a href="#">XBRL Taxonomy Extension Definition Linkbase Definition (Filed herewith.)</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer (Filed herewith.)</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Financial and Accounting Officer (Filed herewith.)</a>
32.1	<a href="#">Section 1350 Certification of Principal Executive Officer (Filed herewith.)</a>
32.2	<a href="#">Section 1350 Certification of Principal Financial and Accounting Officer (Filed herewith.)</a>



## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized on April 1, 2019

### GROWGENERATION CORP.

By: /s/ Darren Lampert  
Name: Darren Lampert  
Title: Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Monty Lamirato  
Name: Monty Lamirato  
Title: Chief Financial Officer  
(Principal Financial Officer)

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors GrowGeneration Corp., a Colorado corporation (the "Registrant"), do hereby constitute and appoint Darren Lampert and Monty Lamirato, and each of them, as his or her true and lawful attorney-in-fact and agents, with full power of substitution and re-substitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Person</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Darren Lampert</u> Darren Lampert	Chief Executive Officer and Director (Principal Executive Officer)	April 1, 2019
<u>/s/ Monty Lamirato</u> Monty Lamirato	Chief Financial Officer (Principal Financial and Accounting Officer)	April 1, 2019
<u>/s/ Michael Salaman</u> Michael Salaman	President and Director	April 1, 2019
<u>/s/ Stephen Aiello</u> Stephen Aiello	Director	April 1, 2019
<u>/s/ Peter Rosenberg</u> Peter Rosenberg	Director	April 1, 2019
<u>/s/ Sean Stiefel</u> Sean Stiefel	Director	April 1, 2019

**FORM OF COMMERCIAL LEASE**

“Landlord:” **BETTER PRICE WAREHOUSE SALES CO.**, an Oklahoma corporation, having as its principal address 1151 South Frankfort Avenue, Tulsa, Oklahoma 74120.

“Tenant:” **GROWGENERATION CORP.**, a Denver corporation, having as its principal address 1000 West Mississippi Avenue, Denver, Colorado 80233.

“Premises:” In the property known as “**1151 South Frankfort**” deemed to be 9,593 S.F., located at: 1151 South Frankfort Tulsa, Oklahoma 74120. See Exhibit “A” attached hereto.

“Lease Date:” January 1, 2019

**1. LEASED PREMISES.** Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, the Premises consisting of 9,593 square feet of Net Rentable Area as more particularly shown on the Exhibit “A” attached hereto.

**2. LEASE TERM.** The Lease Term is for a period of Five (5) Years One (1) Month (the “Initial Term”), beginning on January 1, 2019 (the “Commencement Date”) and shall end at midnight on the last day of the Lease Year, which is January 30, 2024, or on such earlier date as this Lease may terminate as provided hereinafter. “Lease Year” is defined for purposes of this Lease to mean a period of twelve (12) consecutive full calendar months with the first Lease Year commencing as provided hereinbefore. Unless Tenant exercises its Option to Renew as set forth in Paragraph 5 hereinbelow, the term of this Lease shall not be extended except by written instrument signed by both parties and in the event Tenant does not surrender possession of the Premises at the end of the term, it shall be a tenant at sufferance. If Landlord accepts rent after expiration of the term of this Lease or any renewal term, the Tenant shall be deemed month-to-month, and such monthly tenancy shall be subject to the covenants, conditions, rules and regulations herein contained and shall be for and upon a rental equal to 125% of the rental as herein reserved for the last month of the term hereof, and such tenancy may be terminated by thirty days’ written notice given by either party to the other of his or its intention to do so, but nothing in this paragraph shall be construed as consent by the Landlord to the occupancy of said Premises after the end of the term hereof. For the purposes of this Lease, the term “Term” shall mean and include both the Initial Term and any applicable Renewal Terms.

**3. BASE RENTAL.** As rental for the use and possession of the Leased Premises during the term hereof, Tenant agrees to pay the Landlord, at such place or places as Landlord shall designate from time to time in writing, and without any set-off, deduction, or counterclaim, a total of **Two Hundred Sixty-Three Thousand Eight Hundred Seven and 50/100 Dollars (\$263,807.50)** over the term of the Lease as follows:

**January 1, 2019 to January 30, 2019 – FREE/ABATED (9,593 SF @ \$0.00 per SF per annum)**

**February 1, 2019 to January 30, 2024 - \$4,396.79 per month (9,593 SF @ \$5.50 per SF per annum)**

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Such rental shall be payable in advance in monthly installments on or before the first day of the first calendar month of this lease and continuing in the same amount on the fifth day of each and every calendar month thereafter during the term of this lease. In the event the commencement date is a day other than the first day of the calendar month, Tenant agrees to pay upon signing this lease a prorated portion of a month's rental representing the period of time between the commencement date and first day of the next calendar month.

