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

**FORM 8-K/A**

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): September 27, 2018 (July 16, 2018)

**GROWGENERATION CORP**
(Exact Name of Registrant as Specified in its Charter)

| **Colorado** | **333-207889** | **46-5008129** |
|---|---|---|
| (State or other Jurisdiction of Incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

**1000 West Mississippi Avenue**
**Denver, Colorado 80223**
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: **(800)935-8420**

N/A
(Former Address of Principal Executive Offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c)) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

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. ☐

**Introductory Note**

On July 16, 2018, the Company filed a Report on Form 8-K (the "Original Filing") announcing the closing of the asset purchase on July 13, 2018 of all the assets of a retail hydroponic store, Santa Rosa Hydroponic & Grower Supply, Inc, pursuant to an asset purchase agreement.

This Current Report on Form 8-K/A amends the Original Filing to include the financial statements and pro forma information required by Item 9.01 of Form 8-K. Except for the filing of such financial statements and pro forma information, this Form 8-K/A does not modify or update other disclosures in, or exhibits to, the Original Filing.

**Section 9 – Financial Statements and Exhibits**

***Item 9.01. Financial Statements and Exhibits***

(a) Financial Statements of Businesses Acquired.

The audited financial statements of Santa Rosa Hydroponic & Grower Supply, Inc, required by Item 9.01(a) of Form 8-K and accompanying notes are filed as Exhibit 99.1 to this Current Report on Form 8-K/A and is incorporated herein by reference.

The unaudited financial statements of Santa Rosa Hydroponic & Grower Supply, Inc, required by Item 9.01(a) of Form 8-K and accompanying notes are filed as Exhibit 99.2 to this Current Report on Form 8-K/A and is incorporated herein by reference.

(b) Pro Forma Financial Information.

The pro forma financial information required by Item 9.01(b) of Form 8-K in relation to the acquisition is filed as Exhibit 99.3 to this Current Report on Form 8-K/A and is incorporated herein by reference.

(d) Exhibits

| ***Exhibit No.*** | ***Description*** |
|---|---|
| 99.1 | Audited Historical Financial Statements and Related Footnotes of Santa Rosa Hydroponic & Grower Supply, Inc as of December 31, 2017 and 2016, and for the years then ended and the notes thereto. |
| 99.2 | Unaudited Condensed Financial Statements of Santa Rosa Hydroponic & Grower Supply, Inc As of June 30, 2018 and for the six months ended June 30, 2018 and 2017 and the notes thereto. |
| 99.3 | Unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 2017 and the Unaudited Pro Forma Condensed Consolidated Statement of Income for the six months ended June 30, 2018 and for the year ended December 31, 2017 and the notes thereto. |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | | |
|---|---|---|---|
| Date: September 27, 2018 | **GrowGeneration Corp.** | | |
| | By: | /s/ Darren Lampert | |
| | Name: | Darren Lampert | |
| | Title: | Chief Executive Officer | |

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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 Santa Rosa Hydroponics & Grower Supply, Inc.
4180 S. Moorland Ave.
Santa Rosa, CA 95407

**Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Santa Rosa Hydroponics & Grower Supply, Inc. ("the Company") as of December 31, 2017 and 2016, and the related statements of income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes and schedules (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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, 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 PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 regarding the amounts and disclosures in the financial statements. Our audits also included evaluating accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Connolly, Grady + Cha, P.C.

Certified Public Accountants
We have served as the Company's auditor since 2018
Springfield, Pennsylvania
September 26, 2018

Member of the American Institute of Certified Public Accountants,
Public Company Accounting Oversight Board, and Pennsylvania Institute of Certified Public Accountants

