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: **September 30, 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 October 31, 2023 there were61,311,293 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)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,414	$ 40,054
Marketable securities	35,203	31,852
Accounts receivable, net of allowance for credit losses of $1.1 million and $0.7 million at September 30, 2023 and December 31, 2022	8,351	8,336
Notes receivable, current, net of allowance for credit losses of $1.7 million and $1.3 million at September 30, 2023 and December 31, 2022	—	1,214
Inventory	75,987	77,091
Prepaid income taxes	477	5,679
Prepaids and other current assets	12,383	6,455
Total current assets	163,815	170,681
Property and equipment, net	28,946	28,669
Operating leases right-of-use assets	42,316	46,433
Intangible assets, net	24,466	30,878
Goodwill	16,808	15,978
Other assets	880	803
TOTAL ASSETS	$ 277,231	$ 293,442
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,219	$ 15,728
Accrued liabilities	3,413	1,535
Payroll and payroll tax liabilities	2,027	4,671
Customer deposits	4,926	4,338
Sales tax payable	1,503	1,341
Current maturities of lease liability	8,374	8,131
Current portion of long-term debt	—	50
Total current liabilities	40,462	35,794
Commitments and contingencies (Note 12)		
Operating lease liability, net of current maturities	36,387	40,659
Other long-term liabilities	317	593
Total liabilities	77,166	77,046
Stockholders' equity:		
Common stock; $0.001 par value; 100,000,000 shares authorized, 61,309,456 and 61,010,155 shares issued and outstanding as of September 30, 2023 and December 31, 2022	61	61
Additional paid-in capital	372,789	369,938
Retained earnings (deficit)	(172,785)	(153,603)
Total stockholders' equity	200,065	216,396
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 277,231	$ 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 per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Net sales	$ 55,678	$ 70,850	$ 176,430	$ 223,710
Cost of sales (exclusive of depreciation and amortization shown below)	39,490	52,516	126,816	163,009
Gross profit	16,188	18,334	49,614	60,701
Operating expenses:				
Store operations and other operational expenses	11,930	13,585	37,165	41,884
Selling, general, and administrative	7,582	8,796	21,923	28,164
Bad debt expense	257	172	681	1,774
Depreciation and amortization	4,721	3,875	12,477	13,164
Impairment loss	—	—	—	127,831
Total operating expenses	24,490	26,428	72,246	212,817
Income (Loss) from operations	(8,302)	(8,094)	(22,632)	(152,116)
Other income (expense):				
Other income (expense)	954	34	3,549	547
Interest income	—	143	—	190
Interest expense	(1)	(3)	(6)	(16)
Total non-operating income (expense), net	953	174	3,543	721
Net income (loss) before taxes	(7,349)	(7,920)	(19,089)	(151,395)
Benefit (provision) for income taxes	—	718	(93)	2,637
Net income (loss)	$ (7,349)	$ (7,202)	$ (19,182)	$ (148,758)
Net income (loss) per share, basic	$ (0.12)	$ (0.12)	$ (0.31)	$ (2.45)
Net income (loss) per share, diluted	$ (0.12)	$ (0.12)	$ (0.31)	$ (2.45)
Weighted average shares outstanding, basic	61,272	60,855	61,127	60,771
Weighted average shares outstanding, diluted	61,272	60,855	61,127	60,771

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

GROWGENERATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount			
Balances, June 30, 2023	61,229	$ 61	$ 371,863	$ (165,436)	$ 206,488
Common stock issued for share based compensation	80	—	—	—	—
Common stock withheld for employee payroll taxes	—	—	(12)	—	(12)
Share based compensation	—	—	938	—	938
Net income (loss)	—	—	—	(7,349)	(7,349)
Balances, September 30, 2023	61,309	$ 61	$ 372,789	$ (172,785)	$ 200,065

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount			
Balances, June 30, 2022	60,782	$ 61	$ 368,077	$ (131,412)	$ 236,726
Common stock issued for share-based compensation	78	—	—	—	—
Common stock withheld for employee payroll taxes	—	—	(17)	—	(17)
Share based compensation	—	—	1,104	—	1,104
Net income (loss)	—	—	—	(7,202)	(7,202)
Balances, September 30, 2022	60,860	$ 61	$ 369,164	$ (138,614)	$ 230,611

	Common Stock		Additional	Retained	Total Stockholders’
	Shares	Amount	Paid-In Capital	Earnings (Deficit)	Equity
Balances, December 31, 2022	61,010	$ 61	$ 369,938	$ (153,603)	$ 216,396
Common stock issued for share based compensation	264	—	—	—	—
Common stock withheld for employee payroll taxes	—	—	(187)	—	(187)
Share based compensation	—	—	2,265	—	2,265
Noncash repurchase of liability awards	—	—	653	—	653
Liability redemption associated with business acquisition	35	—	120	—	120
Net income (loss)	—	—	—	(19,182)	(19,182)
Balances, September 30, 2023	61,309	$ 61	$ 372,789	$ (172,785)	$ 200,065