**4. LATE CHARGE.** Tenant agrees to pay a late charge equal to ten percent (10%) of the monthly Base Rental installment as herein provided when any installment of Base Rental is paid more than seven (7) days after the due date thereof. It is hereby understood that this charge is for extra expenses incurred by the Landlord and shall not be considered interest.

**5. RENEWAL OPTION.** Provided Tenant is not in default under the terms and provisions of this Lease, Tenant shall have the right and option to extend the Term of this Lease for two (2) additional terms of **3-years** (the "Renewal Terms"), commencing one day after the date on which the original Term of this Lease ends. Tenant can only exercise this Renewal Option by delivering prior written notice of such exercise to Landlord not less than ninety (90) days prior to the expiration of the original Term of this Lease. Such Renewal Term shall be subject to the same terms and conditions of this Lease, except that Base Rent to be charged under the Lease shall be based upon the then prevailing fair market value for like kind space in the downtown Tulsa area not to be less than the current rent and Landlord shall have no obligation to furnish any work to the Premises.

**6. SECURITY DEPOSIT.** Tenant shall pay, at the time of execution hereof, a deposit to be held or used by Landlord throughout the Term in an amount equal to the Base Rental for the last (1) month of the Initial Term. Said deposit is to secure the performance of the terms, covenants and conditions of this Lease required to be performed by Tenant. In the event Tenant has performed in accordance with the terms, covenants and conditions of this Lease, Landlord will return such deposit, without interest, to Tenant within 30 days after Tenant's final performance of its Lease obligations after the termination or expiration hereof. In the event of Tenant's failure to perform as herein required, Landlord, in its discretion, may apply any or all of such deposit to satisfy, in part or in whole, such obligation, and if Landlord so applies less than all of such deposit, Tenant shall upon demand restore to the full deposit amount. Landlord shall have no obligation or duty to segregate the deposit from its other funds.

**7. COMMON AREA MAINTENANCE FEE.** *Sectioned Intentionally Omitted.*

**8. USE AND ASSIGNMENT.** Tenant shall use and occupy the premises for operation of retail gardening and agricultural store, including the sale of goods and services associated thereto, and for no other purpose, and shall not assign this Lease or sublet the Leased Premises of any part thereof without the written consent of the Landlord, which consent shall not be unreasonably withheld. Tenant shall neither do nor permit on the Leased Premises any act, sale, or storage that may be prohibited under standard forms of fire insurance policies. In addition, no use shall be made or permitted to be made that shall result in (a) waste on the premises, (b) a public or private nuisance that may disturb the quiet enjoyment of other tenants in the Building, (c) improper, unlawful, or objectionable use, including sale or storage of materials generating an odor on the premises, or (d) noises or vibrations that may disturb other tenants. Tenant shall comply with all government regulations and statutes affecting the Leased premises either now or in the future.

Tenant shall not cause or permit any hazardous material or hazardous substance to be used, stored, maintained, generated, disposed or released in or about the Premises by Tenant, its agents, employees, contractors, guests or invitees. However, the foregoing provisions shall not prohibit the use, storage, maintenance and handling within the Premises of substances customarily used in the business or activity expressly permitted to be undertaken in the Premises under this Lease, provided, however, that such substances shall be used and maintained only in such quantities as are reasonably necessary for such permitted use of the Premises and in the ordinary course of Tenant's business, strictly in accordance with all applicable laws. For the purposes hereof, the terms "hazardous materials" and "hazardous substances" are used in the broadest sense and shall mean any substance or material defined, designated or regulated as hazardous or toxic, or as a pollutant or contaminant or other similar term by any federal, state or local environmental statute, regulation or ordinance presently in effect or that may be promulgated in the future from time to time.

**9. UTILITIES.** Tenant shall be responsible for arranging, and contracting in its own name if necessary, all utility services necessary for the operation of the Leased Premises, including establishment of any required deposits, and payment of any and all utility charges incurred during the Initial and Renewal Terms. Such utility charges shall include, but are not limited to, natural gas, water, trash, telephone, television/internet provider and electricity. Landlord shall not be liable for any failure to provide or for any interruption of service, including any indirect or consequential damages, nor shall any rent be abated due to such interruption.

**10. PARKING AREA.** Tenant is hereby granted, in common with other tenants and Landlord, the right of non-exclusive use of the other parking areas provided by Landlord; however, the Landlord reserves the right to promulgate rules and regulations with respect to the use of the parking area by the Tenant and his customers.

