U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For Quarter Ended: **March 31, 2023**

OR

☐ **TRANSITION REPORT PURSUANT TO 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	**46-5008129**
(State of other jurisdiction of incorporation)	(IRS Employer ID No.)

5619 DTC Parkway, Suite 900
Greenwood Village, Colorado 80111
(Address of principal executive offices)

(800) 935-8420
(Issuer's Telephone Number)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	GRWG	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 every Interactive Data File required to be submitted and posted 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 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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		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. ☐

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

As of May 1, 2023 there were 61,037,958 shares of the registrant's common stock issued and outstanding.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GROWGENERATION CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except shares and per share amounts)

	March 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,738	$ 40,054
Marketable securities	9,126	31,852
Accounts receivable, net of allowance for credit losses of $0.7 million and $0.7 million at March 31, 2023 and December 31, 2022	7,569	8,336
Notes receivable, current, net of allowance for credit losses of $1.7 million and $1.3 million at March 31, 2023 and December 31, 2022	—	1,214
Inventory	75,581	77,091
Prepaid income taxes	625	5,679
Prepaids and other current assets	8,250	6,455
Total current assets	163,889	170,681
Property and equipment, net	30,274	28,669
Operating leases right-of-use assets	43,581	46,433
Intangible assets, net	28,479	30,878
Goodwill	15,978	15,978
Other assets	442	803
TOTAL ASSETS	$ 282,643	$ 293,442
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,414	$ 15,728
Accrued liabilities	1,985	1,535
Payroll and payroll tax liabilities	2,363	4,671
Customer deposits	3,916	4,338
Sales tax payable	1,467	1,341
Current maturities of lease liability	8,004	8,131
Current portion of long-term debt	34	50
Total current liabilities	33,183	35,794
Commitments and contingencies (Note 12)		
Operating lease liability, net of current maturities	38,130	40,659
Other long-term liabilities	627	593
Total liabilities	71,940	77,046
Stockholders' equity:		
Common stock; $0.001 par value; 100,000,000 shares authorized, 61,035,521 and 61,010,155 shares issued and outstanding as of March 31, 2023 and December 31, 2022	61	61
Additional paid-in capital	370,379	369,938
Retained earnings (deficit)	(159,737)	(153,603)
Total stockholders' equity	210,703	216,396
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 282,643	$ 293,442

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GROWGENERATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except shares and per share amounts)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Net sales	$ 56,827	$ 81,767
Cost of sales (exclusive of depreciation and amortization shown below)	40,538	59,627
Gross profit	16,289	22,140
Operating expenses:		
Store operations and other operational expenses	12,966	14,532
Selling, general, and administrative	6,838	9,609
Bad debt expense	317	714
Depreciation and amortization	3,932	4,506
Total operating expenses	24,053	29,361
Income (Loss) from operations	(7,764)	(7,221)
Other income (expense):		
Other income (expense)	1,204	409
Interest income	428	2
Interest expense	(2)	(3)
Total non-operating income (expense), net	1,630	408
Net income (loss) before taxes	(6,134)	(6,813)
Benefit (provision) for income taxes	—	1,636
Net income (loss)	$ (6,134)	$ (5,177)
Net income (loss) per share, basic	$ (0.10)	$ (0.09)
Net income (loss) per share, diluted	$ (0.10)	$ (0.09)
Weighted average shares outstanding, basic	61,028	60,126
Weighted average shares outstanding, diluted	61,028	60,126

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GROWGENERATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(Unaudited)
(in thousands, except shares and per share amounts)

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In Capital	Earnings (Deficit)	Stockholders' Equity
Balances, December 31, 2022	61,010	$ 61	$ 369,938	$ (153,603)	$ 216,396
Common stock issued for share based compensation	25	—	—	—	—
Common stock withheld for employee payroll taxes	—	—	(70)	—	(70)
Share based compensation	—	—	511	—	511
Net income (loss)	—	—	—	(6,134)	(6,134)
Balances, March 31, 2023	61,035	$ 61	$ 370,379	$ (159,737)	$ 210,703

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In Capital	Earnings (Deficit)	Stockholders' Equity
Balances, December 31, 2021	59,929	$ 60	$ 361,087	$ 10,144	$ 371,291
Common stock issued in connection with business combinations	650	1	5,749	—	5,750
Common stock issued for share-based compensation	149	—	—	—	—
Common stock withheld for employee payroll taxes	—	—	(1,355)	—	(1,355)
Share based compensation	—	—	1,583	—	1,583
Net income (loss)	—	—	—	(5,177)	(5,177)
Balances, March 31, 2022	60,728	$ 61	$ 367,064	$ 4,967	$ 372,092

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

GROWGENERATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands, except shares and per share amounts)

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
Cash flows from operating activities:		
Net income (loss)	$ (6,134)	$ (5,177)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,932	4,506
Stock-based compensation expense	567	1,583
Bad debt expense, net of recoveries	317	714
Gain (loss) on asset disposition	(19)	20
Deferred taxes	—	(1,636)
Changes in operating assets and liabilities (net of the effect of acquisitions):		
Accounts and notes receivable	1,664	(1,886)
Inventory	1,627	3,761
Prepaid expenses and other assets	3,621	9,740
Accounts payable and accrued liabilities	114	(5,082)
Operating leases	372	106
Payroll and payroll tax liabilities	(2,308)	(3,138)
Customer deposits	(422)	(5,738)
Sales tax payable	126	5
Net cash provided by (used in) operating activities	3,457	(2,222)
Cash flows from investing activities:		
Acquisitions, net of cash acquired	—	(6,806)
Purchase of marketable securities	(10,726)	—
Maturities from marketable securities	33,452	20,758
Purchase of property and equipment	(3,476)	(4,451)
Disposal of assets	63	—
Net cash provided by (used in) investing activities	19,313	9,501
Cash flows from financing activities:		
Principal payments on long term debt	(16)	(23)
Common stock withheld for employee payroll taxes	(70)	(1,355)
Net cash provided by (used in) financing activities	(86)	(1,378)
Net change	22,684	5,901
Cash and cash equivalents at the beginning of period	40,054	41,372
Cash and cash equivalents at the end of period	$ 62,738	$ 47,273
Supplemental disclosures of non-cash activities:		
Cash paid for interest	$ 2	$ 3
Common stock issued for business combination	$ —	$ 5,750
Right of use assets acquired under new operating leases	$ 1,310	$ 2,703

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

1. GENERAL

GrowGeneration Corp. (together with its direct and indirect wholly owned subsidiaries, collectively "GrowGeneration" or the "Company") is a leading marketer and distributor of nutrients, growing media, lighting, benching and racking, environmental control systems, and other products for both indoor and outdoor hydroponic and organic gardening, including proprietary brands such as Charcoir, Drip Hydro, Power Si, MMI benching and racking, Ion lights, Durabreeze fans, and more. Incorporated in Colorado in 2014, GrowGeneration is the largest chain of specialty retail hydroponic and organic garden centers in the U.S. As of March 31, 2023, GrowGeneration has 59 retail locations across 16 states in the U.S. The Company also operates an online superstore for cultivators at growgeneration.com, as well as a wholesale business for resellers, HRG Distribution, and a benching, racking, and storage solutions business, MMI. GrowGeneration also provides facility design services to commercial growers.