	Common Stock		Additional	Retained	Total Stockholders’
	Shares	Amount	Paid-In Capital	Earnings (Deficit)	Equity
Balances, December 31, 2021	59,929	$ 60	$ 361,087	$ 10,144	$ 371,291
Common stock issued in connection with business combination	650	1	5,749	—	5,750
Common stock issued for share-based compensation	255	—	—	—	—
Common stock withheld for employee payroll taxes	—	—	(1,465)	—	(1,465)
Share based compensation	—	—	3,793	—	3,793
Common stock issued upon cashless exercise of options	12	—	—	—	—
Common stock issued upon cashless exercise of warrants	14	—	—	—	—
Net income (loss)	—	—	—	(148,758)	(148,758)
Balances, September 30, 2022	60,860	$ 61	$ 369,164	$ (138,614)	$ 230,611

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

GROWGENERATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash flows from operating activities:		
Net income (loss)	$ (19,182)	$ (148,758)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,477	13,164
Stock-based compensation expense	2,452	3,980
Bad debt expense	681	1,774
(Gain) loss on asset disposition	85	629
Impairment loss	—	127,831
Deferred taxes	—	(2,166)
Change in value of marketable securities	(981)	—
Changes in operating assets and liabilities (net of the effect of acquisitions):		
Accounts and notes receivable	518	(4,987)
Inventory	2,691	20,622
Prepaid expenses and other assets	(510)	10,718
Accounts payable and accrued liabilities	6,352	(2,405)
Operating leases	88	374
Payroll and payroll tax liabilities	(2,644)	(3,046)
Customer deposits	588	(7,538)
Sales tax payable	162	(322)
Net cash provided by (used in) operating activities	2,777	9,870
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(3,050)	(6,806)
Purchase of marketable securities	(85,768)	—
Maturities from marketable securities	83,398	39,793
Purchase of property and equipment	(5,995)	(11,635)
Disposal of assets	235	—
Net cash provided by (used in) investing activities	(11,180)	21,352
Cash flows from financing activities:		
Principal payments on long term debt	(50)	(69)
Common stock withheld for employee payroll taxes	(187)	(1,465)
Net cash provided by (used in) financing activities	(237)	(1,534)
Net change	(8,640)	29,688
Cash and cash equivalents at the beginning of period	40,054	41,372
Cash and cash equivalents at the end of period	$ 31,414	$ 71,060
Supplemental disclosures of non-cash activities:		
Cash paid for interest	$ 6	$ 16
Cash paid for income taxes	$ 93	$ —
Common stock issued for business combination	$ —	$ 5,750
Right-of-use assets acquired under new operating leases	$ 4,173	$ 6,221
Indemnity holdback from business acquisitions	$ —	$ 875
Noncash repurchase of liability awards	$ 653	$ —
Liability redemption associated with business acquisition	$ 120	$ —
Purchase of property and equipment accrued in accounts payable	$ 355	$ —

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

GrowGeneration Corp.
Notes To Condensed Consolidated Financial Statements
September 30, 2023
(Unaudited)

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, Harvest Company scissors, 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 September 30, 2023, GrowGeneration has 56 retail locations across 18 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, Horticultural Rep Group ("HRG"), and a benching, racking, and storage solutions business, Mobile Media ("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 the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (“2022 Form 10-K”). There were no significant changes to the Company's significant accounting policies as disclosed in our 2022 Form 10-K. The results reported in these unaudited Condensed Consolidated Financial Statements are not necessarily indicative of results for the full fiscal year.

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

Use of Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with U.S. GAAP. 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 to sell 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. Changes in fair value of marketable securities, principally derived from accretion of discounts, was $0.5 million and $1.0 million for the three and nine months ended September 30, 2023, and included in Other income (expense) on the Condensed Consolidated Statements of Operations. The fair value of notes receivable approximates the outstanding balance net of reserves for expected credit loss.

	Level	September 30, 2023	December 31, 2022
Cash equivalents	1	$ 16,560	$ 25,087
Marketable securities	2	$ 35,203	$ 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"). The Company has implemented all new accounting pronouncements that are in effect and that may impact our financial statements. In addition to the accounting pronouncement discussed below, no other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material effect on the Company's consolidated financial statements or disclosures.

Recently Adopted Accounting Pronouncements

In June 2016, 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 based upon a company's historical credit loss experience, adjusted for asset-specific risk characteristics, current economic conditions, and reasonable forecasts, rather than incurred losses as required previously by the other-than-temporary impairment model. The ASU applies 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, and the Company adopted this standard effective January 1, 2023. The adoption of this standard primarily applied to the valuation of the Company's accounts receivable. The adoption of this standard did not have a material impact on the Company's consolidated financial statements or disclosures, and the Company's estimate of expected credit losses as of January 1, 2023, using the 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

Net sales are disaggregated by the Company's segments, which represent its principal lines of business, as well as by the type of good or service, including sales of private label products, non-private label products or distributed brands, and sales of commercial fixtures. See Note 13, *Segments*, for disaggregated revenue by segment.

Contract Assets and Liabilities

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

	Accounts Receivable, Net	Customer Deposits
Opening balance, January 1, 2023	$ 8,336	$ 4,338
Closing balance, September 30, 2023	8,351	4,926
Increase (decrease)	$ 15	$ 588
Opening balance, January 1, 2022	$ 5,741	$ 11,686
Closing balance, September 30, 2022	10,147	5,390
Increase (decrease)	$ 4,406	$ (6,296)

Of the total amount of customer deposit liability as of January 1, 2023, $2.9 million was reported as revenue during the nine months ended September 30, 2023. Of the total amount of customer deposit liability as of January 1, 2022, $11.1 million was reported as revenue during the nine months ended September 30, 2022.