**11. TENANT'S CONSTRUCTION AND ALTERATIONS.** Tenant shall, at its sole cost and expense, construct all improvements, betterments and alterations upon or to the Premises and shall indemnify, defend and hold Landlord free and harmless from all costs of and charges for labor and materials furnished upon the Premises Prior to any construction, Landlord must approve in writing the design and layout of the Premises improvements or alterations, including type of materials and construction for the Premises and the contractor who will construct the improvements or alterations, and, after Landlord has given its approval, no further change shall be made without Landlord's prior written approval. Tenant shall promptly pay before delinquency all contractors, subcontractors, laborers and materialmen so that no lien will attach to the Premises. Should any labor or materialman's lien be made or filed against the Premises, Tenant must bond against or discharge the same within five (5) working days or be in default hereof. Tenant will perform and complete Tenant's work in compliance with all applicable laws, ordinances, regulations, insurance requirements and building codes of all governmental authorities. Tenant shall pay the charges for all temporary water, sewage disposal, heating, cooling, electricity, lighting and trash removal from the date upon which the Premises are made available to Tenant for Tenant's work. Prior to the commencement of any work by or on behalf of Tenant upon the Premises, Tenant shall provide to Landlord proof that Tenant has in effect the insurance coverages required of Tenant under this Lease, together with proof of insurance as Landlord may reasonably determine and require with respect to any of Tenant's contractors or subcontractors providing labor or materials with respect to the Premises.

Tenant's initial work for improvements and alterations to be performed with respect to the Premises is described on Exhibit "C" hereto. Other than the sole item described on Exhibit "C", Landlord shall have no obligation to provide any work or improvements to the Premises in order to make the Premises ready for Tenant's use or occupancy or otherwise.

Notwithstanding any consent given to Tenant by Landlord for Tenant's work, Landlord retains the absolute, sole control over the exterior appearance of the Building and the exterior appearance of the Premises, and Tenant shall not, without Landlord's written consent, install any lighting, decorations, paintings, drapes, window coverings, blinds, shades, signs, lettering, placards, doors or advertising media of any type which can be viewed from the exterior of the Building. Tenant shall make no other alterations in or improvements to said Premises without first obtaining the written consent of Landlord, said consent not to be unreasonably withheld. Landlord retains the right to approve any and all exterior signage. Tenant signage will conform with signage criteria listed on Exhibit "B", and shall be subject to all governing laws, rules, regulations and codes. All additions and improvements made by Tenant (except only office furniture and/or trade fixtures) shall become the property of Landlord on the termination of this Lease or the termination of the occupancy of the Premises or at Landlord's option, removed at Tenant's expense.

**12. TENANT'S PROPERTY.** Provided Tenant is not in default under the terms and provisions of this Lease, all personal property, equipment and trade fixtures installed in or on the Building by Tenant may remain the property of Tenant and may be removed by Tenant upon termination of the Lease with the exception of any additions or improvements to the Premises as stated in Paragraph 11 above, and with the exception of any fixtures or equipment which cannot be removed without damage to the Premises. Tenant shall be responsible for and shall pay Landlord for any and all costs of repair and restoration of any damage or fixtures removed that result in damage to the Premises. All personal property, equipment and trade fixtures of Tenant on the Premises shall be there at Tenant's sole risk. Tenant shall accordingly keep its personal property, equipment and trade fixtures insured against loss or damage by casualty and customary perils on a replacement cost basis. Any such insurance policy or policies carried by Tenant on Tenant's personal property, equipment and trade fixtures shall contain a waiver of subrogation in favor of Landlord, its agents and employees. Tenant hereby releases and holds Landlord harmless from and against any and all claims for any loss or damage to such Tenant's personal property, equipment and trade fixtures described above by reason of any cause whatsoever, including any negligence of Landlord or Landlord's agents, employees or contractors, but specifically excluding any willful acts of Landlord, Landlord's agents, employees or contractors,

**13. RULES AND REGULATIONS.** Landlord, at Landlord's discretion but with prior written notice to Tenant, shall have the right to prescribe and/or change such uniform rules and regulations for the property as Landlord may reasonably deem necessary, available and appropriate. Tenant agrees to comply with all the rules and regulations prescribed by Landlord.

**14. DELIVERY OF POSSESSION AND IMPROVEMENTS.** Tenant shall be delivered possession of the Premises on or about January 1, 2019. Tenant acknowledges that it has inspected the Premises and accepts the Premises in their present “AS IS”, “WHERE IS” AND “WITH ALL FAULTS” condition and that the Premises are in the condition required by this Lease and that Landlord has no obligation to perform any work or do anything to the Premises prior to occupancy by Tenant, except as otherwise provided on Exhibit “C” and allowing that Landlord shall have an additional thirty (30) days to relocate the existing trailer/container on the south exterior end of the Premises and any remaining interior contents for the Premises.