Basis of Presentation

The accompanying interim unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 ("2022 Form 10-K"). There were no significant changes to our significant accounting policies as disclosed in our 2022 Form 10-K. The results of operations for our interim periods are not necessarily indicative of results for the full fiscal year.

All amounts included in the accompanying footnotes to the consolidated financial statements, except share and per share data, are in thousands (000).

Reclassifications

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

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.

2. FAIR VALUE MEASUREMENTS

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of cash and cash equivalents, accounts receivable, available for sale securities, accounts payable and all other current liabilities approximate fair values due to their short-term nature. The fair value of notes receivable approximates the outstanding balance and are reviewed for impairment at least annually. The fair value of impaired notes receivable is determined based on estimated future payments discounted back to present value using the notes' effective interest rate.

	Level	March 31, 2023	December 31, 2022
Cash equivalents	1	$ 36,296	$ 25,087
Marketable securities	2	$ 9,126	$ 31,852

3. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements

From time to time, the Financial Accounting Standards Board ("FASB") or other standard setting bodies issue new accounting pronouncements. Updates to the FASB Accounting Standards Codification ("ASC") are communicated through issuance of an Accounting Standards Update ("ASU"). We have implemented all new accounting pronouncements that are in effect and that may impact our financial statements. We have evaluated recently issued accounting pronouncements and determined that there is no material impact on our financial position or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326)," changing the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the other-than-temporary impairment model. The ASU will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, available-for-sale and held-to-maturity debt securities, net investments in leases, and off-balance sheet credit exposures. ASU No. 2016-13 was effective January 1, 2020. The Company has adopted this standard effective January 1, 2023. The adoption of this standard primarily applied to the valuation of the Company's accounts receivable. Based on the composition of the Company's accounts receivable, investment portfolio, and other financial assets, including current market conditions and historical credit loss activity, the adoption of this standard did not have a material impact on the Company's consolidated financial statements or disclosures. Specifically, the Company's estimate of expected credit losses as of March 31, 2023, using its expected credit loss evaluation process described above, resulted in no adjustments to the provision for credit losses and no cumulative-effect adjustment to accumulated deficit on the adoption date of the standard.

4. REVENUE RECOGNITION

Disaggregation of Revenues

Sales are disaggregated by our segments, which represent our principal lines of business, as well as by our private label products versus distributed brands, or by commercial fixture revenue. See Note 13, *Segments*, for disaggregated revenue by segment.

The opening and closing balances of the Company's customer trade receivables and customer deposit liability are as follows:

	Receivables	Customer Deposit Liability
Opening balance, January 1, 2023	$ 8,336	$ 4,338
Closing balance, March 31, 2023	7,569	3,916
Increase (decrease)	$ (767)	$ (422)
Opening balance, January 1, 2022	$ 5,741	$ 11,686
Closing balance, March 31, 2022	7,386	7,190
Increase (decrease)	$ 1,645	$ (4,496)

Of the total amount of customer deposit liability as of January 1, 2023, $2.3 million was reported as revenue during the three months ended March 31, 2023. Of the total amount of customer deposit liability as of January 1, 2022, $7.6 million was reported as revenue during the three months ended March 31, 2022.

5. PROPERTY AND EQUIPMENT

	March 31, 2023	December 31, 2022
Vehicles	$ 2,482	$ 2,176
Building	2,121	2,121
Leasehold improvements	12,695	12,562
Furniture, fixtures and equipment	13,578	13,195
Capitalized software	2,761	2,644
Construction-in-progress	11,878	9,569
Total property and equipment, gross	45,515	42,267
Accumulated depreciation	(15,241)	(13,598)
Property and equipment, net	$ 30,274	$ 28,669

Depreciation expense for the three months ended March 31, 2023 was $1.7 million. Depreciation expense for the three months ended March 31, 2022 was $1.8 million.

6. GOODWILL AND INTANGIBLE ASSETS

The Company performs its goodwill impairment testing annually during the fourth quarter, or more frequently if events or if circumstances were to occur that would more likely than not reduce the fair value of our reporting unit below its carrying amount. The Company would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill. The adjusted carrying amount of goodwill shall be its new accounting basis.

During the second quarter of 2022, the Company's market capitalization fell below total net assets. In addition, financial performance continued to weaken during the quarter, which is contrary to prior experience. Management reassessed business performance expectations, following persistent adverse developments in equity markets, deterioration in the environment in which we operate, inflation, lower than expected sales, and an increase in operating expenses. These indicators, in the aggregate, required impairment testing for finite-lived intangible assets at the asset group level and goodwill at the reporting unit level.

Under ASC 360, we performed a cash recoverability test on the following intangible assets: customer relationships, trade name, and non-compete. The carrying amounts of any assets that are not within the scope of ASC 360-10, other than goodwill, were adjusted for impairment, as necessary, prior to testing long-lived assets and goodwill. The Company recognized impairment losses as disclosed in the table below.

For goodwill impairment testing purposes, the Company determinedfour reporting units, three of which were subject to a quantitative assessment. We determined fair value using the income approach, where estimated future returns are discounted to present value at an appropriate rate of return. The Company completed its interim goodwill impairment test as of June 30, 2022 and recognized impairment losses as disclosed in the table below.