5. PROPERTY AND EQUIPMENT

	September 30, 2023	December 31, 2022
Vehicles	$ 2,596	$ 2,176
Building and land	2,121	2,121
Leasehold improvements	12,268	12,562
Furniture, fixtures and equipment	14,951	13,195
Capitalized software	16,085	2,644
Construction-in-progress	—	9,569
Total property and equipment, gross	48,021	42,267
Accumulated depreciation	(19,075)	(13,598)
Property and equipment, net	$ 28,946	$ 28,669

Depreciation expense for the three and nine months ended September 30, 2023 was $2.5 million and $5.8 million. Depreciation expense for the three and nine months ended September 30, 2022 was $1.7 million and $5.4 million.

6. GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill are as follows:

	September 30, 2023	December 31, 2022
Balance, beginning of period	$ 15,978	$ 125,401
Goodwill additions and measurement period adjustments	830	7,234
Impairment	—	(116,657)
Balance, end of period	$ 16,808	$ 15,978

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 was contrary to prior experience. Management reassessed business performance expectations following persistent adverse developments in equity markets, deterioration in the environment in which the Company operates, 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 as of June 30, 2022.

As a result, the Company performed a cash recoverability test on the following finite-lived intangible assets: customer relationships, trade names, and non-competes. For goodwill impairment testing purposes, the Company identified four reporting units, of which three were subject to a quantitative assessment. The Company determined the fair value of its reporting units using the income approach, where estimated future returns are discounted to present value at an appropriate rate of return. The Company recognized impairment losses for related to its finite-lived intangibles and goodwill on June 30, 2022 as disclosed in the table below. There were no goodwill or finite-lived intangible impairments recognized during the nine months ended September 30, 2023.

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	830	—	—	830
Gross carrying value, at September 30, 2023	$ 104,059	$ 11,318	$ 18,088	$ 133,465
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 September 30, 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 September 30, 2023	$ 965	$ 1,470	$ 14,373	$ 16,808

A summary of intangible assets is as follows:

	Weighted-Average Amortization Period of Intangible Assets as of September 30, 2023 (in years)
Trade names	2.47
Patents	2.34
Customer relationships	3.86
Non-competes	0.59
Intellectual property	2.42
Total	2.98

Intangible assets consist of the following:

	September 30, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names	$ 29,062	$ (15,066)	$ 13,996
Patents	100	(67)	33
Customer relationships	17,542	(8,308)	9,234
Non-competes	932	(727)	205
Intellectual property	2,065	(1,067)	998
Total	$ 49,701	$ (25,235)	$ 24,466

	December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade names	$ 29,062	$ (10,517)	$ 18,545
Patents	100	(56)	44
Customer relationships	17,102	(6,501)	10,601
Non-competes	932	(551)	381
Intellectual property	2,065	(758)	1,307
Total	$ 49,261	$ (18,383)	$ 30,878

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	229	—	3,182	3,411
Gross carrying value at December 31, 2022	38,054	2,501	19,880	60,435
Acquisitions & measurement period adjustments	440	—	—	440
Gross carrying value at September 30, 2023	$ 38,494	$ 2,501	$ 19,880	$ 60,875
Accumulated amortization at December 31, 2021	$ (6,285)	$ (354)	$ (1,983)	$ (8,622)
Amortization	(5,721)	(460)	(3,580)	(9,761)
Accumulated amortization at December 31, 2022	(12,006)	(814)	(5,563)	(18,383)
Amortization	(3,793)	(335)	(2,724)	(6,852)
Accumulated amortization at September 30, 2023	$ (15,799)	$ (1,149)	$ (8,287)	$ (25,235)
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 September 30, 2023	$ (11,079)	$ (95)	$ —	$ (11,174)
Net carrying value at December 31, 2022	$ 14,969	$ 1,592	$ 14,317	$ 30,878
Net carrying value September 30, 2023	$ 11,616	$ 1,257	$ 11,593	$ 24,466

Amortization expense for the three and nine months ended September 30, 2023 was $2.2 million and $6.9 million. Amortization expense for the three and nine months ended September 30, 2022 was $2.2 million and $7.7 million.

Future amortization expense as of September 30, 2023 is as follows:

2023, remainder	$ 2,229
2024	8,799
2025	8,426
2026	3,663
2027	1,217
Thereafter	132
Total	$ 24,466

7. INCOME TAXES

For the nine months ended September 30, 2023, the effective tax rate was (0.42)%, compared to 1.74% for the nine months ended September 30, 2022.The effective tax rate for each of the nine months ended September 30, 2023 and 2022 is lower than the U.S. federal statutory rate of 21.0% primarily due to the Company's valuation allowance against deferred tax assets. As of September 30, 2023, the Company concluded that its deferred tax assets are not expected to be realizable, based on positive and negative evidence, therefore it has assigned a full valuation allowance against them.