453 Baltimore Pike, 2nd Floor, Springfield, PA 19064 ● (215) 732-4580 ● Fax (215) 735-4584 ● www.cgcpc.com

**SANTA ROSA HYDROPONICS & GROWER SUPPLY, INC.**
**BALANCE SHEETS**

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 315,624 | $ 469,334 |
| Accounts receivable, net of allowance for doubtful accounts of $319,704 and $0 at December 31, 2017 and 2016, respectively | 20,436 | 16,540 |
| Inventory, net | 2,300,744 | 2,795,555 |
| Advance to stockholders | 300,000 | 587,105 |
| Other current assets | 38,059 | 38,059 |
| Total current assets | 2,974,863 | 3,906,593 |
| | | |
| Property and equipment, net | 91,102 | 77,184 |
| TOTAL ASSETS | $ 3,065,965 | $ 3,983,777 |
| | | |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 15,849 | $ 1,210 |
| Payroll and payroll related liabilities | 9,050 | 7,225 |
| Sales tax payable | 41,344 | 64,851 |
| Total current liabilities | 66,243 | 73,286 |
| | | |
| Commitments and contingencies | - | - |
| | | |
| Stockholders' Equity: | | |
| Common stock; no par value; 10,000 shares authorized; no shares issued and outstanding as December 31, 2017 and 2016 | | |
| Retained earnings | 2,999,722 | 3,910,491 |
| Total stockholders' equity | 2,999,722 | 3,910,491 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 3,065,965 | $ 3,983,777 |

See accompanying notes to the audited financial statements.

**SANTA ROSA HYDROPONICS & GROWER SUPPLY, INC.**
**STATEMENTS OF INCOME AND RETAINED EARNINGS**

| | Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Sales | $ 12,439,511 | $ 12,688,945 |
| Cost of sales | 10,607,486 | 10,479,878 |
| Gross profit | 1,832,025 | 2,209,067 |
| | | |
| Operating expenses: | | |
| Salaries and related expenses | 453,943 | 472,800 |
| Rent | 267,300 | 235,200 |
| Depreciation and amortization | 62,494 | 48,268 |
| Other operating expenses | 450,577 | 549,338 |
| Total operating expenses | 1,234,314 | 1,305,606 |
| | | |
| Income from operations | 597,711 | 903,461 |
| | | |
| Other income (expense): | | |
| Other income | 1,521 | 3,580 |
| Interest expense | (6,053) | (957) |
| Total non-operating income (expense), net | (4,532) | 2,623 |
| | | |
| Net income | 593,179 | 906,084 |
| Retained earnings, beginning of year | 3,910,491 | 3,524,407 |
| Distributions | (1,503,948) | (520,000) |
| Retained earnings, end of year | $ 2,999,722 | $ 3,910,491 |

See accompanying notes to the audited financial statements.

**SANTA ROSA HYDROPONICS & GROWER SUPPLY, INC.**
**STATEMENTS OF CASH FLOWS**

| | Year Ended December 31, 2017 | Year Ended December 31, 2016 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income | $ 593,179 | $ 906,084 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 62,494 | 48,268 |
| Provision for doubtful accounts receivable | 319,704 | - |
| Inventory obsolescence charge | 437,095 | 663,567 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (323,600) | (3,892) |
| Inventory | 57,716 | (1,327,134) |
| Receivable shareholders | 287,105 | 516,709 |
| Other assets | - | (6,059) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 14,639 | (31,157) |
| Payroll and payroll tax liabilities | 1,825 | 1,360 |
| Sales taxes payable | (23,507) | 3,566 |
| Net Cash Provided By Operating Activities | 1,426,650 | 771,312 |
| Cash Flows from Investing Activities: | | |
| Purchase of furniture and equipment | (76,412) | (59,872) |
| Net Cash Used In Investing Activities | (76,412) | (59,872) |
| Cash Flows from Financing Activities: | | |
| Shareholder distributions | (1,503,948) | (520,000) |
| Net Cash Used In Financing Activities | (1,503,948) | (520,000) |
| Net Increase (decrease) in Cash and Cash Equivalents | (153,710) | 191,440 |
| Cash and Cash Equivalents at Beginning of Year | 469,334 | 277,894 |
| Cash and Cash Equivalents at End of Year | $ 315,624 | 469,334 |
| Supplemental Information: | | |
| Interest paid during the period | $ 6,053 | 957 |

See accompanying notes to the audited financial statements.

## 1. NATURE OF OPERATIONS

Santa Rosa Hydroponics & Grower Supply, Inc. (the "Company") was incorporated on March 30, 2015 under laws of the State of California. The Company maintains its principal office in Santa Rosa, CA and is principally engaged in the business of operating two retail hydroponic stores.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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").