The changes in goodwill are as follows:

	March 31, 2023	December 31, 2022
Balance, beginning of period	$ 15,978	$ 125,401
Goodwill additions and measurement period adjustments	—	7,234
Impairment	—	(116,657)
Balance, end of period	$ 15,978	$ 15,978

The goodwill balance and impairment by segment are as follows:

	Retail	E-commerce	Distribution	Total
Gross carrying value at December 31, 2021	$ 101,811	$ 11,659	$ 11,931	$ 125,401
Acquisitions & measurement period adjustments	1,418	(341)	6,157	7,234
Gross carrying value at December 31, 2022	103,229	11,318	18,088	132,635
Acquisitions & measurement period adjustments	—	—	—	—
Gross carrying value, at March 31, 2023	$ 103,229	$ 11,318	$ 18,088	$ 132,635
Accumulated impairment losses at December 31, 2021	$ —	$ —	$ —	$ —
Impairment	(103,094)	(9,848)	(3,715)	(116,657)
Accumulated impairment losses at December 31, 2022	(103,094)	(9,848)	(3,715)	(116,657)
Impairment	—	—	—	—
Accumulated impairment losses at March 31, 2023	$ (103,094)	$ (9,848)	$ (3,715)	$ (116,657)
Net carrying value at December 31, 2022	$ 135	$ 1,470	$ 14,373	$ 15,978
Net carrying value at March 31, 2023	$ 135	$ 1,470	$ 14,373	$ 15,978

A summary of intangible assets is as follows:

	Weighted-Average Amortization Period of Intangible Assets as of March 31, 2023 (in years)
Trade names	2.99
Patents	2.84
Customer relationships	4.26
Non-competes	1.65
Intellectual property	2.92
Total	3.13

Intangible assets consist of the following:

	March 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names	$ 29,063	$ (12,160)	$ 16,903
Patents	100	(60)	40
Customer relationships	17,102	(7,093)	10,009
Non-competes	932	(610)	322
Intellectual property	2,065	(860)	1,205
Total	$ 49,262	$ (20,783)	$ 28,479

	December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names	$ 28,774	$ (10,693)	$ 18,081
Patents	389	(56)	333
Customer relationships	17,102	(6,501)	10,601
Non-competes	932	(551)	381
Intellectual property	2,065	(758)	1,307
Total	$ 49,262	$ (18,559)	$ 30,703

Intangibles and impairment by segment are as follows:

	Retail	E-commerce	Distribution	Total
Gross carrying value at December 31, 2021	$ 37,825	$ 2,501	$ 16,698	$ 57,024
Acquisitions & measurement period adjustments	230	—	3,182	3,412
Gross carrying value at December 31, 2022	38,055	2,501	19,880	60,436
Acquisitions & measurement period adjustments	—	—	—	—
Gross carrying value at March 31, 2023	$ 38,055	$ 2,501	$ 19,880	$ 60,436
Accumulated amortization at December 31, 2021	$ (6,285)	$ (354)	$ (1,983)	$ (8,622)
Amortization	(5,897)	(460)	(3,580)	(9,937)
Accumulated amortization at December 31, 2022	(12,182)	(814)	(5,563)	(18,559)
Amortization	(1,205)	(112)	(907)	(2,224)
Accumulated amortization at March 31, 2023	$ (13,387)	$ (926)	$ (6,470)	$ (20,783)
Accumulated impairment losses at December 31, 2021	$ —	$ —	$ —	$ —
Impairments	(11,079)	(95)	—	(11,174)
Accumulated impairment losses at December 31, 2022	(11,079)	(95)	—	(11,174)
Impairments	—	—	—	—
Accumulated impairment losses at March 31, 2023	$ (11,079)	$ (95)	$ —	$ (11,174)
Net carrying value at December 31, 2022	$ 14,794	$ 1,592	$ 14,317	$ 30,703
Net carrying value at March 31, 2023	$ 13,589	$ 1,480	$ 13,410	$ 28,479

Amortization expense for the three months ended March 31, 2023 was $2.2 million. Amortization expense for the three months ended March 31, 2022 was $2.7 million.

Future amortization expense is as follows:

2023, remainder	$ 6,632
2024	8,726
2025	8,353
2026	3,589
2027	1,144
Thereafter	35
Total	$ 28,479

7. INCOME TAXES

For the three months ended March 31, 2023, the effective tax rate is 0.00% which decreased from 24.02% for the three months ended March 31, 2022. The decrease in the effective tax rate is primarily due to the Company recording a valuation allowance against deferred tax assets. The effective tax rate for the three months ended March 31, 2023 is lower than the U.S. federal statutory rate of 21.0%, which is also primarily due to the Company recording a valuation allowance against deferred tax assets. The Company has evaluated positive and negative evidence and has concluded that its deferred tax assets are not expected to be realizable and has recorded a valuation allowance in the current period.

8. LEASES

We determine if a contract contains a lease at inception. Our material operating leases consist of retail and warehouse locations as well as office space. Our leases generally have remaining terms of 1 to 10 years, most of which include options to extend the leases for additional3 to 5-year periods. Generally, the lease term is the minimum of the non-cancellable period of the lease or the lease term inclusive of reasonably certain renewal periods.

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of remaining lease payments over the lease term. Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, we estimate incremental secured borrowing rates corresponding to the maturities of the leases. Our leases typically contain rent escalations over the lease term. We recognize expense for these leases on a straight-line basis over the lease term.

We have elected the practical expedient to account for lease and non-lease components as a single component for our entire population of leases.

Short-term disclosures include only those leases with a term greater than one month and 12 months or less, and expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less that do not include an option to purchase the underlying asset that we are reasonably certain to exercise are not recorded on the balance sheet.

Lease expense is recorded within our consolidated statements of operations based upon the nature of the assets. Where assets are used to directly serve our customers, such as facilities dedicated to customer contracts, lease costs are recorded in “store operating costs.” Facilities and assets which serve management and support functions are expensed through general and administrative expenses.

	March 31, 2023	December 31, 2022
Right of use assets, operating lease assets	$ 43,581	$ 46,433
Current lease liability	$ 8,004	$ 8,131
Non-current lease liability	38,130	40,659
Total lease liability	$ 46,134	$ 48,790

	March 31, 2023	March 31, 2022
Weighted average remaining lease term	6.46 years	6.85 years
Weighted average discount rate	5.8 %	5.5 %

	Three Months Ended March 31,	
	2023	2022
Operating lease costs	$ 2,893	$ 2,662
Variable lease costs	599	863
Short-term lease costs	167	126
Total operating lease costs	$ 3,659	$ 3,651

The following table presents the maturity of the Company's operating lease liabilities as of March 31, 2023:

2023 (remainder of the year)	$	7,887
2024		9,600
2025		8,731
2026		7,307
2027		5,414
Thereafter		16,671
Total lease payments		55,610
Less: Imputed interest		(9,476)
Lease Liability at March 31, 2023	$	46,134

9. SHARE BASED PAYMENTS

The Company maintains long-term incentive plans for employees, non-employee members of our Board of Directors and consultants. The plans allow us to grant equity-based compensation awards, including stock options, stock appreciation rights, performance share units, restricted stock units, restricted stock awards, or a combination of awards (collectively, share-based awards).