8. LEASES

The right-of-use assets and corresponding liabilitiesrelated to the Company's operating leases are as follow:

	September 30, 2023	December 31, 2022
Operating leases right-of-use assets	$ 42,316	$ 46,433
Current maturities of lease liability	$ 8,374	$ 8,131
Operating lease liability, net of current maturities	36,387	40,659
Total lease liability	$ 44,761	$ 48,790

The weighted-average remaining lease terms and weighted-average discount rates for operating leases were as follows:

	September 30, 2023	September 30, 2022
Weighted average remaining lease term	6.07 years	6.68 years
Weighted average discount rate	6.0 %	5.5 %

Lease expense is recorded within the Company's Condensed Consolidated Statements of Operations based upon the nature of the operating lease right-of-use assets. Where assets are used to directly serve our customers, such as retail locations and distribution centers, lease costs are recorded in Store operations and other operational expenses. Facilities and assets which serve management and support functions are expensed through Selling, general, and administrative. Additionally, the Company recorded sublease income of $0.3 million and $0.9 million for the three and nine months ended September 30, 2023, respectively, within Other income (expense) related to the sublease of a closed retail location.

The components of lease expense are as follows:

	Three Months Ended September 30,	
	2023	2022
Operating lease costs	$ 2,738	$ 2,615
Variable lease costs	176	664
Short-term lease costs	98	69
Total operating lease costs	$ 3,012	$ 3,348

	Nine Months Ended September 30,	
	2023	2022
Operating lease costs	$ 8,434	$ 8,060
Variable lease costs	1,466	2,004
Short-term lease costs	241	306
Total operating lease costs	$ 10,141	$ 10,370

Future maturities of the Company's operating lease liabilities as of September 30, 2023:

2023 (remainder of the year)	$	2,797
2024		10,519
2025		9,694
2026		7,844
2027		5,446
Thereafter		17,065
Total lease payments		53,365
Less: Imputed interest		(8,604)
Lease Liability at September 30, 2023	$	44,761

Supplemental and other information related to leases was as follows:

	Nine Months Ended September 30,			
	2023		2022	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flow from operating leases	$	8,321	$	7,692

9. SHARE BASED PAYMENTS

The Company maintains long-term incentive plans for employees, non-employee members of its 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 awards made to employees and directors of the Company, including stock options and restricted shares. The Company also issues share-based awards in the form of common stock warrants to non-employees.

The following table presents share-based award expense for the three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,				Nine months ended September 30,			
	2023		2022		2023		2022	
Restricted stock	$	938	$	951	$	2,452	$	2,902
Stock options		—		—		—		59
Warrants		—		340		—		1,019
Total	$	938	$	1,291	$	2,452	$	3,980

As of September 30, 2023, the Company had approximately $4.5 million of unamortized share-based compensation for share based awards, which are expected to be recognized over a weighted average period of approximately 1.9 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 nine months ended September 30, 2023 is presented in the following table:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, December 31, 2022	614,875	$ 9.41
Granted	1,110,000	$ 3.77
Vested	(305,167)	$ 5.77
Forfeited	(345,750)	$ 7.01
Nonvested, September 30, 2023	1,073,958	$ 5.42

The table below summarizes all option activity under all plans during the nine months ended September 30, 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	(20,000)	3.50	—	—
Forfeited or expired	—	—	—	—
Outstanding at September 30, 2023	584,498	$ 3.99	1.17	$ 2.24
Vested at September 30, 2023	584,498	$ 3.99	1.17	$ 2.24

A summary of the status of the Company's outstanding stock purchase warrants for the nine months ended September 30, 2023 is as follows:

	Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2022	32,500	$ 10.61
Issued	—	—
Exercised	—	—
Forfeited	(32,500)	$ 10.61
Outstanding at September 30, 2023	—	$ —

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 entitled 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 vested over three years subject to the employee's continued employment. On June 15, 2023, thethree employees subject to these awards entered into new employment agreements which superseded the prior agreements and removed the liability awards from their compensation package. In accordance with ASC 718-20-35-2A through 718-20-35-9, these awards were evaluated and accounted for as modified awards. The liability of $0.7 million was relieved to additional paid-in capital and the incremental expense of $0.1 million will be recognized over the remaining term of the modified awards.

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 and nine months ended September 30, 2023 and 2022:

	Three Months Ended	
	September 30, 2023	September 30, 2022
Net income (loss)	$ (7,349)	$ (7,202)
Weighted average shares outstanding, basic	61,272	60,855
Effect of dilution	—	—
Adjusted weighted average shares outstanding, dilutive	61,272	60,855
Basic earnings (loss) per share	$ (0.12)	$ (0.12)
Dilutive earnings (loss) per share	$ (0.12)	$ (0.12)

	Nine Months Ended	
	September 30, 2023	September 30, 2022
Net income (loss)	$ (19,182)	$ (148,758)
Weighted average shares outstanding, basic	61,127	60,771
Effect of dilution	—	—
Adjusted weighted average shares outstanding, dilutive	61,127	60,771
Basic earnings (loss) per share	$ (0.31)	$ (2.45)
Dilutive earnings (loss) per share	$ (0.31)	$ (2.45)

Diluted earnings per share calculations for each of three and nine month ended September 30, 2023 excluded1.1 million shares of common stock issuable upon exercise of stock options and 0.6 million of non-vested restricted stock that would have been anti-dilutive. Diluted earnings per share calculations for each of three and nine month ended September 30, 2022 excluded 0.6 million shares of common stock issuable upon exercise of stock options, 0.7 million of non-vested restricted stock, and 0.3 million of shares of common stock issuable upon exercise of the stock purchase warrants that would have been anti-dilutive.