Use of Estimates

Management uses estimates and assumptions in preparing the 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 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 Balance Sheets until the sale or service is complete.

**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, 2017 and 2016, the Company established an allowance for doubtful accounts of $319,704 and 0, 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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:

| | Estimated Lives |
|---|---|
| Vehicle | 5 years |
| Computers and equipment | 3-5 years |
| Leasehold improvements | 7years |

Fair Value of Financial Instruments

The fair value of certain of our financial instruments including cash and cash equivalents, accounts receivable, other current assets, advances to stockholders, accounts payable, payroll and payroll tax liabilities and sales tax payable approximate their carrying amounts because of the short-term maturity of these instruments.

Income Taxes

The Company has elected to be treated as an S Corporation for federal and state tax purpose. As such, the Company generally pays no federal income tax and state income tax, and the Company's taxable income is passed through to the shareholders where it is reported and taxed on the shareholders individual tax return and state income tax return.

Advertising

The Company expenses advertising and promotional costs when incurred. Advertising and promotional expenses for the years ended December 31, 2017 and 2016 amounted to $24,724 and $625, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2017 and 2016 the Company had $0 and $2,137, 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.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued guidance creating the ASC Section 606, "Revenue from Contracts with Customers". The new section will replace Section 605, "Revenue Recognition" and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards with previously differing treatment between United States practice and those of much of the rest of the world, as well as, to enhance disclosures related to disaggregated revenue information. The updated guidance was effective for annual reporting periods beginning on or after December 15, 2016, and interim periods within those annual periods. On July 9, 2015, the FASB approved a one-year delay of the effective date. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2018 and its adoption did not have a material impact on the consolidated financial statements.

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.

**3. RECENT ACCOUNTING PRONOUNCEMENTS, continued**

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842). This guidance will be effective for public entities for fiscal years beginning after December 15, 2018 including the interim periods within those fiscal years. Early application is permitted. Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. All other leases will fall into one of two categories: (i) Financing leases, similar to capital leases, which will require the recognition of an asset and liability, measured at the present value of the lease payments and (ii) Operating leases which will require the recognition of an asset and liability measured at the present value of the lease payments. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For sale leaseback transactions, the sale will only be recognized if the criteria in the new revenue recognition standard are met. The Company is currently evaluating the impact of adopting this guidance.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The new standard will change the classification of certain cash payments and receipts within the cash flow statement. Specifically, payments for debt prepayment or debt extinguishment costs, including third-party costs, premiums paid, and other fees paid to lenders that are directly related to the debt prepayment or debt extinguishment, excluding accrued interest, will now be classified as financing activities. Previously, these payments were classified as operating expenses. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted, and will be applied retrospectively. The Company does not expect that the adoption of this new standard, on the first day of the Company's 2020 fiscal year, will have a material impact on its consolidated financial statements.

In January 2017, the FASB released ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this ASU should be applied prospectively and are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. No disclosures are required at transition. We adopted this standard effective January 1, 2018, and this standard did not have a material impact on our financial position, results of operations or disclosures.

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.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS, continued

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. This update expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606 - *Revenue from Contracts with Customers* ("ASC 606"). The amendments in ASU 2018-07 are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. We are currently evaluating the potential effects of this updated guidance on our consolidated financial statements and related disclosures.

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.

## 4. PREMISES AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Vehicles | $ 82,678 | $ 82,678 |
| Furniture, fixtures and equipment | 370,200 | 293,788 |
| | 452,878 | 376,466 |
| Accumulated depreciation | (361,776) | (299,282) |
| Property and equipment, net | $ 91,102 | $ 77,184 |

Depreciation expense was $62,494 and $48,268 for the years ended December 31, 2017 and 2016, respectively.

## 5. RELATED PARTY TRANSACTIONS

The Company advanced shareholders $300,000 and $587,105 during the years ended December 31, 2017 and 2016, respectively. The advances of $300,000 and $587,105 at December 31, 2017 and 2016, respectively were converted to shareholder distributions in 2018 and 2017, respectively. The advances were non-interest bearing.