**SUBJECT ONLY TO THE SPECIFIC COVENANTS, REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS LEASE, LANDLORD MAKES NO OTHER OR FURTHER REPRESENTATIONS OR WARRANTIES OF ANY TYPE OR KIND, INCLUDING, WITHOUT LIMITATION, CONCERNING THE FITNESS FOR A PARTICULAR USE OR PURPOSE, EXPRESS OR IMPLIED, ORAL OR WRITTEN, OF THE PREMISES, ALL OF WHICH ARE DISCLAIMED.**

**15. COMMON AREAS.** Landlord grants to Tenant, for itself, customers, agents and business visitors the nonexclusive right of access on, over and through the Common Areas of the building and the use of the parking areas, driveways and landscaped areas within and upon the [LTS 6, 7, 8 AND PART OF 9 BLK 7] (the “Common Areas”), on a shared, non-exclusive basis in common with the Landlord and other tenants of the building, subject to the right of the Landlord to temporarily interrupt such use during the construction of any additional improvements upon the Common Areas. The term “Common Areas” as used herein shall also mean all areas, improvements, space, equipment and special services in or at the Building provided by Landlord for the common or joint use and benefit of tenants of the Building, their officers, employees, agents, customers and other invitees and Landlord, including, without limitation, all parking areas, access roads, driveways, entrances and exits, retaining walls, landscaped areas, trash containers, pedestrian malls, courts, ramps and sidewalks, exterior stairs, and signs identifying the Building.

All Common Areas shall at all times be subject to the exclusive control and management of Landlord and Landlord shall have the exclusive right and authority from time to time to establish, modify and enforce reasonable Rules and Regulations with respect thereto. Tenant agrees to abide by and conform with such Rules and Regulations; to cause its concessionaires and suppliers, officers, agents, employees and independent contractors to so abide and conform; and to use its best efforts to cause its customers, invitees and licensees to abide and conform to the Rules and Regulations. Landlord shall have the right, but not the duty, from time to time, to change the area, level, location and arrangement of facilities located in the Common Areas; to close or barricade all or any portion of the Common Areas to such extent as may, in the opinion of Landlord’s counsel, be legally sufficient to prevent a dedication thereof or the accrual of any rights to any person or the public therein; and to do and perform such other acts in and to the Common Areas as, in the use of good business judgment, Landlord shall determine to be advisable.

All Common Areas which Tenant may be permitted to use and occupy, are to be used and occupied under a revocable license and if the amount of the Common Areas are diminished, Landlord shall not be subject to any liability nor shall Tenant be entitled to any compensation or diminution or abatement of rent, except as may otherwise be provided herein, nor shall such diminution of the Common Areas be deemed constructive or actual eviction. Tenant’s license hereunder shall at all times be subject to the rights of Landlord, other Tenants of Landlord, and customers to use the Common Areas in common with Tenant, and it shall be the duty of Tenant to keep all of said Common Areas free and clear of any obstructions created or permitted by Tenant or resulting from Tenant’s operation unless such obstruction is created with Landlord’s prior written consent.

**16. DAMAGE, DESTRUCTION OR CONDEMNATION.** If all or a substantial part of the Premises or the Building is rendered untenable or inaccessible by damage to all or any part thereof from fire, the elements, accident or other casualty ("Casualty") then, unless Landlord elects to terminate this Lease as provided below, Landlord shall, at its expense, use reasonable efforts to repair and restore the Premises and the Building, as the case may be, to substantially their former condition to the extent permitted by then applicable laws; provided, however, that in no event shall Landlord have any obligation: (i) to make repairs or restoration beyond the extent of insurance proceeds actually received by Landlord for such repairs or restoration; or (ii) to repair or restore any of Tenant's personal property, trade fixtures, equipment or alterations made by Tenant. If Landlord is required to repair damage to the Premises or the Building, this Lease shall continue in full force and effect except that: (x) Tenant's Base Rental from the date of the Casualty through the date of substantial completion of the repair and restoration shall be equitably abated with regard to any portion of the Premises or the Building that Tenant is prevented from using (and actually interferes with Tenant's use and business) by reason of such damage or its repair; and (y) the Term shall be extended by the number of days necessary to substantially complete the repair and restoration. In no event shall Landlord be liable to Tenant by reason of any injury to or interference with Tenant's business or property arising from a Casualty or by reason of any repairs to any part of the Building or Premises necessitated by such Casualty. Notwithstanding the foregoing, Landlord may elect, by written notice to Tenant, to terminate this Lease following damage caused by any Casualty under the following circumstances: (a) if, in Landlord's sole judgment, the Premises and the Building cannot be substantially repaired and restored under applicable laws within one hundred twenty (120) days from the date of the Casualty; (b) if, in Landlord's sole judgment, adequate proceeds are not, for any reason, made available to Landlord from Landlord's insurance policies to make the required repairs; (c) if fifty percent (50%) or more of the Premises (excluding the Building) is damaged or destroyed; (d) if seventy percent (70%) or more of the Building is damaged or destroyed (including, without limitation, by smoke or water damage), regardless of whether the remainder of the Premises are damaged or destroyed; (e) if the cost to repair or restore the Premises would exceed the proceeds from Landlord's insurance policies or the Casualty is an uninsured casualty; or (f) if the Casualty occurs during the last eighteen (18) months of the Term, unless Tenant has elected to exercise an available Renewal Option.