11. ACQUISITIONS

The Company's 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 period adjustments during the current year. During the nine months ended September 30, 2022, measurement period adjustments included increasing goodwill by $1.3 million offset with intangible assets, which resulted in an insignificant reduction in amortization expense. All acquisition costs are expensed as incurred and recorded in Selling, general, and administrative expenses in the Condensed Consolidated Statements of Operations.

<u>Acquisitions during the nine months ended September 30, 2023</u>

On May 23, 2023, the Company purchased substantially all of the assets of Southside Garden Supply ("Alaska"), a two-store chain of indoor/outdoor garden centers. The total consideration for the purchase of the Alaska assets was approximately $2.0 million, including $1.9 million in cash and an indemnity holdback of $0.1 million. The Alaska asset acquisition also included acquired goodwill of approximately $0.6 million, which represents the value expected to rise from organic growth and an opportunity for the Company to expand into a new market. Alaska is included in our Retail segment.

Additionally, the Company made other, individually immaterial acquisitions during the nine months ended September 30, 2023. Total consideration for these purchases was approximately $1.2 million, including $1.1 million paid in cash and indemnity holdbacks of less than $0.1 million. These individually immaterial acquisitions also included aggregate acquired goodwill of approximately $0.3 million, which represents the value expected to rise from organic growth and an opportunity for the Company to expand into a new market. These acquisitions are included in our Retail segment.

The table below represents the allocation of the purchase price to the acquired net assets during the nine months ended September 30, 2023.

	Alaska	Other	Total
Inventory	$ 720	$ 867	$ 1,587
Prepaids and other current assets	292	1	293
Furniture and equipment	—	47	47
Operating lease right-of-use asset	630	648	1,278
Operating lease liability	(630)	(648)	(1,278)
Customer relationships	440	—	440
Goodwill	577	253	830
Total	$ 2,029	$ 1,168	$ 3,197

The table below represents the consideration paid for the net assets acquired in business combinations during the nine months ended September 30, 2023.

	Alaska	Other	Total
Cash	$ 1,922	$ 1,128	$ 3,050
Indemnity holdback	107	40	147
Total	$ 2,029	$ 1,168	$ 3,197

The following table discloses the date of the acquisitions noted above and the revenue and earnings included in the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2023.

	Alaska	Other	Total
Acquisition date	May 23, 2023		
Net sales	$ 1,127	$ 2,044	$ 3,171
Net income (loss)	$ (52)	$ (17)	$ (69)

The following represents the pro forma Condensed Consolidated Statement of Operations as if the acquisitions had been included in the consolidated results of the Company for the entire period for the three and nine months ended September 30, 2023, and 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	$ 55,499	$ 74,747	$ 178,465	228,915
Net income (loss)	$ (7,726)	$ (7,193)	$ (19,217)	(148,863)

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 provided 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 nine months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 2022. Revenue and earnings amounts include other proprietary brands now being included under HRG for operations.

	HRG
Acquisition date	February 1, 2022
Net sales	$ 13,474
Net Income (loss)	$ (209)

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 and nine months ended September 30, 2022.

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Net sales	$ 80,901	$ 235,443
Net income (loss)	$ (135,514)	$ (149,316)

12. COMMITMENTS AND CONTINGENCIES

Legal Matters

The Company is involved in lawsuits and claims that arise in the normal course of business, including the initiation and defense of proceedings related to contract and employment disputes. In the Company's opinion, these claims individually and in the aggregate are not expected to have a material adverse effect on its 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 was dismissed and the parties submitted the matter to arbitration pursuant to the arbitration clause of the Note & Option. Among other claims, Total Grow alleged that the Company was 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 counterclaimed for repayment of $ 1.5 million principal plus interest loaned by the Company to Total Grow pursuant to the Note & Option. The Company accrued a reserve of $1.5 million against the Note & Option. On July 26, 2023, the arbitrator denied all of Total Grow's claims and defenses, determined that the Company prevailed in its counterclaim, and awarded the Company an award in full settlement of the matter. The Company is in the process of attempting to collect the arbitration award from Total Grow.

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. The Company believes that its 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 the Company's 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 September 30, 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 an individual segment based on that segment's profitability.

Retail – The core of the Company's business strategy is to operate the largest chain of retail garden centers in the U.S. The hydroponic retail landscape is fragmented, which has allowed 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 the Company's online platforms and commercial customers.

The retail segment also includes the Company's 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 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, quantities, and sizes of products. The Company offers commercial customers volume pricing, terms, and financing.

E-commerce – The Company's digital strategy is primarily focused on capturing the home, craft, and commercial grower online. GrowGeneration.com offers thousands of hydroponic products, all curated by the Company's 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., a mobile shelving and storage solutions developer and manufacturer. In February 2022, the Company purchased the assets of Horticultural Rep Group, Inc., a specialty marketing and sales organization specializing in horticultural products. These products are integrated into the Company's retail, e-commerce, and direct sales activities, and it receive incremental revenue from their sale.