The Company accounts for share-based payments through the measurement and recognition of compensation expense for share-based payment awards made to employees and directors of the Company, including stock options and restricted shares. The Company also issues share-based payments in the form of common stock warrants to non-employees.

The following table presents share-based payment expense for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,			
	2023		2022	
Restricted stock	$	567	$	1,201
Stock options		—		43
Warrants		—		339
Total	$	567	$	1,583

As of March 31, 2023, the Company had approximately $7.8 million of unamortized share-based compensation for option awards and restricted stock awards, which is expected to be recognized over a weighted average period of approximately 2.7 years.

Restricted Stock

The Company issues shares of restricted stock to eligible employees, which are subject to forfeiture until the end of an applicable vesting period. The awards generally vest on the first, second, third, or fourth anniversary of the date of grant, subject to the employee's continuing employment as of that date. Restricted stock is valued using market value on the grant date.

Restricted stock activity for the three months ended March 31, 2023 is presented in the following table:

	Shares	Weighted Average Grant Date Fair Value	
Nonvested, December 31, 2022	614,875	$	9.41
Granted	263,000	$	5.35
Vested	(39,416)	$	10.27
Forfeited	(164,500)	$	2.36
Nonvested, March 31, 2023	673,959	$	7.97

The table below summarizes all option activity under all plans during the three months ended March 31, 2023:

Options	Shares	Weighted - Average Exercise Price	Weighted - Average Remaining Contractual Term	Weighted - Average Grant Date Fair Value
Outstanding at December 31, 2022	604,498	$ 3.97	1.87	$ 2.24
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding at March 31, 2023	604,498	$ 3.97	1.63	$ 2.24
Vested at March 31, 2023	604,498	$ 3.97	1.63	$ 2.24

A summary of the status of the Company's outstanding stock purchase warrants for the three months ended March 31, 2023 is as follows:

	Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2022	32,500	$ 15.82
Issued	—	—
Exercised	—	—
Forfeited	—	—
Outstanding at March 31, 2023	32,500	$ 15.82

Liability Awards

In August 2022, the Company issued certain stock awards classified as liabilities based on the guidance set forth at ASC 480-10-25 and ASC 718-10-25. These awards entitle the employees to receive an equity award with a specified dollar value of common stock on future dates ranging from June 15, 2023, through June 15, 2025. The awards generally vest over three years subject to the employee's continued employment. The aggregate face value of these awards as of March 31, 2023 amounted to $3.7 million.

The Company recognizes compensation expense for these awards over the requisite service period. The expense related to the liability awards for the period ended March 31, 2023 was $0.2 million; the corresponding liability is included in accrued liabilities and other long-term liabilities on the Company's balance sheet as of March 31, 2023.

10. EARNINGS (LOSS) PER SHARE

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 three months ended March 31, 2023 and 2022:

	Three Months Ended	
	March 31, 2023	March 31, 2022
Net income (loss)	$ (6,134)	$ (5,177)
Weighted average shares outstanding, basic	61,028	60,126
Effect of dilution	—	—
Adjusted weighted average shares outstanding, dilutive	61,028	60,126
Basic earnings (loss) per share	$ (0.10)	$ (0.09)
Dilutive earnings (loss) per share	$ (0.10)	$ (0.09)

The following potentially outstanding restricted stock and stock options were excluded from the computation of diluted earnings per share because the effect would have been antidilutive:

	Three Months Ended	
	March 31, 2023	March 31, 2022
Restricted stock	2,069	1,336
Stock options	43	393
Warrants	—	819
Total	2,112	2,548

11. ACQUISITIONS

Our acquisition strategy is primarily to acquire (i) well-established, profitable hydroponic garden centers in markets where the Company does not have a market presence or in markets where it is increasing its market presence; and (ii) proprietary brands and private label brands. The Company accounts for acquisitions in accordance with ASC 805 “Business Combinations.” Assets acquired and liabilities assumed are recorded in the accompanying Condensed Consolidated Balance Sheets at their estimated fair values, as of the acquisition date. For all acquisitions, the preliminary allocation of purchase price was based upon the preliminary valuation, and the Company's estimates and assumptions are subject to change within the measurement period as valuations are finalized, not to exceed one year from the acquisition date. The Company has made adjustments to the preliminary valuations of the acquisitions based on valuation analyses prepared by independent third-party valuation consultants. There have been no measurement periods during the current year. During the three months ended March 31, 2022, our measurement period adjustments included increasing goodwill by $1.3 million offset with intangible assets. As a result of these measurement period adjustments, we made an insignificant reduction in amortization expense. All acquisition costs are expensed as incurred and recorded in general and administrative expenses in the Condensed Consolidated Statements of Operations.

Acquisition during the three months ended March 31, 2023

The Company had no material acquisitions during the three months ended March 31, 2023.

Acquisitions during 2022

On February 1, 2022, the Company purchased all of the assets of Horticultural Rep Group, Inc. ("HRG"), a specialty marketing and sales organization of horticultural products based in Ogden, Utah. The total consideration for the purchase of the assets of HRG was approximately $13.4 million, including $6.8 million in cash and common stock valued at $5.7 million. The Asset Purchase Agreement also provides for an indemnity holdback to be settled in common stock of the Company valued at $0.9 million. Acquired goodwill represents the value expected to rise from organic growth and an opportunity to expand into a well-established market for the Company. HRG is included in our Distribution and other segment.

The table below represents the allocation of the purchase price to the acquired net assets during the three months ended March 31, 2022.

		HRG
Inventory	$	4,170
Prepaids and other current assets		76
Furniture and equipment		148
Operating lease right of use asset		666
Operating lease liability		(666)
Customer relationships		2,430
Trademark		496
Non-compete		255
Goodwill		5,816
Total	$	13,391

The table below represents the consideration paid for the net assets acquired in business combinations during the three months ended March 31, 2022.

		HRG
Cash	$	6,806
Indemnity stock holdback		875
Common stock		5,710
Total	$	13,391

The following table discloses the date of the acquisition noted above and the revenue and earnings included in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2022. Revenue and earnings amounts include other proprietary brands now being included under HRG for operations.

		HRG
Acquisition date		February 1, 2022
Revenue	$	3,436
Net Income (loss)	$	—

The following represents the pro forma Condensed Consolidated Statement of Operations as if the acquisition had been included in the consolidated results of the Company for the entire period for the three months ended March 31, 2022.