If during the Term, the whole of the Premises is condemned, or is taken by the power of eminent domain, or there shall occur a transfer in lieu thereof (each a "Taking"), the Lease shall terminate as of the date of such Taking and rent shall be apportioned to the date of the Taking, and Tenant shall surrender the Premises accordingly. In the event of a partial Taking, the Lease at Landlord's sole option may, upon written notice to Tenant, terminate and rent shall be apportioned to the date of the Taking and Tenant shall surrender the Premises accordingly. In the event of a partial Taking of the Premises in which Landlord does not terminate the Lease as provided above, Landlord shall make such repairs and restorations to the Premises as necessitated from such Taking so as to render the Premises useable by Tenant for its intended purpose, provided, however, Landlord shall not be required to expend any sums in addition to compensation received from *the* Taking authority to so restore or repair the Premises. During the period of such restoration or repair, if Tenant shall be prevented from utilizing the Premises to conduct its business operations, then Base Rental shall equitably abate during the period of such repairs or restoration, and there shall correspondingly be added to the Term the number of days necessary to substantially complete the repairs or restoration. All compensation in any Taking shall be the sole property of Landlord. Damage to the Premises resulting from the negligence of Tenant or its employees or invitees shall be repaired at the expense of Tenant.

**17. LIMITATION OF LIABILITY.** Notwithstanding any other provision to the contrary, in no event shall the Landlord be liable to Tenant for any special, incidental, indirect, consequential, punitive or exemplary damages, whether foreseeable or not, unless arising solely from the gross negligence of Landlord.

**18. MAINTENANCE.** Landlord shall, throughout the term of the Lease and without any expense to Tenant, maintain the foundation and structural walls of the Premises. Without being limited by the preceding sentence, Tenant shall, throughout the Term of the Lease and without any expense to Landlord, be responsible for the costs of any repairs necessitated by the negligence of Tenant, its agents, employees, customers, contractors or invitees. Tenant shall, at Tenant's sole cost and expense, keep and maintain the Premises in good condition and repair, including replacements necessitated by Tenant's use and without limitation: fixtures, equipment, electrical, plumbing, HVAC and associated ducting, routine maintenance of the roof, appurtenances, signs, showcases, floor coverings, interior walls, columns, partitions within the Premises, storefronts and all glass. Tenant shall undertake any necessary lawn care, weed control and snow removal associated the Premises.

Tenant shall promptly replace all damaged or broken glass with glass of equal quality to that broken or damaged. Tenant shall repaint, refurbish and remodel the Premises at reasonable times to assure that the Premises are maintained in good order, condition and repair equal to that at the completion of Tenant's initial work and improvements.

In the event Tenant fails to repair or maintain the Premises as herein required, or in the event of an emergency, Landlord, at its option, without limiting any rights or remedies otherwise available to it at law or equity or under the terms of this Lease, may (but shall not be required to) make such repairs without liability to Tenant for loss or damage which may result to Tenant's stock or business conducted from the Premises by reason of such repairs. Tenant shall immediately pay Landlord, upon demand, as additional rent, the costs of any such repairs.

**19. POSSESSION ON TERMINATION.** At the expiration of this Lease, or sooner termination thereof, the Tenant shall give possession of the Premises to the Landlord broom-clean and in the condition required to be maintained by Tenant under this Lease, casualty and condemnation excepted. Upon such surrender, Tenant shall deliver to Landlord all keys, codes, combinations and the like.

**20. QUIET AND PEACEFUL POSSESSION.** So long as Tenant shall perform each and every term, covenant and condition of this Lease and is not in default in the payment of the rent due hereunder, Tenant shall have quiet and peaceful possession of the Premises during the Term hereof without hindrance from anyone by, through or under Landlord.