The Company leases office and warehouse space from an entity owned by the shareholders, rent paid to this related entity in 2017 and 2016 was $240,000 and $220,000, respectively

## 6. SUBSEQUENT EVENTS

On July 13, 2018, the Company and GrowGeneration Corp ("GrowGeneration"), entered into an amended and restated asset purchase agreement (the "Purchase Agreement") whereby GrowGeneration purchased the assets of the Company.

The assets subject to the sale under the Purchase Agreement, as amended, included inventories, fixed assets, tangible personal property, intangible personal property and contracts. As consideration for the assets, the Company agreed to pay the sellers a total of (i) $1,500,000 for inventory; (ii) $100,000 for the unencumbered fixed assets; (iii) (a) 925,000 shares of the Company's restricted Common Stock (valued at approximately $3.7 million), (b) $825,000 cash and (c) a promissory note of $500,000 for the intangible assets and goodwill. Total consideration paid for Santa Rosa Hydroponics was approximately $6.6 million.

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**SANTA ROSA HYDROPONICS & GROWER SUPPLY, INC.**
**UNAUDITED CONDENSED BALANCE SHEETS**

| | | June 30, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 276,264 | $ | 315,624 |
| Accounts receivable, net of allowance for doubtful accounts of $0 and $319,704 at June 30, 2018 and December 31, 2017, respectively | | - | | 20,436 |
| Inventory, net | | 1,500,000 | | 2,300,744 |
| Advances to shareholders | | 300,000 | | 300,000 |
| Other current assts | | 32,000 | | 38,059 |
| Total current assets | | 2,108,264 | | 2,974,863 |
| | | | | |
| Property and equipment, net | | 80,548 | | 91,102 |
| TOTAL ASSETS | $ | 2,188,812 | $ | 3,065,965 |
| | | | | |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ | 75,771 | $ | 15,849 |
| Payroll and payroll related liabilities | | - | | 9,050 |
| Sales tax payable | | - | | 41,344 |
| Total current liabilities | | 75,771 | | 66,243 |
| | | | | |
| Commitments and contingencies | | | | - |
| | | | | |
| Stockholders' Equity: | | | | |
| Common stock; no par value; 10,000 shares authorized; no shares issued and outstanding as June 30, 2018 and December 31, 2017 | | - | | - |
| Retained earnings | | 2,113,041 | | 2,999,722 |
| Total stockholders' equity | | 2,113,041 | | 2,999,722 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ | 2,188,812 | $ | 3,065,965 |

See accompanying notes to unaudited condensed financial information.

**SANTA ROSA HYDROPONICS & GROWER SUPPLY, INC.**
**UNADITED CONDENSED STATEMENTS OF INCOME AND RETAINED EARNINGS**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Sales | $ 3,527,073 | $ 7,088,879 |
| Cost of sales | 2,583,068 | 5,630,643 |
| Gross profit | 944,005 | 1,458,236 |
| | | |
| Operating expenses: | | |
| Salaries and related expenses | 167,412 | 145,321 |
| Rent | 130,500 | 134,700 |
| Depreciation and amortization | 25,042 | 20,327 |
| Other operating expenses | 185,387 | 163,365 |
| Total operating expenses | 508,341 | 463,713 |
| | | |
| Income from operations | 435,664 | 994,523 |
| | | |
| Other income (expense): | | |
| Other income | 7,006 | 1,515 |
| Interest expense | - | (6,053) |
| Total non-operating income (expense), net | 7,006 | (4,538) |
| | | |
| Net income | 442,670 | 989,985 |
| Retained earnings, beginning of period | 2,999,722 | 3,910,491 |
| Distribution | (1,329,351) | (1,537,124) |
| Retained earnings, end of period | $ 2,113,041 | $ 3,363,352 |

See accompanying notes to unaudited condensed financial information.