		Three Months Ended March 31, 2022
Revenue	$	83,603
Net income (loss)	$	(5,176)

12. COMMITMENTS AND CONTINGENCIES

Legal Matters

We are involved in lawsuits and claims which arise in the normal course of our business, including the initiation and defense of proceedings related to contract and employment disputes. In our opinion, these claims individually and in the aggregate are not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

In December 2021, the Company was sued in the U.S. District Court for the Southern District of Texas related to a Promissory Note & Asset Acquisition Rights Option ("Note & Option") with TGC Systems, LLC ("Total Grow"). The case has been dismissed and the parties are currently engaged in arbitration pursuant to the arbitration clause of the Note & Option. Among other claims, Total Grow alleges that the Company is liable to Total Grow based on promissory estoppel and breach of contract for failing to consummate the acquisition of Total Grow by the Company. The Company believes that the claims against it are without merit and is vigorously defending against them. The Company is also counterclaiming for repayment of $1.5 million principal plus interest loaned by the Company to Total Grow pursuant to the Note & Option. The Company has accrued a reserve of $1.5 million against the Note & Option.

There can be no assurance that future developments related to pending claims or claims filed in the future, whether as a result of adverse outcomes or as a result of significant defense costs, will not have a material effect on the Company's financial condition, results of operations or cash flows. We believe that our assessment of contingencies is reasonable and that the related accruals, in the aggregate, are adequate; however, there can be no assurance that the final resolution of these matters will not have a material effect on our financial condition, results of operations or cash flows.

Indemnifications

In the ordinary course of its business, the Company makes certain indemnities under which it may be required to make payments in relation to certain transactions. As of March 31, 2023, the Company did not have any liabilities associated with indemnities.

In addition, the Company, as permitted under Colorado law and in accordance with its amended and restated certificate of incorporation and amended and restated bylaws, in each case, as amended to date, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company's request in such capacity. The duration of these indemnifications varies. The Company has a director and officer insurance policy that may enable it to recover a portion of any future amounts paid. The Company accrues for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable. No such losses have been recorded to date.

13. SEGMENTS

The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations. The structure reflects the manner in which the chief operating decision maker regularly assesses information for decision-making purposes, including the allocation of resources. Shared services and other corporate costs are allocated to individual segments based on that segments profitability.

Retail – The core of our business strategy is to operate the largest chain of retail garden centers in the U.S. The hydroponic retail landscape is fragmented, which allows us to acquire "best of breed" hydroponic retail operations and leverage efficiencies of a centralized organization. Some of our garden centers have multi-functions, with added capabilities that include warehousing, distribution and fulfillment for our online platforms and direct fulfillment to our commercial customers.

Our retail segment also includes our commercial sales organization, which is focused on selling products and services, including end-to-end solutions, for large commercial cultivators outside of the physical retail network. When a commercial customers gain new cultivation licenses, they need lighting, benching, environmental control systems, irrigation, fertigation and other products to outfit their facilities. Existing facilities also need consumable products for operations, as well as equipment updates from time to time. Commercial customers typically purchase large dollar amounts and sizes of products. We offer commercial customers volume pricing, terms and financing.

E-commerce – Our digital strategy is primarily focused on capturing the home, craft and commercial grower online. GrowGeneration.com offers thousands of hydroponic products, all curated by our product team. GrowGeneration.com offers customers the option to have their orders shipped directly to their locations, anywhere in North America. GrowGeneration also sells its products through its distribution website, HRGdist.com, and online marketplaces such as Amazon and Walmart.

Distribution and other – In December 2020, GrowGeneration purchased the business of Canopy Crop Management Corp., the developer of the popular PowerSi line of monosilicic acid products, a widely used nutrient additive for plants. In March 2021, the Company purchased Charcoir, a line of premium coco pots, cubes and medium. In December 2021, the Company purchased the assets of Mobile Media, Inc. ("MMI"), a mobile shelving and storage solutions developer and manufacturer. In February 2022, the Company purchased the assets of Horticultural Rep Group, Inc. ("HRG"), a specialty marketing and sales organization of horticultural products. The Company is in the process of combining the operations and management of these non-retail enterprises. The products these companies provide are integrated into our retail, e-commerce, and direct sales activities and we receive incremental revenue from the sale of these products.

Disaggregated revenue by segment is presented in the following table:

	Three Months Ended March 31,	
	2023	2022
Sales, net		
Retail		
Private label sales	6,601	7,096
Non-private label sales	32,800	57,200
Total retail	39,401	64,296
E-Commerce		
Private label sales	261	400
Non-private label sales	3,000	4,868
Total e-commerce	3,261	5,268
Distribution and other		
Private label sales	2,165	2,800
Non-private label sales	4,300	4,203
Commercial fixture sales	7,700	5,200
Total distribution and other	14,165	12,203
Total	56,827	81,767

Selected information by segment is presented in the following tables:

	Three Months Ended March 31,	
	2023	2022
Net sales		
Retail	$ 39,401	$ 64,296
E-Commerce	3,261	5,268
Distribution and other	14,165	12,203
Total	$ 56,827	$ 81,767

	Three Months Ended March 31,	
	2023	2022
Gross profit		
Retail	$ 10,737	$ 15,493
E-Commerce	862	1,745
Distribution and other	4,690	4,902
Total	$ 16,289	$ 22,140

	Three Months Ended March 31,	
	2023	2022
Income (Loss) from operations		
Retail	$ (7,075)	$ (7,183)
E-Commerce	(484)	(432)
Distribution and other	(205)	394
Total	$ (7,764)	$ (7,221)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this report as well as our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on March 16, 2023. We caution readers regarding certain forward-looking statements, within the meaning of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995 in the following discussion and elsewhere in this report. Forward looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements, particularly those identified with the words, "anticipates," "believes," "expects," "plans," "intends," "objectives," and similar expressions, are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on our behalf. We disclaim any obligation to update forward looking statements, except as required by law.

OVERVIEW

GrowGeneration Corp. (together with all of its direct and indirect wholly-owned subsidiaries, collectively "GrowGeneration" or the "Company") was incorporated in Colorado in 2014. GrowGeneration is the largest chain of hydroponic garden centers in the United States and is a leading marketer and distributor of nutrients, growing media, advanced indoor and greenhouse lighting, environmental control systems and accessories for hydroponic gardening. GrowGeneration also owns and operates an e-commerce platform, www.growgeneration.com, Mobile Media, a vertical racking and storage solutions business, Horticultural Rep Group, a horticultural products sales representative and distributor organization, and proprietary brands across multiple product categories, from lighting to nutrients and additives to environmental control systems.

