

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2024**
OR

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

For transition period from to
Commission File Number: **001-39773**

Hydrofarm Holdings Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

81-4895761
(I.R.S. Employer
Identification Number)

**1510 Main Street
Shoemakersville, Pennsylvania 19555
(707) 765-9990**
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value per share	HYFM	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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

As of May 7, 2024, the registrant had 45,978,795 shares of common stock, \$0.0001 par value per share, outstanding.

TABLE OF CONTENTS

	Page
<u>Part I - Financial Information</u>	
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Operations	2
Condensed Consolidated Statements of Comprehensive Loss	3
Condensed Consolidated Statements of Changes in Stockholders' Equity	4
Condensed Consolidated Statements of Cash Flows	5
Notes to the Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	29
Item 4. Controls and Procedures	30
<u>Part II - Other Information</u>	
Item 1. Legal Proceedings	31
Item 1A. Risk Factors	31
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3. Defaults Upon Senior Securities	31
Item 4. Mine Safety Disclosures	31
Item 5. Other Information	32
Item 6. Exhibits	33
Signatures	34

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements concerning our business strategy and plans, future operating results and financial position, as well as our objectives and expectations for our future operations, are forward-looking statements.

In some cases, you can identify forward-looking statements by such terminology as “believe,” “may,” “will,” “potentially,” “estimate,” “continue,” “anticipate,” “intend,” “could,” “would,” “project,” “plan,” “expect” and similar expressions that convey uncertainty of future events or outcomes, although not all forward-looking statements contain these words. Forward-looking statements include, but are not limited to, statements about:

- industry conditions, including oversupply and decreasing prices of our customers' products which, in turn, have materially adversely impacted our sales and other results of operations and which may continue to do so in the future;
 - the potential for future charges associated with the impairment of our long-lived assets, inventory allowances and purchase commitment losses, and accounts receivable reserves;
 - our liquidity;
 - our ability to meet the continued listing standards of The Nasdaq Capital Market ("Nasdaq");
 - the impact of our restructuring activities on our expenses and cash expenditures;
 - potential dilution that may result from equity financings while our stock prices are depressed;
 - general economic and financial conditions, specifically in the United States and Canada;
 - the conditions impacting our customers, including related crop prices and other factors impacting growers;
 - the adverse effects of public health epidemics, including the COVID-19 pandemic, on our business, results of operations and financial condition;
 - interruptions in our supply chain;
 - federal and state legislation and regulations pertaining to the use and cultivation of cannabis in the United States and Canada;
 - public perceptions and acceptance of cannabis use;
 - fluctuations in the price of various crops and other factors affecting growers;
 - the results of our acquisitions and strategic alliances;
 - our long-term non-cancellable leases under which many of our facilities operate, and our ability to renew or terminate our leases;
 - our reliance on, and relationships with, a limited base of key suppliers for certain products;
 - our ability to keep pace with technological advances;
 - our ability to execute our e-commerce business;
 - the costs of being a public company;
 - our ability to successfully identify appropriate acquisition targets, successfully acquire identified targets or successfully integrate the business of acquired companies;
 - the success of our marketing activities;
 - a disruption or breach of our information technology systems or cyber-attack;
 - our current level of indebtedness;
 - our dependence on third parties;
 - any change to our reputation or to the reputation of our products;
 - the performance of third parties on which we depend;
 - the fluctuation in the prices of the products we distribute;
-

- competitive industry pressures;
- the consolidation of our industry;
- compliance with environmental, health and safety laws;
- our ability to protect and defend against litigation, including claims related to intellectual property and proprietary rights;
- product shortages and relationships with key suppliers;
- our ability to attract and retain key employees;
- the volatility of the price of our common stock;
- the marketability of our common stock; and
- other risks and uncertainties, including those listed herein as well as under the heading “Risk Factors” in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 29, 2024 (the “2023 Annual Report”).

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, and financial needs. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of risks, uncertainties and assumptions described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. We disclaim any intention or obligation to publicly update or revise any forward-looking statements for any reason or to conform such statements to actual results or revised expectations, except as required by law.