**21. BREACH, DEFAULT AND REMEDIES.** The covenants and agreements herein shall be conditions as well as covenants, and breach of any of them, including (i) the failure to pay rent when due, or (ii) the vacation of the Premises or (iii) the abandonment of the business proposed for the Premises for a period greater than 14 days regardless of the payment of rent (this shall include the failure to be open for business for any consecutive 14 day period), or (iv) the failure to comply with any term, provision or covenant of the Lease other than payment of rent, and subsequent failure to cure within 14 days written notice thereof to Tenant, or (v) any act or omission that allows a lien to be filed against the Premises, or (vi) the Tenant or any Guarantor shall become insolvent, or (vii) the making of an assignment for the benefit of the creditors by Tenant or any Guarantor, or the appointment of a receiver for Tenant or any Guarantor, or the filing of a petition by the Tenant or any Guarantor for reorganization, or relief of debtors, or a voluntary petition in bankruptcy, or adjudication of bankruptcy of Tenant or any Guarantor, whether voluntary or involuntary, shall constitute a default on the part of Tenant. Upon default by Tenant, the Landlord shall, at its option have the following remedies:

(a) Landlord may terminate the Lease and take possession of the Premises; (b) terminate the Lease and recover damages in an amount equal to the unpaid future rent or in any greater amount permitted by law; (c) terminate Tenant's right to possession without terminating the Lease or obligation to pay rent, whereupon Tenant shall pay Landlord all unpaid rent for the entire Term of the Lease and Landlord shall endeavor to lease the Premises for the account of Tenant, and any reasonable expense of reletting, remodeling or repair shall be charged against the rent received on reletting; (d) any other remedy permitted by Federal or State law. The remedies granted to Landlord shall be cumulative, and exhaustion of one shall not preclude Landlord from resorting to another. In each and every instance of default, and while the same continues, Landlord may re-enter the Premises, using all necessary force, and Tenant's right to enter said Premises shall be suspended, and in order to effectuate such re-entry and suspension, Landlord may change locks on the doors of the Premises and exclude Tenant from the Building until any and all defaults are cured by Tenant. Such re-entry and suspension, and the changing of locks, shall not operate as an eviction or cancellation of this Lease. The waiver by Landlord of any default shall not be a waiver or consent to the continuation of such default or to a subsequent default.

**22. ATTORNEY'S FEES.** If either party brings any action or proceeding to enforce, protect, or establish any right or remedy, the prevailing party shall be entitled to recover reasonable attorney's fees. Arbitration is an action or proceeding for the purpose of this provision. For the purposes hereof, Landlord shall be deemed to have prevailed in any unlawful detainer if the action is dismissed by reason of Tenant's curing of the default upon which such action was based. Tenant shall reimburse Landlord any and all costs, including attorney fees, incurred by Landlord in collecting any delinquent payment due from Tenant hereunder whether action is instituted therefore or not.

**23. TENANT'S SHARE OF INSURANCE AND TAXES.** *Section Intentionally Omitted.*

**24. GROUND LEASES AND MORTGAGES.** This Lease is subject and subordinate to all present mortgages affecting the real estate on which the Building and Parking are located of which the Leased Premises are a part, and to any ground leases, mortgage or mortgages which may hereafter be executed affecting the same. Landlord has the right to assign its interest in this Lease as security for the payment of any mortgage on the Property; provided, however, that any such assignment does not relieve Landlord of any of its obligations herein.

**25. MODIFIED TRIPLE NET:** It is specifically understood and agreed by Tenant that this Lease is what is commonly designated as a MODIFIED NET-NET-NET LEASE. It is the express intent of Landlord and Tenant that all Rents payable under the terms of this Lease shall be absolutely net to Landlord and that expenses and maintenance referenced hereinbefore (including the building and other improvements now or hereafter placed on the Leased Premises but excluding responsibility for foundation, structural walls, property taxes and property replacement insurance) shall be borne by Tenant.

**26. INSPECTION.** Landlord or its officer, agents, and representatives, shall have the right to enter into and upon any and all parts of the Leased Premises, (a) at all reasonable hours to inspect same or clean or make repairs or alterations or additions as Landlord may deem necessary, or (b) during business hours to show the Leased Premises to prospective tenants, purchasers or lender; and Tenant shall not be entitled to any abatement or reduction of rent by reason thereof. In the event of default or late rental payment, Landlord reserves the right to request business records and financial information from Tenant.

**27. ESTOPPEL CERTIFICATE.** Tenant agrees throughout the term of this Lease or any extension thereof upon request by the Landlord or mortgagees of Landlord or a prospective purchaser of the building to sign and deliver a certificate stating in substance (if such be the case); (a) There is no modification of the terms of this Lease (unless there is such modification, in which event a copy thereof shall be furnished by Tenant or stated in certificate), and that said Lease is in full force and effect; (b) Tenant has asserted no defenses or offsets as of the date of the certificate, (c) Tenant has no knowledge of any default by the Landlord which has not been cured.