Disaggregated revenue by segment is presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales				
Retail				
Private label sales	$ 6,797	$ 6,381	$ 20,598	$ 19,477
Non-private label sales	34,600	41,567	107,117	148,121
Total retail	41,397	47,948	127,715	167,598
E-Commerce				
Private label sales	553	253	1,214	953
Non-private label sales	2,207	2,820	8,541	11,083
Total e-commerce	2,760	3,073	9,755	12,036
Distribution and other				
Private label sales	1,954	2,244	5,819	8,244
Non-private label sales	1,924	3,150	9,424	11,097
Commercial fixture sales	7,643	14,435	23,717	24,735
Total distribution and other	11,521	19,829	38,960	44,076
Total net sales	$ 55,678	$ 70,850	$ 176,430	$ 223,710

Selected information by segment is presented in the following tables:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales				
Retail	$ 41,397	$ 47,948	$ 127,715	$ 167,598
E-Commerce	2,760	3,073	9,755	12,036
Distribution and other	11,521	19,829	38,960	44,076
Total net sales	$ 55,678	$ 70,850	$ 176,430	$ 223,710

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Gross profit				
Retail	$ 10,747	$ 10,354	$ 33,005	$ 41,448
E-Commerce	885	826	2,566	3,280
Distribution and other	4,556	7,154	14,043	15,973
Total gross profit	$ 16,188	$ 18,334	$ 49,614	$ 60,701

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Income (Loss) from operations				
Retail	$ (7,584)	$ (23,653)	$ (21,206)	$ (137,939)
E-Commerce	(754)	(2,830)	(1,682)	(11,869)
Distribution and other	36	18,389	256	(2,308)
Total income (loss) from operations	$ (8,302)	$ (8,094)	$ (22,632)	$ (152,116)

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 us 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 other products for hydroponic gardening. GrowGeneration also owns and operates an e-commerce platform, www.growgeneration.com, MMI, a benching, vertical racking and storage solutions business, HRG, 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, Harvest Company scissors, and more. GrowGeneration also provides facility design services to commercial growers. As of September 30, 2023, we employed approximately 425 employees, a majority of whom have been branded by us as “Grow Pros”, and our operations span over 855,000 square feet of retail and warehouse space.

Markets and Business Segments

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 distribution and 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, and 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 allocated to our segments based on revenue 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 hundreds of other 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 be able 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

GrowGeneration expects to 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.

A secondary component of the Company's 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.

RESULTS OF OPERATIONS

Comparison of the three months ended September 30, 2023 and 2022

Net Sales

Net sales for the three months ended September 30, 2023 was approximately $55.7 million, compared to $70.9 million for the three months ended September 30, 2022, a decrease of approximately $15.2 million or 21.4%. The decrease was primarily attributed to a decrease of approximately $6.8 million related to same store sales, which represented an approximate 14.4% decrease year over year. Overall sales in our retail segment declined from $47.9 million for the three months ended September 30, 2022 to $41.4 million for the same period in 2023. Net sales from the distribution and other segment decreased to $11.5 million for the three months ended September 30, 2023, compared to $19.8 million for the three months ended September 30, 2022. E-commerce sales were relatively flat from $3.1 million for the three months ended September 30, 2022, to $2.8 million for the same period in 2023.

Cost of Sales

Cost of sales for the three months ended September 30, 2023 was approximately $39.5 million, compared to approximately $52.5 million for the three months ended September 30, 2022, a decrease of approximately $13.0 million or 24.8%. The decrease in cost of sales was primarily due to the 21.4% decrease in sales comparing the three months ended September 30, 2023 to the three months ended September 30, 2022.

Gross Profit

Gross profit was approximately $16.2 million for the three months ended September 30, 2023, compared to approximately $18.3 million for the three months ended September 30, 2022, a decrease of approximately $2.1 million or 11.7%. The decrease in gross profit is primarily related to the 21.4% decrease in net sales comparing the three months ended September 30, 2023 to the three months ended September 30, 2022. Gross profit as a percentage of net sales was 29.1% for the three months ended September 30, 2023, compared to 25.9% for the three months ended September 30, 2022. Gross profit in our retail segment increased from $10.4 million for the three months ended September 30, 2022, to $10.7 million for the same period in 2023. Gross profit from the distribution and other segment net sales decreased to $4.6 million for the three months ended September 30, 2023, compared to $7.2 million for the three months ended September 30, 2022. Gross profit from our e-commerce segment was $0.9 million for the three months ended September 30, 2023, compared to $0.8 million for the three months ended September 30, 2022.

Operating Expenses

Operating expenses are comprised of store operations, selling, general, and administrative, bad debt expense, and depreciation and amortization. Operating costs were approximately $24.5 million for the three months ended September 30, 2023 and approximately $26.4 million for the three months ended September 30, 2022, a decrease of approximately $1.9 million or 7.3%. The decrease in operating expenses is primarily attributable to decreases in both store operations and selling, general, and administrative expenses partially offset by an increase in deprecation and amortization.