**SANTA ROSA HYDROPONICS & GROWER SUPPLY, INC.**
**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash Flows from Operating Activities: | | |
| Net income | $ 442,670 | $ 989,985 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 25,042 | 20,327 |
| Provision for doubtful accounts receivable | - | - |
| Inventory obsolescence charge | - | 139,893 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 20,436 | 16,540 |
| Inventory | 800,744 | 373,601 |
| Advances to shareholders | - | 587,105 |
| Other assets | 6,059 | - |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 59,922 | 26,129 |
| Payroll and payroll tax liabilities | (9,050) | (7,225) |
| Sales taxes payable | (41,344) | 49,363 |
| Net Cash Provided By Operating Activities | 1,304,479 | 2,195,718 |
| | | |
| Cash Flows from Investing Activities: | | |
| Purchase of furniture and equipment | (14,488) | (10,857) |
| Net Cash Used In Investing Activities | (14,488) | (10,857) |
| | | |
| Cash Flows from Financing Activities: | | |
| Shareholder distributions | (1,329,351) | (1,537,124) |
| Net Cash Used In Financing Activities | (1,329,351) | (1,537,124 |
| | | |
| Net Increase (decrease) in Cash and Cash Equivalents | (39,360) | 647,737 |
| | | |
| Cash and Cash Equivalents at Beginning of Period | 315,624 | 469,334 |
| | | |
| Cash and Cash Equivalents at End of Period | $ 276,264 | $ 1,117,071 |
| | | |
| Supplemental Information: | | |
| Interest paid during the period | $ - | 6,053 |

See accompanying notes to unaudited condensed financial information.

**SANTA ROSA HYDROPONICS & GROWER SUPPLY, INC.**
**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

## 1. NATURE OF OPERATIONS

Santa Rosa Hydroponics & Grower Supply, Inc. (the "Company") was incorporated on March 30, 2015 under laws of the State of California. The Company maintains its principal office in Santa Rosa, CA and is principally engaged in the business of operating two retail hydroponic stores.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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").

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.

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 Balance Sheets until the sale or service is complete.

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 June 30, 2018 and December 31, 2017, the Company established an allowance for doubtful accounts of $0 and 319,704, 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:

| | Estimated Lives |
|---|---|
| Vehicle | 5 years |
| Computers and equipment | 3-5 years |
| Leasehold improvements | 7years |

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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes

The Company has elected to be treated as an S Corporation for federal and state tax purpose. As such, the Company generally pays no federal income tax and state income tax, and the Company's taxable income is passed through to the shareholders where it is reported and taxed on the shareholders individual tax return and state income tax return.

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 June 30, 2018 and December 31, 2017, the Company had $607,713 and $0, 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.

**3. PREMISES AND EQUIPMENT**

Property and equipment at June 30, 2018 and December 31, 2017 consists of the following:

| | 2018 | 2017 |
|---|---|---|
| Vehicles | $ 82,678 | $ 82,678 |
| Furniture, fixtures and equipment | 386,355 | 370,200 |
| | 469,033 | 452,878 |
| Accumulated depreciation | (388,485) | (361,776) |
| Property and equipment, net | $ 80,548 | $ 91,102 |

Depreciation expense was $25,042 and $20,327 for the six months ended June 30, 2018 and 2017, respectively.

## 4. RELATED PARTY TRANSACTIONS

The Company advanced shareholders $300,000 during the year ended December 31, 2017. The advances of $300,000 were converted to shareholder distributions after June 30, 2018. The advances were non-interest bearing.

The Company leases office and warehouse space from an entity owned by the shareholders, rent paid to the related entity for the six months ended June 30, 2017 and 2016 was $120,000 and $120,000, respectively

## 5. SUBSEQUENT EVENTS

On July 13, 2018, the Company and GrowGeneration Corp (“GrowGeneration”), entered into an amended and restated asset purchase agreement (the “Purchase Agreement”) and purchased the assets of the Company.

The assets subject to the sale under the Purchase Agreement, as amended, included inventories, fixed assets, tangible personal property, intangible personal property and contracts. As consideration for the assets, the Company agreed to pay the sellers a total of (i) $1,500,000 for inventory; (ii) $100,000 for the unencumbered fixed assets; (iii) (a) 925,000 shares of the Company’s restricted Common Stock (valued at approximately $3.7 million), (b) $825,000 cash and (c) a promissory note of $500,000 for the intangible assets and goodwill. Total consideration paid for Santa Rosa Hydroponics was approximately $6.6 million.