“Hydrofarm” and other trade names and trademarks of ours appearing in this Quarterly Report on Form 10-Q are our property. This Quarterly Report on Form 10-Q contains trade names and trademarks of other companies, which are the property of their respective owners. We do not intend our use or display of other companies’ trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

Unless the context otherwise indicates, references in this Quarterly Report on Form 10-Q to the terms “Hydrofarm”, “the Company,” “we,” “our” and “us” refer to Hydrofarm Holdings Group, Inc. and its subsidiaries.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Hydrofarm Holdings Group, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share amounts)

	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 24,152	\$ 30,312
Accounts receivable, net	22,468	16,890
Inventories	72,315	75,354
Prepaid expenses and other current assets	5,039	5,510
Total current assets	123,974	128,066
Property, plant and equipment, net	46,612	47,360
Operating lease right-of-use assets	51,886	54,494
Intangible assets, net	269,794	275,881
Other assets	1,750	1,842
Total assets	\$ 494,016	\$ 507,643
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 15,437	\$ 12,613
Accrued expenses and other current liabilities	10,477	9,529
Deferred revenue	2,841	3,231
Current portion of operating lease liabilities	8,362	8,336
Current portion of finance lease liabilities	929	954
Current portion of long-term debt	1,278	2,989
Total current liabilities	39,324	37,652
Long-term operating lease liabilities	45,161	47,506
Long-term finance lease liabilities	8,498	8,734
Long-term debt	115,390	115,412
Deferred tax liabilities	3,232	3,232
Other long-term liabilities	4,382	4,497
Total liabilities	215,987	217,033
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock (\$0.0001 par value; 300,000,000 shares authorized; 45,977,935 and 45,789,890 shares issued and outstanding at March 31, 2024, and December 31, 2023, respectively)	5	5
Additional paid-in capital	788,602	787,846
Accumulated other comprehensive loss	(7,226)	(6,497)
Accumulated deficit	(503,352)	(490,744)
Total stockholders' equity	278,029	290,610
Total liabilities and stockholders' equity	\$ 494,016	\$ 507,643

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hydrofarm Holdings Group, Inc.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)****(In thousands, except share and per share amounts)**

	Three months ended March 31,	
	2024	2023
Net sales	\$ 54,172	\$ 62,178
Cost of goods sold	43,247	50,797
Gross profit	10,925	11,381
Operating expenses:		
Selling, general and administrative	19,621	24,431
Loss from operations	(8,696)	(13,050)
Interest expense	(3,931)	(3,692)
Other income, net	215	40
Loss before tax	(12,412)	(16,702)
Income tax expense	(196)	(147)
Net loss	\$ (12,608)	\$ (16,849)
Net loss per share:		
Basic	\$ (0.28)	\$ (0.37)
Diluted	\$ (0.28)	\$ (0.37)
Weighted-average shares of common stock outstanding:		
Basic	45,813,729	45,263,822
Diluted	45,813,729	45,263,822

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hydrofarm Holdings Group, Inc.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)****(In thousands)**

	Three months ended March 31,	
	2024	2023
Net loss	\$ (12,608)	\$ (16,849)
Other comprehensive loss:		
Foreign currency translation (loss) gain	(729)	112
Total comprehensive loss	\$ (13,337)	\$ (16,737)

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hydrofarm Holdings Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(In thousands, except for share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2023	45,197,249	\$ 5	\$ 783,042	\$ (7,235)	\$ (425,931)	\$ 349,881
Issuance of common stock for vesting of stock awards	237,333	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(72,306)	—	(123)	—	—	(123)
Stock-based compensation expense	—	—	1,182	—	—	1,182
Net loss	—	—	—	—	(16,849)	(16,849)
Foreign currency translation gain	—	—	—	112	—	112
Balance, March 31, 2023	45,362,276	\$ 5	\$ 784,101	\$ (7,123)	\$ (442,780)	\$ 334,203
Balance, January 1, 2024	45,789,890	\$ 5	\$ 787,846	\$ (6,497)	\$ (490,744)	\$ 290,610
Issuance of common stock for vesting of stock awards	293,018	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(104,973)	—	(97)	—	—	(97)
Stock-based compensation expense	—	—	853	—	—	853
Net loss	—	—	—	—	(12,608)	(12,608)
Foreign currency translation loss	—	—	—	(729)	—	(729)
Balance, March 31, 2024	45,977,935	\$ 5	\$ 788,602	\$ (7,226)	\$ (503,352)	\$ 278,029