Store operating costs were approximately $11.9 million for the three months ended September 30, 2023, compared to $13.6 million for the three months ended September 30, 2022, a decrease of $1.7 million or 12.2%. 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, bad debt expense, and depreciation and amortization expense, was approximately $12.6 million for the three months ended September 30, 2023, compared to $12.8 million for the three months ended September 30, 2022, a decrease of $0.3 million or 2.2%. Selling, general, and administrative costs were approximately $7.6 million for the three months ended September 30, 2023, compared to approximately $8.8 million for the three months ended September 30, 2022. Salaries expense decreased to $3.2 million for the three months ended September 30, 2023, from $4.0 million for the same period in 2022. General and administrative expenses decreased to $2.9 million for the three months ended September 30, 2023, from $3.6 million for the same period in 2022.

Other Income/Expense

Total other income was approximately $1.0 million for the three months ended September 30, 2023, compared to income of $0.2 million for the three months ended September 30, 2022. This increase is primarily attributable to income from marketable securities and an increase in sublease income.

Segment Operating Income

Operating loss in our retail segment decreased from $23.7 million to an operating loss of $7.6 million. The operating loss for our e-commerce segment decreased from $2.8 million for the three months ended September 30, 2022 to a loss of $0.8 million for the same period in 2023. Operating income in the distribution and other segment other decreased to income of less than $0.1 million in the three months ended September 30, 2023, compared to an income of $18.4 million in the three months ended September 30, 2022.

Income Taxes

There was no income tax benefit for the three months ended September 30, 2023, compared to income tax benefit of $0.7 million for the three months ended September 30, 2022.

Net Income

Net loss for the three months ended September 30, 2023 was approximately $7.3 million, compared to net loss of approximately $7.2 million for the three months ended September 30, 2022, an decrease of approximately $0.1 million.

Comparison of the nine months ended September 30, 2023 and 2022

Net Sales

Net sales for the nine months ended September 30, 2023 was approximately $176.4 million, compared to $223.7 million for the nine months ended September 30, 2022, a decrease of approximately $47.3 million or 21.1%. The decrease was primarily attributed to a decrease of approximately $36.6 million related to same store sales, which represented an approximate 22.9% decrease year over year. Overall sales in our retail segment declined from $167.6 million for the nine months ended September 30, 2022, to $127.7 million for the same period in 2023. Net sales from the distribution and other segment sales decreased to $39.0 million for the nine months ended September 30, 2023 compared to $44.1 million for the nine months ended September 30, 2022. E-commerce sales decreased from $12.0 million for the nine months ended September 30, 2022, to $9.8 million for the same period in 2023.

Cost of Sales

Cost of sales for the nine months ended September 30, 2023 was approximately $126.8 million, compared to approximately $163.0 million for the nine months ended September 30, 2022, a decrease of approximately $36.2 million or 22.2%. The decrease in cost of sales was primarily due to the 21.1% decrease in sales comparing the nine months ended September 30, 2023 to the nine months ended September 30, 2022.

Gross Profit

Gross profit was approximately $49.6 million for the nine months ended September 30, 2023, compared to approximately $60.7 million for the nine months ended September 30, 2022, a decrease of approximately $11.1 million or 18.3%. The decrease in gross profit is primarily related to the 21.1% decrease in net sales comparing the nine months ended September 30, 2023 to the nine months ended September 30, 2022. Gross profit as a percentage of net sales was 28.1% for the nine months ended September 30, 2023, compared to 27.1% for the nine months ended September 30, 2022. Gross profit in our retail segment declined from $41.4 million for the nine months ended September 30, 2022, to $33.0 million for the same period in 2023. Gross profit from the distribution and other net sales decreased to $14.0 million for the nine months ended September 30, 2023, compared to $16.0 million for the nine months ended September 30, 2022. Gross profit from our e-commerce segment was $2.6 million for the nine months ended September 30, 2023, compared to $3.3 million for the nine months ended September 30, 2022.

Operating Expenses

Operating expenses are comprised of store operations, selling, general, and administrative, bad debt expense, impairment loss, and depreciation and amortization. Operating costs were approximately $72.2 million for the nine months ended September 30, 2023 and approximately $212.8 million for the nine months ended September 30, 2022, a decrease of approximately $140.6 million or 66.1%. The decrease in operating expenses is primarily attributable to a $127.8 million impairment loss recognized in the prior year.

Store operating costs were approximately $37.2 million for the nine months ended September 30, 2023, compared to $41.9 million for the nine months ended September 30, 2022, a decrease of $4.7 million or 11.3%. 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, bad debt expense, and depreciation and amortization expense, was approximately $35.1 million for the nine months ended September 30, 2023, compared to $43.1 million for the nine months ended September 30, 2022, a decrease of $8.0 million or 18.6%. Selling, general, and administrative costs were approximately $21.9 million for the nine months ended September 30, 2023, compared to approximately $28.2 million for the nine months ended September 30, 2022. Salaries expense decreased to $10.1 million for the nine months ended September 30, 2023, from $14.7 million for the same period in 2022. General and administrative expenses decreased to $9.2 million for the nine months ended September 30, 2023, from $11.3 million for the same period in 2022.

Other Income/Expense

Total other income was approximately $3.5 million for the nine months ended September 30, 2023, compared to $0.7 million for the nine months ended September 30, 2022. This increase is primarily attributable to income from marketable securities and an increase in sublease income.