**GROWGENERATION CORP AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONDENSED AND COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed and combined financial information and related notes present the historical condensed combined financial information of GrowGeneration Corp and Subsidiaries (hereinafter referred to as "GrowGeneration", "we," "our," "us" and similar terms unless the context indicates otherwise) and Santa Rosa Hydroponics & Grower Supply LLC. (hereinafter referred to as "Santa Rosa Hydro"), after giving effect to GrowGeneration's acquisition of certain assets of Santa Rosa Hydro that was completed on July 13, 2018 (the "Acquisition Date"). The unaudited pro forma condensed combined financial information gives effect to our acquisition of Santa Rosa Hydro based on the assumptions, reclassifications and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined balance sheet as of June 30, 2018 reflects the acquisition of certain assets of Santa Rosa Hydro as if the acquisition had occurred on June 30, 2018. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2017 and the six months ended June 30, 2018 combines GrowGeneration's and Santa Rosa Hydro's historical results and are presented as if the acquisition had occurred on January 1, 2017 and 2018, respectively.

The condensed combined financial statements include pro forma adjustments for preliminary valuations of certain tangible and intangible assets by GrowGeneration's management as of the acquisition date of July 13, 2018. These adjustments are subject to further revision upon finalization of the transaction, the related intangible asset valuations and fair value determinations. The determination and preliminary allocation of the purchase consideration used in the unaudited pro forma condensed combined financial information are based upon preliminary estimates, which are subject to change during the measurement period as we finalize the valuations of the net tangible and intangible assets acquired.

The unaudited pro forma adjustments are not necessarily indicative of or intended to represent the results that would have been achieved had the transaction been consummated as of the dates indicated or that may be achieved in the future. The actual results reported by the combined company in periods following the acquisition may differ significantly from those reflected in these unaudited pro forma condensed combined financial information for a number of reasons, including cost saving synergies from operating efficiencies and the effect of the incremental costs incurred to integrate the two companies.

**GROWGENERATION CORP AND SUBSIDIARIES**
**UNAUDITED POR FORM CONDENSED COMBINED BALANCE SHEET**
**AS OF JUNE 30, 2018**

| | Historical | | | |
|---|---|---|---|---|
| | GrowGeneration Corp | Santa Rosa Hydro | Pro Forma Adjustments | Pro Forma Combined |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 17,433,339 | $ 276,264 | $ (276,264) a<br>(2,424,000) b | $ 15,009,339 |
| Accounts receivable, net | 954,309 | - | - | 954,309 |
| Inventory | 8,089,018 | 1,500,000 | - | 9,589,018 |
| Advances to shareholders | - | 300,000 | (300,000) a | - |
| Prepaid expenses and other current assets | 610,141 | 32,000 | (32,000) a | 610,141 |
| Total current assets | 27,086,807 | 2,108,264 | (3,032,264) | 26,162,807 |
| | | | | |
| Property and equipment, net | 1,411,591 | 80,548 | 19,455 b | 1,511,594 |
| Intangible assets, net | 60,251 | - | - | 60,251 |
| Goodwill | 3,399,412 | - | 4,883,497 b | 8,282,909 |
| Other assets | 96,589 | - | - | 96,589 |
| TOTAL ASSETS | $ 32,054,650 | $ 2,188,812 | $ 1,870,688 | $ 36,114,150 |
| | | | | |
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 1,754,952 | $ 75,771 | $ (75,771) a | $ 1,754,952 |
| Other accrued liabilities | 5,220 | - | - | 5,220 |
| Payroll and payroll tax liabilities | 163,299 | - | - | 163,299 |
| Customer deposits | 149,608 | - | - | 149,608 |
| Sales tax payable | 217,880 | - | - | 217,880 |
| Current portion of long-term debt | 323,118 | - | 70,100 b | 393,218 |
| Total current liabilities | 2,614,077 | 75,771 | (5,671) | 2,684,177 |
| | | | | |
| Long-term convertible debt, net of debt discount and debt issuance costs | 4,516,541 | | | 4,516,541 |
| Long term debt, net of current portion | 286,868 | | 344,900 b | 631,768 |
| Total liabilities | 7,417,486 | 75,771 | 339,229 | 7,832,486 |
| | | | | |
| Commitments and contingencies | | | | |
| | | | | |
| Stockholders' Equity: | | | | |
| Common stock | 23,965 | | 925 b | 24,890 |
| Additional paid-in capital | 30,188,825 | | 3,643,575 b | 33,832,400 |
| Accumulated equity (deficit) | (5,575,626) | 2,113,041 | (2,113,041) a | (5,575,626) |
| Total stockholders' equity | 24,637,164 | 2,113,041 | 1,531,459 | 28,281,664 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 32,054,650 | $ 2,188,812 | $ 1,870,688 | $ 36,114,150 |