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hydrofarm Holdings Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Three months ended March 31,	
	2024	2023
Operating activities		
Net loss	\$ (12,608)	\$ (16,849)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation, depletion and amortization	7,885	8,007
Provision for (benefit from) doubtful accounts	80	(247)
Provision for inventory obsolescence	568	704
Restructuring expenses	7	327
Stock-based compensation expense	853	1,182
Non-cash operating lease expense	2,244	2,948
Other	(44)	456
Changes in assets and liabilities:		
Accounts receivable	(5,715)	(5,141)
Inventories	2,156	7,321
Prepaid expenses and other current assets	442	(699)
Other assets	100	(188)
Accounts payable	2,892	(346)
Accrued expenses and other current liabilities	1,282	(3,139)
Deferred revenue	(370)	(1,116)
Lease liabilities	(1,976)	(2,166)
Other long-term liabilities	(93)	(4)
Net cash used in operating activities	(2,297)	(8,950)
Investing activities		
Capital expenditures of property, plant and equipment	(1,442)	(1,653)
Other	34	51
Net cash used in investing activities	(1,408)	(1,602)
Financing activities		
Proceeds from Sale-Leaseback Transaction	—	8,598
Borrowings under foreign revolving credit facilities	158	169
Repayments of foreign revolving credit facilities	(190)	(116)
Repayments of Term Loan	(1,974)	(312)
Payment of withholding tax related to stock awards	(97)	(123)
Finance lease principal payments	(255)	(257)
Net cash (used in) from financing activities	(2,358)	7,959
Effect of exchange rate changes on cash and cash equivalents	(97)	5
Net decrease in cash and cash equivalents	(6,160)	(2,588)
Cash and cash equivalents cash at beginning of period	30,312	21,291
Cash and cash equivalents at end of period	\$ 24,152	\$ 18,703
Non-cash investing and financing activities		
Right-of-use assets relinquished under operating lease obligations	\$ —	\$ (1,103)
Assets acquired under finance lease obligations	—	185
Capital expenditures included in accounts payable and accrued liabilities	155	847
Supplemental information		
Cash paid for interest	4,708	3,401
Cash paid for income taxes	5	180

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

1. DESCRIPTION OF THE BUSINESS

Description of the business

Hydrofarm Holdings Group, Inc. (collectively with its subsidiaries, the "Company") was formed in May 2017 under the laws of the state of Delaware to acquire and continue the business originally founded in 1977. The Company is a leading independent manufacturer and distributor of branded hydroponics equipment and supplies for controlled environment agriculture ("CEA"), including grow lights, climate control solutions, growing media and nutrients, as well as a broad portfolio of innovative and proprietary branded products. Products offered include agricultural lighting devices, indoor climate control equipment, nutrients, and plant additives used to grow, farm and cultivate cannabis, flowers, fruits, plants, vegetables, grains and herbs in controlled environment settings that allow end users to control key farming variables including temperature, humidity, CO₂, light intensity and color, nutrient concentration and pH.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in the opinion of management, reflect all normal and recurring adjustments which are necessary for the fair statement of the Company's financial information. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2024, or for any other interim period or for any other future year. All intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2023, has been derived from the audited consolidated financial statements of the Company, which is included in the 2023 Annual Report. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto included in the 2023 Annual Report.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Significant estimates include provisions for sales returns, rebates and claims from customers, realization of accounts receivable and inventories, fair value of assets acquired and liabilities assumed for business combinations, valuation of intangible assets, estimated useful lives of long-lived assets, incremental borrowing rate applied in lease accounting, valuation of stock-based compensation, recognition of deferred income taxes, classification of debt pursuant to certain terms in the Company's credit agreements, recognition of liabilities related to commitments and contingencies, asset retirement obligations, and valuation allowances. Actual results may differ from these estimates. On an ongoing basis, the Company reviews its estimates to ensure that these estimates appropriately reflect changes in its business or new information available.