Our business is driven by a wide selection of products, facility design services, solutions driven staff and pick, pack and ship distribution and fulfillment capabilities. GrowGeneration carries and sells thousands of products, including nutrients, growing media, lighting, environmental control systems, vertical benching and accessories for hydroponic gardening, as well as other indoor and outdoor growing products, that are capable of growing and maximizing yield and quality of a wide range of plants. Our products include proprietary brands such as Charcoir, Drip Hydro, Power Si, MMI benching and racking, Ion lights, Durabreeze fans, and more. GrowGeneration also provides facility design services to commercial growers. As of March 31, 2023, we employed approximately 445 employees, a majority of them have been branded by us as "Grow Pros", and our operations span over 952,000 square feet of retail and warehouse space.

Markets and Business Segments

GrowGeneration sells thousands of products, including nutrients, growing media, advanced indoor and greenhouse lighting, environmental control systems, vertical benching and accessories for hydroponic gardening, as well as other indoor and outdoor growing products, that are designed and intended for growing a wide range of plants. Our target customer segments include the commercial growers in the plant-based medicine market, the craft grower and vertical and urban farmers who grow organic herbs, fruits and vegetables. Additionally, we sell products from our distribution and other segment to wholesalers, resellers, and retailers. 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 and quality, regardless of the season or weather conditions.

The Company has three primary reportable segments, including retail operations, e-commerce and all other. The Company has segmented its operations to reflect the manner in which management reviews and evaluates the results of its operations. The structure reflects the manner in which the chief operating decision maker regularly assesses information for decision-making purposes, including the allocation of resources.

We recognize specifically identifiable operating costs such as cost of sales, distribution expenses, selling and general administrative expenses within each segment. Certain general and administrative expenses, such as administrative and management expenses, salaries and benefits, share based compensation, director fees, legal expenses, accounting and consulting expenses and technology costs, are not allocated to the specific segments and are reflected in the enterprise results.

Competitive Advantages

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, and online product resellers and large online marketplaces such as Amazon and eBay. Our industry is highly fragmented, with around 1,000 hydroponic retailers throughout the U.S. by management's estimates.

Notwithstanding the foregoing, we are the largest chain of hydroponic garden centers in the U.S. by management's estimates, and our pricing, inventory and product availability and overall customer service provide us the ability to compete in our industry. In addition, as we continue to increase the scope of our operations, including both retail and distribution, we expect to continue to purchase inventory at lower volume prices, which we expect will enable us to price competitively and deliver the products that our customers are seeking. The Company competes by delivering a one-stop shopping experience that includes the widest selection of hydroponics products, end-to-end solutions for all types of cultivation environments, in-store sales and product support, direct manufacturer pricing and industry-leading expertise and customer service.

Growth Strategy

Core to our growth strategy is to expand the number of our retail garden centers in the U.S., especially in markets where we do not already have a physical presence, or where our existing physical presence is limited. During the first quarter of 2023, the Company acquired 1 new location in Michigan. Our plan is to continue to acquire, open and operate garden centers.

GrowGeneration will also pursue growth through expansion of its commercial sales and distribution capabilities to sell more product to commercial cultivators for large grow operations and independent retail garden centers for resale, as well as by promoting and expanding its portfolio of proprietary brands to increase its market share, product offerings and profitability.

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2023 and 2022

Net sales for the three months ended March 31, 2023 was approximately $56.8 million, compared to $81.8 million for the three months ended March 31, 2022, a decrease of approximately $24.9 million or 31%. The decrease was primarily attributed to a decrease of approximately $21.8 million related to same store sales, which represented an approximate 36.6% decrease year over year. Overall sales in our retail segment declined from $64.3 million for the three months ended March 31, 2022, to $39.4 million for the same period in 2023. Distributed sales increased to $14.2 million for the three months ended March 31, 2023 compared to $12.2 million for the three months ended March 31, 2022. E-commerce sales decreased from $5.3 million for the three months ended March 31, 2022, to $3.3 million for the same period in 2023.

Cost of Sales

Cost of sales for the three months ended March 31, 2023 was approximately $40.5 million, compared to approximately $59.6 million for the three months ended March 31, 2022, a decrease of approximately $19.1 million or 32%. The decrease in cost of sales was primarily due to the 31% decrease in sales comparing the three months ended March 31, 2023 to the three months ended March 31, 2022.

Gross Profit

Gross profit was approximately $16.3 million for the three months ended March 31, 2023, compared to approximately $22.1 million for the three months ended March 31, 2022, a decrease of approximately $5.9 million or 26%. The decrease in gross profit is primarily related to the 31% decrease in net sales comparing the three months ended March 31, 2023 to the three months ended March 31, 2022. Gross profit as a percentage of net sales was 28.7% for the three months ended March 31, 2023, compared to 27.1% for the three months ended March 31, 2022. Gross profit in our retail segment declined from $15.5 million for the three months ended March 31, 2022, to $10.7 million for the same period in 2023. Gross profit from distributed sales decreased to $4.7 million for the three months ended March 31, 2023 compared to $4.9 million for the three months ended March 31, 2022. Gross profit from our e-commerce segment was $0.9 million for the three months ended March 31, 2023 compared to $1.7 million for the three months ended March 31, 2022.

Operating Expenses

Operating expenses are comprised of store operations, selling, general, and administrative, and depreciation and amortization. Operating costs were approximately $24.1 million for the three months ended March 31, 2023 and approximately $29.4 million for the three months ended March 31, 2022, an decrease of approximately $5.3 million or 18%. The decrease in operating expenses is primarily attributable to payroll reductions and cost controls over a broad range of categories.

Store operating costs were approximately $13.0 million for the three months ended March 31, 2023, compared to $14.5 million for the three months ended March 31, 2022, an decrease of $1.6 million or 11%. The decrease in store operating costs was directly attributable to payroll reductions and expense savings recognized from store consolidations.

Total corporate overhead, which is comprised of Selling, general, and administrative expense and Depreciation and amortization expense, was approximately $11.1 million for the three months ended March 31, 2023, compared to $14.8 million for the three months ended March 31, 2022, an decrease of $3.7 million or 25%. Selling, general, and administrative costs were approximately $6.8 million for the three months ended March 31, 2023, compared to approximately $9.6 million for the three months ended March 31, 2022. Salaries expense decreased to $3.5 million for the three months ended March 31, 2023, from $5.2 million for the same period in 2022. General administrative expenses decreased to $3.2 million for the three months ended March 31, 2023, from $3.6 million for the same period in 2022.