**GROWGENERATION CORP AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

| | Historical | | | |
|---|---|---|---|---|
| | GrowGeneration Corp | Santa Rosa Hydro | Pro Forma Adjustments | Pro Forma Combined |
| Sales | $ 14,363,886 | $ 12,439,511 | $ - | $ 26,803,397 |
| Cost of sales | 11,094,331 | 10,607,486 | - | 21,701,817 |
| Gross profit | 3,269,555 | 1,832,025 | | 5,101,580 |
| | | | | |
| Operating expenses: | | | | |
| Store operations | 2,963,306 | 267,300 | - | 3,230,606 |
| General and administrative | 1,022,401 | 450,577 | - | 1,472,978 |
| Share based compensation | 1,077,932 | - | - | 1,077,932 |
| Depreciation and amortization | 151,561 | 62,494 | (62,494) d<br>20,000 d | 171,561 |
| Salaries and related expenses | 904,868 | 453,943 | - | 1,358,811 |
| Total operating expenses | 6,120,068 | 1,234,314 | (42,494) | 7,311,888 |
| | | | | |
| Income (loss) from operations | (2,850,513) | 597,711 | 42,494 | (2,210,308) |
| | | | | |
| Other income (expense): | | | | |
| Gain on settlements | 322,058 | - | - | 322,058 |
| Other income | 1,633 | 1,521 | - | 3,154 |
| Other expense | (421) | - | - | (421) |
| Interest expense | (15,339) | (6,053) | (31,145) c | (52,537) |
| Total non-operating income (expense), net | 307,931 | (4,532) | (31,145) | 272,254 |
| | | | | |
| Net income (loss) | $ (2,542,582) | $ 593,179 | $ 11,349 | (1,938,054) |
| | | | | |
| Net loss per shares, basic and diluted | $ (.18) | | | $ (.13) |
| | | | | |
| Weighted average shares outstanding, basic and diluted | 14,510,582 | - | 925,000 | 15,435,582 |

**GROWGENERATION CORP AND SUBSIDIARIES**
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**
**FOR THE SIX MONTHS ENDED JUNE 30, 2018**

| | Historical | | | |
|---|---|---|---|---|
| | GrowGeneration Corp | Santa Rosa Hydro | Pro Forma Adjustments | Pro Forma Combined |
| Sales | $ 11,534,558 | $ 3,527,073 | $ - | $ 15,061,631 |
| Cost of sales | 8,614,719 | 2,583,068 | - | 11,197,787 |
| Gross profit | 2,919,839 | 944,005 | - | 3,863,844 |
| Operating expenses: | | | | |
| Store operations | 2,029,848 | 130,500 | - | 2,160,348 |
| General and administrative | 762,873 | 185,387 | - | 948,260 |
| Share based compensation | 553,348 | - | - | 553,348 |
| Depreciation and amortization | 126,994 | 25,042 | (25,042) d<br>10,000 d | 136,994 |
| Salaries and related expenses | 726,810 | 167,412 | - | 894,222 |
| Total operating expenses | 4,199,873 | 508,341 | (15,042) | 4,693,172 |
| Income (loss) from operations | (1,280,034) | 435,664 | (15,042) | (829,328) |
| Other income (expense): | | | | |
| Amortization of debt discount | (622,096) | - | - | (622,096) |
| Interest income | 29,627 | - | - | 29,627 |
| Other income (expense) | 8,444 | 7,006 | - | 15,450 |
| Interest expense | (19,330) | - | (16,282) c | (35,612) |
| Total non-operating income (expense), net | (603,355) | 7,006 | (16,282) | (612,631) |
| Net income (loss) | $ (1,883,389) | $ 442,670 | $ (1,240) | (1,441,959) |
| Net loss per shares, basic and diluted | $ (.09) | | | $ (.07) |
| Weighted average shares outstanding, basic and diluted | 20,230,146 | | 925,000 | 21,155,146 |