Restructuring

The Company began a restructuring plan (the "Restructuring Plan") in 2022, and undertook significant actions to streamline operations, reduce costs and improve efficiencies. The major initiatives of the first phase of the Restructuring Plan included (i) narrowing the Company's product and brand portfolio and (ii) the relocation and consolidation of certain manufacturing and distribution centers, including headcount reductions and reorganization to drive a solution based approach. During the three months ended March 31, 2023, the Company recorded pre-tax expense of \$1,411 relating primarily to the relocation and termination of certain facilities in Canada, which are primarily cash charges. The Company incurred \$327 of

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

non-cash charges during the three months ended March 31, 2023, relating to asset dispositions and write-downs. The Company recorded \$1,237 of restructuring related charges within Cost of goods sold and \$174 within Selling, general and administrative expenses on the consolidated statements of operations for the three months ended March 31, 2023. Total costs incurred relating to this first phase of the Restructuring Plan, from its inception in 2022 to its completion in 2023, were (i) \$6,398 relating primarily to inventory markdowns, and (ii) \$3,373 relating primarily to the relocation and termination of certain facilities in Canada.

As a result of the continued adverse market conditions, the Company implemented a second phase of the Restructuring Plan beginning in the third quarter of 2023, including U.S. manufacturing facility consolidations, in particular with respect to production of certain durable equipment products. The Company is reducing facility space and consolidating manufacturing operations to improve efficiency and reduce costs. During the three months ended March 31, 2024, the Company recorded pre-tax restructuring charges of \$138 for the second phase, relating primarily to cash charges associated with the consolidation of U.S. manufacturing facilities. Of the \$138 recorded charges, \$91 was recorded within Cost of goods sold on the condensed consolidated statements of operations, while \$47 was recorded within Selling, general and administrative ("SG&A") expenses on the condensed consolidated statements of operations. Total costs incurred relating to this second phase of the Restructuring Plan, from its commencement in the third quarter of 2023 through March 31, 2024, are (i) \$8,872 of non-cash charges relating primarily to inventory markdowns, and (ii) \$451 of cash charges relating primarily to the consolidation of U.S. manufacturing facilities.

The following tables present the activity in accrued expenses and other current liabilities for restructuring costs related to the first and second phases of the Restructuring Plan for the three months ended March 31, 2023, and March 31, 2024, respectively:

	Three Months Ended March 31, 2023
Restructuring Accruals as of December 31, 2022	\$ 696
Expense	1,084
Cash Payments	(1,156)
Restructuring Accruals as of March 31, 2023	\$ 624
	Three Months Ended March 31, 2024
Restructuring Accruals as of December 31, 2023	\$ 187
Expense	130
Cash Payments	(180)
Restructuring Accruals as of March 31, 2024	\$ 137

Refer to *Item 2. Management's Discussion And Analysis Of Financial Condition And Results of Operations – Market Conditions* for further explanation of the Restructuring Plan and estimates of additional costs that may be incurred. The amounts the Company will ultimately realize or disburse could differ from these estimates.

Segment and entity-wide information

Segment information

The Company's chief operating decision maker is the chief executive officer ("CEO") who reviews financial information for the purposes of making operating decisions, assessing financial performance, and allocating resources. The business is organized as two operating segments, the United States and Canada, which meet the criteria for aggregation, and the Company has elected to present them as one reportable segment, which is the distribution and manufacture of CEA equipment and supplies. Aggregation is based on similarities which include the nature of its products, production or acquisition of inventory, customer base, fulfillment and distribution and economic characteristics.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

Since the Company operates as one reportable segment, all required segment financial information is found in the condensed consolidated financial statements and footnotes with entity-wide disclosures presented below.