Other Income/Expense

Total other income was approximately $1.6 million for the three months ended March 31, 2023, compared to expense of $0.4 million for the three months ended March 31, 2022. This increase is primarily attributable to interest income driven from capital investments.

Segment Operating Income

Operating loss in our retail segment dropped from $7.2 million to an operating loss of $7.1 million. The operating loss for our e-commerce segment declined from $0.4 million for the three months ended March 31, 2022 to a loss of $0.5 million for the same period in 2023. Operating income in the distribution and other segment other decreased to a loss of $0.2 million in the three months ended March 31, 2023 compared to income of $0.4 million in the three months ended March 31, 2022.

Income Taxes

Income tax benefit was $0.0 million for the three months ended March 31, 2023, compared to income tax expense of $1.6 million for the three months ended March 31, 2022. Effective tax rate is impacted by differences in timing of expenses for share-based compensation, depreciation, amortization and the impact of 162(m) on deductible wages. As such, the Company’s taxable income varies from reported income in a material way. The Company has evaluated positive and negative evidence and has concluded that its deferred tax assets are not expected to be realizable and has recorded a valuation allowance in the current period.

Net Income

Net loss for the three months ended March 31, 2023 was approximately $6.1 million, compared to net income of approximately $5.2 million for the three months ended March 31, 2022, a decrease of approximately $1.0 million.

Operating Activities

Net cash provided by operating activities for three months ended March 31, 2023 was approximately $3.5 million compared to $2.2 million used for the three months ended March 31, 2022. The Company continued to decrease inventory and improve on receivable collection partially offset by reductions to customer deposits and payroll and payroll tax liabilities.

Net cash provided by investing activities was approximately $19.3 million for the three months ended March 31, 2023, compared to cash used of approximately $9.5 million for the three months ended March 31, 2022. Investing activities in 2023 were primarily attributable to the maturity of marketable securities of $33.5 million partially offset by vehicle and store equipment purchases of $3.5 million. Investing activities for the three months ended March 31, 2022 were primarily related to maturities of marketable securities of $20.8 million, partially offset by store acquisitions of $6.8 million and the purchase of vehicles and store equipment to support new store operations of $4.5 million.

Net cash used in financing activities for the three months ended March 31, 2023 was approximately $0.1 million and was primarily attributable to common stock withheld for employee payroll taxes. Net cash used by financing activities for three months ended March 31, 2022 was $1.4 million and was primarily attributable to stock withheld to cover payroll taxes.

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):

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
	(000)	(000)
Net income (loss)	$ (6,134)	$ (5,177)
Income taxes	—	(1,636)
Interest income	(428)	(2)
Interest expense	2	3
Depreciation, and amortization	3,932	4,506
EBITDA	$ (2,628)	$ (2,306)
Impairment loss	—	—
Share based compensation (option compensation, warrant compensation, stock issued for services)	567	1,583
Restructuring charges	278	—
Fixed asset disposal	(19)	(72)
Adjusted EBITDA	$ (1,802)	$ (795)
Adjusted EBITDA per share, basic	$ (0.03)	$ (0.01)
Adjusted EBITDA per share, diluted	$ (0.03)	$ (0.01)

Liquidity and Capital Resources

As of March 31, 2023, we had working capital of approximately $130.7 million, compared to working capital of approximately $134.9 million as of December 31, 2022, a decrease of approximately $4.2 million. The decrease in working capital from December 31, 2022 to March 31, 2023 was due primarily to a decrease in Accounts Receivable, net, Inventory, and Income taxes receivable partially offset by an increase in current liabilities. At March 31, 2023, we had cash and cash equivalents of approximately $62.7 million. Currently, we have no extraordinary demands, commitments or uncertainties that would reduce our current working capital. Our core strategy continues to focus on expanding our geographic reach across the United States and building our store and brand portfolio through organic growth and acquisitions. We believe that some of our store acquisitions and new store openings can come from cash flow from operations.

We anticipate that we may need additional financing through equity offerings and/or debt financings in the future to continue to acquire and open new stores and related businesses. To date we have financed our operations through the issuance and sale of common stock, convertible notes and warrants.

Critical Accounting Policies, Judgements, and Estimates

For a summary of the Company’s critical accounting policies, judgements, and estimates, please refer to Item 7 of our Form 10-K for the year ended December 31, 2022.

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a summary of the Company’s quantitative and qualitative disclosures about market risk, please refer to Item 7A of our Form 10-K for the year ended December 31, 2022.

ITEM 4. 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.

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are 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, including the possibility of human error, the circumvention or overriding of controls, or fraud, no evaluation of controls can provide absolute assurance that all control issues, misstatements, errors, and instances of fraud, if any, within our organization have been or will be prevented or detected.

As of the period covered by this Quarterly Report on Form 10-Q, an evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Our management concluded that as of March 31, 2023, our disclosure controls and procedures were not effective, because of the material weaknesses in our internal control over financial reporting identified by management as of December 31, 2021 (described below). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility exists that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Material Weaknesses in Control Activities

Evaluation of Disclosure Controls and Procedures

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”)) are controls and other procedures designed to ensure 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.

As of December 31, 2022, an evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Our management concluded that as of March 31, 2023 our disclosure controls and procedures were not effective because of the material weaknesses in our internal control over financial reporting described below.

Management’s Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company’s internal control over financial reporting is a process designed by or under the supervision of the Company’s Chief Executive Officer and Chief Financial Officer, and overseen by the Board of Directors, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company’s receipts and expenditures are being made only in accordance with the authorization of its management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company's consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting using the criteria in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). As a result of this evaluation, management concluded that the Company's internal control over financial reporting was not effective as of March 31, 2023 because of the material weaknesses in internal control over financial reporting discussed below.

- Control Environment: The Company did not maintain an effective control environment based on the criteria established in the COSO framework, which resulted in deficiencies in principles associated with the control environment.

In addition, the following material weaknesses were previously identified and contributed to the material weakness in the control environment:

- Insufficient resources within the accounting and financial reporting department to review the accounting of complex financial reporting transactions including areas such as business combinations, share based compensation and the related income tax reporting
- Ineffective controls over updating and distributing accounting policies and procedures across the organization.