After such certificate has been given by Tenant, Tenant will be estopped from asserting any claim or defense known by it prior to the date of the certificate contrary to said certificate as against the person, firm or corporation to whom such certificate is addressed. Landlord shall have the right to transfer and assign in whole or in part, any of its rights under this Lease, and in the building and property referred to herein; and to the extent that such assignee assumes Landlord's obligations hereunder, Landlord shall by virtue of said assignment be released from such obligations.

**28. LIABILITY INSURANCE.** Tenant shall, during the Lease Term, maintain in full force and affect a policy of public liability and property damage insurance with respect to the Leased Premises, leasehold improvements and the business conducted by Tenant, anyone leasing under Tenant, and any subrentals of Tenant in the Lease Premises. Such public liability and property damage policy shall be in a comprehensive general liability form including premises operation and personal injury coverage, independent contractors and broad form including premises operation and personal injury coverage, independent contractors and broad form property damage and shall have a combined single limit of liability for personal injury and property damage of not less than \$1,000,000.00 blanket contractual liability. The policy shall name Tenant and Landlord as insured and shall, at the request of Landlord, name any other person, firms or corporations designated by Landlord. Such insurance shall contain a clause that the insurer will not cancel or amend the insurance without first giving the Landlord thirty (30) days prior written notice. The insurance shall be in an insurance company approved by the Landlord and a copy of the policy or a certificate of insurance shall be delivered to Landlord. If Tenant refuses or neglects to secure and maintain insurance policies complying with the provision of this Section 28, Landlord may, but shall not be required to, secure and maintain such insurance policies and Tenant shall pay the cost thereof to Landlord as additional rent upon demand.

Tenant shall indemnify, defend and hold Landlord, and its officers, employees and agents, harmless from and against any and all claims, demands, liabilities, losses and costs, including reasonable attorneys' fees, arising from damage or injury, actual or claimed, of whatsoever kind or character, to property or persons, occurring or allegedly occurring in, on or about the Premises, caused by or attributable to the acts, actions, inactions, negligence or intentional acts of Tenant, its agents, employees, contractors and invitees, and Tenant shall defend Landlord in any action or proceeding brought thereon. In addition to the above, Tenant shall further indemnify, defend and hold Landlord, and its officers, employees and agents, harmless from and against all claims, demands, liabilities, losses, damages and costs, including reasonable attorneys' fees, arising from or attributable to the use or occupancy of the Premises by Tenant, its agents, employees, contractors and invitees, or the breach or failure by Tenant of Tenant's obligations and covenants under this Lease, and Tenant shall defend Landlord in any action or proceeding brought with respect thereto.

**29. REPRESENTATIONS AND WARRANTIES.** Tenant acknowledges and agrees that it has not relied upon any statements, representations, agreements or warranties except such as are expressed herein, and that no amendment or modifications of this Lease shall be valid or binding unless expressed in writing and executed by the parties hereto in the same manner as the execution of this Lease. This Lease, along with Exhibits, constitutes the entire agreement between the parties and shall supersede any and all prior understandings or commitments or negotiations concerning the subject matter of this Lease.

**30. JOINT AND SEVERAL OBLIGATIONS.** If Tenant consists of more than one person, the obligations of all such persons are joint and several.

**31. CAPTIONS.** The captions appearing in this Lease are for convenience and reference and shall in no way define, limit or describe the scope of intent of this Lease nor in any way affect this Lease.

**32. BINDING EFFECT.** The covenants and agreements of this Lease shall extend to and be binding upon the heirs, executors, administrators, successors and assigns of the parties hereto where the context hereof requires or admits.

**33. GOVERNING LAW.** This Lease shall be subject to and governed by the laws of the State of Oklahoma.

IN WITNESS WHEREOF, the parties hereto have set their hands and delivered this Lease on the day and year above written.