Entity-wide information

Net sales and property, plant and equipment, net and operating lease right-of-use assets in the United States and Canada, determined by the location of the subsidiaries, are shown below. Other foreign locations, which are immaterial, individually and in the aggregate, are included in the United States below.

	Three months ended March 31,	
	2024	2023
United States	\$ 40,455	\$ 47,749
Canada	14,425	15,019
Intersegment eliminations	(708)	(590)
Total consolidated net sales	\$ 54,172	\$ 62,178

	March 31,	December 31,
	2024	2023
United States	\$ 65,118	\$ 68,270
Canada	33,380	33,584
Total property, plant and equipment, net and operating lease right-of-use assets	\$ 98,498	\$ 101,854

All of the products sold by the Company are similar and classified as CEA equipment and supplies.

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has applied the framework for measuring fair value which requires a fair value hierarchy to be applied to all fair value measurements. All financial instruments recognized at fair value are classified into one of three levels in the fair value hierarchy as follows:

Level 1 — Valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 — Valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or, corroborated by, observable market data by correlation or other means.

Level 3 — Valuation techniques with significant unobservable market inputs.

The Company measures certain non-financial assets and liabilities, including long-lived assets and intangible assets at fair value on a nonrecurring basis. The fair value of contingent consideration was classified within level 3 of the fair value hierarchy. Refer to Note 14 – *Fair Value Measurements*, for further discussion of the contingent consideration.

Inventories

Inventories consist of finished goods, work-in-process, and raw materials used in manufacturing products. Inventories are stated at the lower of cost or net realizable value, principally determined by the first in, first out method of accounting. The Company maintains an allowance for excess and obsolete inventory. The estimate for excess and obsolete inventory is based upon assumptions about current and anticipated demand, customer preferences, business strategies, and market conditions. Management reviews these assumptions periodically to determine if any adjustments are needed to the allowance for excess and obsolete inventory. The establishment of an allowance for excess and obsolete inventory establishes a new cost basis in the inventory. Such allowance is not reduced until the product is sold or otherwise disposed. If inventory is sold, any related reserves would be reversed in the period of sale. During the year ended December 31, 2023, and the three months ended March 31, 2024, the Company estimated inventory markdowns relating to restructuring charges based upon current and

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

anticipated demand, customer preferences, business strategies, and market conditions including management's actions with respect to inventory raw materials and products and brands being removed from the Company's portfolio.

Revenue recognition

The Company follows ASC 606 - *Revenue from Contracts with Customers* which requires that revenue recognized from contracts with customers be disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Company has determined that revenue is generated from one category, which is the distribution and manufacture of CEA equipment and supplies.

Revenue is recognized as control of promised goods is transferred to customers, which generally occurs upon receipt at customers' locations determined by the specific terms of the contract. Arrangements generally have a single performance obligation and revenue is reported net of variable consideration which includes applicable volume rebates, cash discounts and sales returns and allowances. Variable consideration is estimated and recorded at the time of sale.

The amount billed to customers for shipping and handling costs included in net sales was \$2,939 and \$2,568 during the three months ended March 31, 2024, and 2023 respectively. Shipping and handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are accounted for as fulfillment costs included in cost of goods sold. The Company does not receive noncash consideration for the sale of goods. Contract consideration received from a customer prior to revenue recognition is recorded as a contract liability and is recognized as revenue when the Company satisfies the related performance obligation under the terms of the contract. The Company's contract liabilities, which consist primarily of customer deposits reported within deferred revenue in the condensed consolidated balance sheets, totaled \$2,841 and \$3,231 as of March 31, 2024, and December 31, 2023, respectively. There are no significant financing components and the majority of revenue is recognized within one year. Excluded from revenue are any taxes assessed by governmental authorities, including value-added and other sales-related taxes that are imposed on and concurrent with revenue-generating activities.