The control environment material weaknesses contributed to other material weaknesses within our system of internal controls over financial reporting related to the following COSO components:

- Risk Assessment: The Company did not design and implement an effective risk assessment based on the criteria established in the COSO framework and identified deficiencies in the principles associated with the risk assessment component of the COSO framework.
- Information and Communication: The Company did not have an effective information and communication process that identified and assessed the source of and controls necessary to ensure the reliability of information used in financial reporting and that communicates relevant information about roles and responsibilities for internal control over financial reporting.
- Monitoring Activities: The Company did not have effective monitoring activities to assess the operation of internal control over financial reporting, including the continued appropriateness of control design and level of documentation maintained to support control effectiveness.
- Control Activities: As a consequence of the material weaknesses described above, internal control deficiencies related to the design and operation of process-level controls and general information technology controls were determined to be pervasive throughout the Company's financial reporting processes.

In addition, the following material weaknesses were previously identified and contributed to the material weakness in control activities:

- Inadequate information and technology general controls, including segregation of duties, change management, and user access, which were inadequate to support financial reporting applications and support automated controls and functionality.
- Inadequate controls over physical inventory counts.
- Inadequate controls over valuations, inclusive of appropriate valuation model inputs and appropriate forecasting for prospective financial information.
- Inadequate segregation of duties within human resources, manual journal entry posting processes, and various bank accounts of the Company to prevent and detect unauthorized transactions in a timely manner.

While these material weaknesses did not result in material misstatements of the Company's consolidated financial statements as of and for the year ended December 31, 2022, these material weaknesses create a reasonable possibility that a material misstatement of account balances or disclosures in annual or interim consolidated financial statements may not be prevented or detected in a timely manner.

The Company’s independent registered public accounting firm, Grant Thornton LLP, which audited the 2022 consolidated financial statements included in the Form 10-K, has expressed an adverse opinion on the Company's internal control over financial reporting.

Remediation Plan and Status

Our management is committed to remediating identified control deficiencies (including both those that rise to the level of a material weakness and those that do not), fostering continuous improvement in our internal controls and enhancing our overall internal controls environment.

Through the full year of 2023, the Company initiated and will continue efforts toward implementation of certain steps in its remediation plan, including:

- Engaged a third-party CPA firm to assist with the redesign of the Sarbanes-Oxley program inclusive of entity-level controls.
- Created and staffed a controls compliance analyst charged with monitoring and facilitating compliance with the Company’s responsibilities under the Sarbanes Oxley Act of 2002 (“SOX”).
- Implemented a global risk and compliance software to assist in monitoring and documenting compliance with SOX.
- For certain processes, developed new and revised existing process narratives and identified risks inherent to those processes.
- Developed new controls and revised the design of existing controls for a significant number of relevant key controls to mitigate the aforementioned risks, inclusive of general information technology controls and entity-level controls.
- Certain business functions have been restructured or consolidated to align more closely with effective business operation as well as to enable appropriate segregation of duties.

The following remaining activities are scheduled to occur in the first half of 2023 in anticipation of conducting management’s testing that will begin in the first half of 2023 in support of issuing management’s assessment of internal control over financial reporting as of December 31, 2023:

- Conduct initial organization-wide training sessions with all control owners.
- Implementation of new business systems to support information technology general controls.
- Completion of the identification of risks arising from inappropriate segregation of duties and fraud risks.
- Completion of risk assessment and control design for the remaining populations of processes and controls.
- Implementation of controls across all financial reporting processes and information technology environments.
- Development of effective communication plans relating to, among other things, identification of deficiencies and recommendations for corrective actions. These plans will apply to all parties responsible for remediation.
- Implement periodic compliance reports are made to the Nominating and Governance Committee of the Board of Directors.
- Ongoing training with control owners, as necessary.
- Ongoing migration of certain components of a legacy information technology system onto a common information technology environment, including risk assessment, control design and implementation of new and revised controls.

Our management believes that these remediation actions, when fully implemented, will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. Our remediation efforts are ongoing and additional remediation initiatives may be necessary. We will continue our initiatives to implement and document the strengthening of existing, and development of new policies, procedures, and internal controls.

Remediation of the identified material weaknesses and strengthening our internal control environment will require a substantial effort throughout 2023. We will test the ongoing operating effectiveness of the new and existing controls in future periods. The material weaknesses cannot be considered completely remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

While we believe the steps taken to date and those planned for implementation will remediate the ineffectiveness of our internal control over financial reporting, we have not completed all remediation efforts identified herein. Accordingly, as we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above, we have and will continue to perform additional procedures prescribed by management, including the use of manual mitigating control procedures and employing any additional tools and resources deemed necessary, to ensure that our consolidated financial statements are fairly stated in all material respects.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting, except for the implementation of remediation plans to address the material weaknesses discussed above, during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

For a summary of the Company's risk factors, please refer to Item 9A of our Form 10-K for the year ended December 31, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are included and filed with this report.

Exhibit	Exhibit Description
3.1	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)
3.2	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)
31.1	Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial and accounting officer
32.1	Section 1350 certification of Chief Executive Officer*
32.2	Section 1350 certification of principal financial and accounting officer*
101	Interactive Data Files
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Definition

* Furnished and not filed.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on May 9, 2023.

GrowGeneration Corp.

By: /s/ Darren Lampert

Darren Lampert, Chief Executive Officer
(Principal Executive Officer)

By: /s/ Gregory Sanders

Gregory Sanders, Chief Financial Officer
(Principal Accounting Officer and
Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Darren Lampert, certify that:

1. I have reviewed this Form 10-Q for the fiscal quarter ended March 31, 2023 of GrowGeneration Corp.;

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 registrant as of, and for, the periods present in this report;

4. The registrant's other certifying officer(s) 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 13-a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 9, 2023

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

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory Sanders, certify that:

1. I have reviewed this Form 10-Q for the fiscal quarter ended March 31, 2023 of GrowGeneration Corp.;

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 registrant as of, and for, the periods present in this report;

4. The registrant's other certifying officer(s) 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 13-a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 9, 2023

By: /s/ Gregory Sanders
Gregory Sanders, Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
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 accompanying Quarterly Report on Form 10-Q of GrowGeneration Corp. (the “Company”) for the fiscal quarter ended March 31, 2023, I, Darren Lampert, Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023, 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 such Quarterly Report on Form 10-Q for the fiscal quarter March 31, 2023, fairly presents, in all material respects, the financial condition and results of operations of GrowGeneration Corp.

May 9, 2023

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

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
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 accompanying Quarterly Report on Form 10-Q of GrowGeneration Corp. (the “Company”) for the fiscal quarter ended March 31, 2023, I, Gregory Sanders, Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023, 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 such Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2023, fairly presents, in all material respects, the financial condition and results of operations of GrowGeneration Corp.

May 9, 2023

By: /s/ Gregory Sanders
Gregory Sanders, Chief Financial Officer
(Principal Financial Officer)