**GROWGENERATION CORP**
**NOTES TO UNAUDITED PRO FORMA**
**CONDENSED AND COMBINED FINANCIAL STATEMENTS**

**1. BASIS OF PRO FORMA PRESENTATION**

The unaudited pro forma condensed and combined balance sheet as of June 30, 2018 combines GrowGeneration's historical condensed consolidated balance sheet with the historical balance sheet of SANTA ROSA HYDRO and has been prepared as if our acquisition of certain assets of SANTA ROSA HYDRO occurred on June 30, 2018. The unaudited pro forma condensed and combined statements of operations for the year ended December 31, 2017 and for the six months ended June 30, 2018 combine our historical condensed consolidated statements of operations with SANTA ROSA HYDRO's historical statements of operations and have been prepared as if the acquisition occurred on January 1, 2017, 2018, respectively. The historical financial information is adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma events that are (1) directly attributable to the proposed acquisition, (2) factually supportable, and (3) with respect to the condensed combined statements of operations and comprehensive income, expected to have a continuing impact on the combined results.

We have accounted for the asset acquisition in this unaudited pro forma condensed combined financial information using the acquisition method of accounting in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 805 "Business Combinations" ("ASC 805"). In accordance with ASC 805, we use our best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the Acquisition Date. Goodwill as of the Acquisition Date is measured as the excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired.

The pro forma adjustments described below were developed based on GrowGeneration management's assumptions and estimates, including assumptions relating to the consideration paid and the allocation thereof to the assets acquired from SANTA ROSA HYDRO based on preliminary estimates of fair value. The final purchase consideration and the allocation of the purchase consideration will differ from that reflected in the unaudited pro forma condensed combined financial information after final valuation procedures are performed and amounts are finalized following the completion of the acquisition.

The unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of the combined company would have been had the acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial position.

The unaudited pro forma condensed and combined financial information does not reflect any integration activities or cost savings from operating efficiencies, synergies, asset dispositions or other restructurings that could result from the acquisition.

**2. PRELIMINARY PURCHASE CONSIDERATION AND RELATED ALLOCATION**

The assets subject to the sale under the Purchase Agreement included inventories, fixed assets, tangible personal property, intangible personal property and contracts. The Company agreed to pay the sellers a total of $1,800,000 and 300,000 shares of common stock of the Company as consideration for the assets.

| | | |
|---|---|---|
| Cash at closing | $ | 2,425,000 |
| Fair value of common stock issued | | 3,645,000 |
| Seller financed notes | | 415,000 |
| Total purchase consideration | $ | 6,485,000 |

The following table summarizes the preliminary allocation of the assets acquired based on their fair values on the acquisition date.

| | |
|---|---|
| Inventory | $ 1,500,000 |
| Property and equipment | 100,000 |
| Goodwill | 4,885,000 |
| Total | $ 6,485,000 |

Upon completion of the fair value assessment, it is anticipated that the final purchase price allocation will differ from the preliminary assessment outlined above. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments. Any changes to the preliminary estimates of the fair value of the assets acquired and liabilities assumed will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

**3. PRO FORMA ADJUSTMENTS**

The pro forma adjustments included in the unaudited pro forma condensed and combined financial statements are as follows:

a) Eliminate assets and liabilities not acquired in the asset purchase.

b) Record cash issued at closing, fair value of common stock issued and seller financing notes payable to fair market value of assets acquired.

c) Record interest related to seller financing notes payable

d) Adjust depreciation expense for fair market value of property and equipment acquired