Income taxes

The income tax provision is calculated for an interim period by distinguishing between elements recognized in the income tax provision through applying an estimated annual effective tax rate to a measure of year-to-date operating results referred to as "ordinary income (or loss)," and discretely recognizing specific events referred to as "discrete items" as they occur. The income tax provision or benefit for each interim period is the difference between the year-to-date amount for the current period and the year-to-date amount for the prior period.

Recent accounting pronouncements

In November 2023, the FASB issued Accounting Standards Update ("ASU") No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* (ASU 2023-07), which requires an enhanced disclosure of significant segment expenses on an annual and interim basis. This ASU will be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* (ASU 2023-09), which requires greater disaggregation of information in the effective tax rate reconciliation, income taxes paid disaggregated by jurisdiction, and certain other amendments related to income tax disclosures. This guidance will be effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

3. INTANGIBLE ASSETS, NET

Intangible assets, net comprised the following:

	March 31, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Finite-lived intangible assets:						
Computer software	\$ 9,313	\$ (8,439)	\$ 874	\$ 9,325	\$ (8,357)	\$ 968
Customer relationships	99,805	(33,720)	66,085	99,805	(31,883)	67,922
Technology, formulations and recipes	114,181	(27,570)	86,611	114,181	(25,124)	89,057
Trade names and trademarks	131,493	(18,413)	113,080	131,493	(16,740)	114,753
Other	4,779	(4,436)	343	4,802	(4,422)	380
Total finite-lived intangible assets, net	359,571	(92,578)	266,993	359,606	(86,526)	273,080
Indefinite-lived intangible asset:						
Trade name	2,801	—	2,801	2,801	—	2,801
Total Intangible assets, net	\$ 362,372	\$ (92,578)	\$ 269,794	\$ 362,407	\$ (86,526)	\$ 275,881

Amortization expense related to intangible assets was \$6,084 and \$6,045 for the three months ended March 31, 2024, and 2023, respectively. The following are the estimated useful lives and the weighted-average amortization period remaining as of March 31, 2024, for the major classes of finite-lived intangible assets:

	Useful lives	Weighted-average amortization period remaining
Computer software	3 to 5 years	2 years
Customer relationships	7 to 18 years	10 years
Technology, formulations and recipes	8 to 12 years	9 years
Trade names and trademarks	15 to 20 years	17 years

The estimated aggregate future amortization expense for intangible assets subject to amortization as of March 31, 2024, is summarized below:

	Estimated Future Amortization Expense
For the period of April 1, 2024 to December 31, 2024	\$ 18,283
Year ending December 31,	
2025	24,334
2026	24,066
2027	23,849
2028	23,185
2029 and thereafter	153,276
Total	\$ 266,993

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

4. LOSS PER COMMON SHARE

Basic loss per common share is computed using net loss divided by the weighted-average number of common shares outstanding during each period, excluding unvested restricted stock units ("RSUs") and performance stock units ("PSUs").

Diluted loss per common share represents net loss divided by the weighted-average number of common shares outstanding during the period, including common stock equivalents. Common stock equivalents consist of shares subject to warrants and share-based awards with exercise prices less than the average market price of the Company's common stock for the period, to the extent their inclusion would be dilutive. Regarding RSUs subject to a market condition, before the end of the contingency period, the number of contingently issuable shares (i.e., RSUs) to be included in diluted loss per common share would be based on the number of shares of common stock issuable under the terms of the arrangement if the end of the reporting period was the end of the contingency period, assuming the result would be dilutive. Those contingently issuable shares would be included in the denominator of diluted loss per common share as of the beginning of the period, or as of the grant date of the share-based payment, if later.