Segment Operating Income

Operating loss in our retail segment decreased from $137.9 million for the nine months ended September 30, 2022 to an operating loss of $21.2 million for the nine months ended September 30, 2023he operating loss for our e-commerce segment decreased from $11.9 million for the nine months ended September 30, 2022 to a loss of $1.7 million for the same period in 2023. Operating income in the distribution and other segment increased to income of $0.3 million in the nine months ended September 30, 2023, compared to a loss of $2.3 million in the nine months ended September 30, 2022.

Income Taxes

For the nine months ended September 30, 2023, the effective tax rate was (0.42)%, compared to 1.74% for the nine months ended September 30, 2022The effective tax rate for each of the nine months ended September 30, 2023 and 2022 is lower than the U.S. federal statutory rate of 21.0% primarily due to the Company's valuation allowance against deferred tax assets. As of September 30, 2023, the Company concluded that its deferred tax assets are not expected to be realizable, based on positive and negative evidence, therefore it has assigned a full valuation allowance against them.

Net Income

Net loss for the nine months ended September 30, 2023 was approximately $19.2 million, compared to net loss of approximately $148.8 million for the nine months ended September 30, 2022, an increase of approximately $129.6 million.

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2023 was approximately $2.8 million, compared to $9.9 million for the nine months ended September 30, 2022. The Company continued to decrease inventory and other assets, partially offset by reductions to customer deposits and payroll and payroll tax liabilities.

Investing Activities

Net cash used by investing activities was approximately $11.2 million for the nine months ended September 30, 2023, compared to cash provided by investing activities of approximately $21.4 million for the nine months ended September 30, 2022. Investing activities in 2023 were primarily attributable to investment of excess cash into marketable securities of $85.8 million, partially offset by maturity of marketable securities of $83.4 million. The Company also had purchases property, plant, and equipment of $6.0 million, which was primarily related to the implementation and design of a new enterprise resource planning software system, and business acquisitions of $3.1 million. Investing activities for the nine months ended September 30, 2022 were primarily related to maturities of marketable securities of $39.8 million, partially offset by store acquisitions of $6.8 million and the purchase of property, plant, and equipment related to the design of a new enterprise resource planning software system of $11.6 million.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2023 was approximately $0.2 million and was primarily attributable to common stock withheld for employee payroll taxes. Net cash used by financing activities for the nine months ended September 30, 2022 was $1.5 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, U.S. GAAP 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 September 30,	
	2023	2022
	(000)	(000)
Net income (loss)	$ (7,349)	$ (7,202)
Income taxes	—	(718)
Interest income	—	(143)
Interest expense	1	3
Depreciation, and amortization	4,721	3,875
EBITDA	$ (2,627)	$ (4,185)
Share based compensation (option compensation, warrant compensation, stock issued for services)	938	1,291
Impairment, restructuring, and other charges	717	—
Fixed asset disposal	64	165
Adjusted EBITDA	$ (908)	$ (2,729)
Adjusted EBITDA per share, basic	$ (0.01)	$ (0.04)
Adjusted EBITDA per share, diluted	$ (0.01)	$ (0.04)

	Nine Months Ended September 30,	
	2023	2022
	(000)	(000)
Net income (loss)	$ (19,182)	$ (148,758)
Income taxes	93	(2,637)
Interest income	—	(190)
Interest expense	6	16
Depreciation, and amortization	12,477	13,164
EBITDA	$ (6,606)	$ (138,405)
Impairment, restructuring, and other charges	2,215	127,831
Share based compensation (option compensation, warrant compensation, stock issued for services)	2,452	3,980
Fixed asset disposal	85	81
Adjusted EBITDA	$ (1,854)	$ (6,513)
Adjusted EBITDA per share, basic	$ (0.03)	$ (0.11)
Adjusted EBITDA per share, diluted	$ (0.03)	$ (0.11)

Liquidity and Capital Resources

As of September 30, 2023, we had working capital of approximately $123.4 million, compared to working capital of approximately $134.9 million as of December 31, 2022, a decrease of approximately $11.5 million. The decrease in working capital from December 31, 2022 to September 30, 2023 was due primarily to a decrease in cash and marketable securities and income taxes receivable and an increase in current liabilities. At September 30, 2023, we had cash and cash equivalents of approximately $31.4 million. Currently, we have no extraordinary demands, commitments or uncertainties that would reduce our current working capital.

We may need additional financing through equity offerings and/or debt financings in the future to continue to expand our business consistent with our growth strategies. 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 September 30, 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, 2022 (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

<u>Evaluation of Disclosure Controls and Procedures</u>

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of 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 September 30, 2023, 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 September 30, 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 September 30, 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,and management does not believe that these material weaknesses resulted in material misstatements as of September 30, 2023, 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.

<u>Remediation Plan and Status</u>

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 activities are scheduled to be completed or have been ongoing throughout 2023 in anticipation of conducting management’s testing that is ongoing or will occur in 2023 to support the issuance of 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 November 8, 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 September 30, 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.

November 8, 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 September 30, 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.

November 8, 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 September 30, 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 September 30, 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 September 30, 2023, fairly presents, in all material respects, the financial condition and results of operations of GrowGeneration Corp.

November 8, 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 September 30, 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 September 30, 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 September 30, 2023, fairly presents, in all material respects, the financial condition and results of operations of GrowGeneration Corp.

November 8, 2023

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