**LANDLORD: BETTER PRICE WAREHOUSE SALES, CO.**

**TENANT: GROWGENERATION CORP.**

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Mark Price, President

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Darren Lampert, CEO

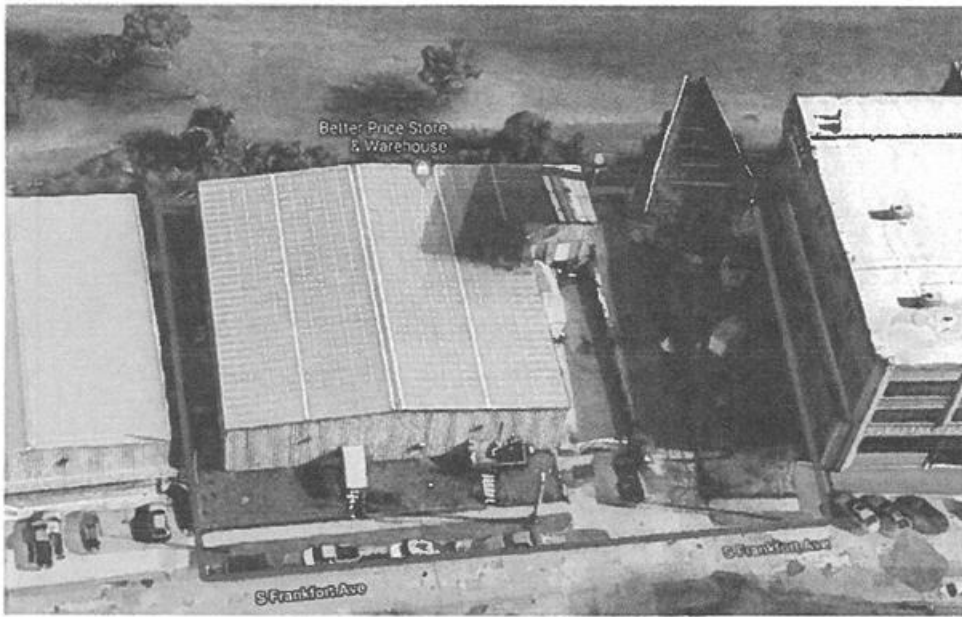
**EXHIBIT 'A'**

Legal Description:

LOTS 6,7,8 AND PART OF 9 BLK 7

Also known as:

1151 South Frankfort, Tulsa, Oklahoma, 74120



**EXHIBIT 'B'**  
SIGN CRITERIA

Tenant signage graphics/branding/etc to be attached.

**EXHIBIT 'C'**  
TENANT CONSTRUCTION ITEMS

Landlord and Tenant mutually agree, with Landlord's approval, that Tenant shall complete the following work within a reasonable time upon lease execution, at Tenant's sole cost and expense, as detailed below:

- Installation of interior/exterior Tenant signage (including highway signage)
- Misc Interior Improvement
- Misc. Interior Improvement

Other than the aforementioned work, Tenant agrees to accept the Leased Premises in their "AS-IS" condition with no further improvements. Any additional improvements shall be at the sole cost and expense of Tenant.

List of Subsidiaries

Name	State of Incorporation/ Legal Jurisdiction
GGen Distribution Corp	Delaware
GrowGeneration Management Corp	Delaware
GrowGeneration Pueblo Corp	Colorado
GrowGeneration California Corp	Delaware
GrowGeneration Nevada Corp	Delaware
GrowGeneration Washington Corp	Delaware
GrowGeneration Rhode Island Corp	Delaware
GrowGeneration Michigan Corp	Delaware
GrowGeneration Oklahoma Corp	Delaware
GrowGeneration New England Corp	Delaware
GrowGeneration HG Corp	Delaware
GrowGeneration Hemp Corp	Delaware
GrowGeneration Canada Corp	Province of Ontario



**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-219212 and No. 333-226646, filed on July 10, 2017 and August 7, 2018, respectively) of GrowGeneration Corp. (the "Company") of our report dated March 29, 2019, relating to the consolidated financial statements of the Company appearing in the Annual Report on Form 10-K of the Company for the year ended December 31, 2018.

/s/ Connolly Grady & Cha, P.C.

Certified Public Accountants  
Philadelphia, Pennsylvania  
March 29, 2019

## OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Darren Lampert, the Principal Executive Officer of GrowGeneration Corp. (the "Company"), certify that:

1. I have reviewed this Form 10-K of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Dated: April 1, 2019

By: /s/ Darren Lampert  
Darren Lampert  
Chief Executive Officer  
(Principal Executive Officer)

## OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Monty Lamirato, the Principal Financial Officer of GrowGeneration Corp. (the "Company"), certify that:

1. I have reviewed this Form 10-K of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Dated: April 1, 2019

By: /s/ Monty Lamirato  
Monty Lamirato  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of GrowGeneration Corp. (the "Company") on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Darren Lampert, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the undersigned and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: April 1, 2019

By: /s/ Darren Lampert  
Darren Lampert  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of GrowGeneration Corp. (the "Company") on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Monty Lamirato, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the undersigned and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: April 1, 2019

By: /s/ Monty Lamirato  
Monty Lamirato  
Chief Financial Officer  
(Principal Financial Officer)