The following table presents basic and diluted loss per common share for the three months ended March 31, 2024 and 2023:

	Three months ended March 31,	
	2024	2023
Net loss	\$ (12,608)	\$ (16,849)
Weighted-average shares of common stock outstanding	45,813,729	45,263,822
Dilutive effect of warrants and share based compensation awards using the treasury stock method	—	—
Diluted weighted-average shares of common stock outstanding	45,813,729	45,263,822
Basic loss per common share	\$ (0.28)	\$ (0.37)
Diluted loss per common share	\$ (0.28)	\$ (0.37)

The computation of the weighted-average shares of common stock outstanding for diluted loss per common share excludes the following potential shares of common stock as their inclusion would have an anti-dilutive effect on diluted loss per common share:

	Three months ended March 31,	
	2024	2023
Shares subject to warrants outstanding	—	17,669
Shares subject to unvested performance and restricted stock units	1,129,490	2,048,606
Shares subject to stock options outstanding	443,744	658,296

5. ACCOUNTS RECEIVABLE, NET, AND INVENTORIES

Accounts receivable, net comprised the following:

	March 31, 2024	December 31, 2023
Trade accounts receivable	\$ 22,176	\$ 16,740
Allowance for doubtful accounts	(784)	(920)
Other receivables	1,076	1,070
Total accounts receivable, net	\$ 22,468	\$ 16,890

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

The change in the allowance for doubtful accounts consisted of the following:

	Three months ended March 31,	
	2024	2023
Beginning balance	\$ (920)	\$ (1,556)
Changes in estimates	(124)	(108)
Write-offs	229	130
Collections/Other	31	370
Ending balance	\$ (784)	\$ (1,164)

Inventories comprised the following:

	March 31, 2024	December 31, 2023
Finished goods	\$ 57,525	\$ 58,346
Work-in-process	3,324	3,891
Raw materials	20,830	23,256
Allowance for inventory obsolescence	(9,364)	(10,139)
Total inventories	\$ 72,315	\$ 75,354

Inventories are stated at the lower of cost or net realizable value, and the Company maintains an allowance for excess and obsolete inventory that is based upon assumptions about future demand and market conditions. The allowance for excess and obsolete inventory is subject to change from period to period based on a number of factors including sales of products, changes in estimates, and disposals.

6. LEASES

The Company leases its distribution centers and manufacturing facilities from third parties under various non-cancelable lease agreements expiring at various dates through 2038. Also, the Company leases some property, plant and equipment under finance leases. Certain leases contain escalation provisions and/or renewal options, giving the Company the right to extend the leases by up to 20 years. However, these options are generally not reflected in the calculation of the right-of-use assets and lease liabilities due to uncertainty surrounding the likelihood of renewal. The Company recognizes operating lease costs over the respective lease periods, including short-term and month-to-month leases. The Company incurred operating lease costs of \$2,750 and \$3,647 during the three months ended March 31, 2024, and March 31, 2023, respectively. These costs are included primarily within SG&A in the condensed consolidated statements of operations.

The Company has operating subleases which have been accounted for by reference to the underlying asset subject to the lease, primarily as an offset to rent expense within SG&A. For the three months ended March 31, 2024, and March 31, 2023, the Company recorded sublease income of \$738 and \$642, respectively.

In January 2023, Gotham Properties LLC, an Oregon limited liability company and a subsidiary of the Company (“Seller”), consummated a Purchase and Sale Agreement with J & D Property, LLC, a Nevada limited liability company (“Purchaser”) pursuant to which certain real property located in the City of Eugene, County of Lane, State of Oregon (the “Eugene Property”) was sold to Purchaser for \$8,598 and then leased back by Seller (the “Sale-Leaseback Transaction”). The new lease has a term of 15 years with annual rent starting at \$731 and fixed increases to the final year when annual rent is \$964. The Company is accounting for the transaction as a failed sale-leaseback which requires retaining the asset associated with the property and recognizing a corresponding financial liability for the cash received. The Eugene Property serves as the manufacturing and processing site for certain of the Company’s grow media and nutrient brands. Refer to Note 9 – *Debt* for further discussion.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

Total right-of-use ("ROU") assets, finance lease assets, and lease liabilities were as follows:

Balance Sheet Classification		March 31, 2024	December 31, 2023
Lease assets			
Operating lease assets	Operating lease right-of-use assets	\$ 51,886	\$ 54,494
Finance lease assets	Property, plant and equipment, net	9,020	9,315
Total lease assets		\$ 60,906	\$ 63,809
Lease liabilities			
Current:			
Operating leases	Current portion of operating lease liabilities	\$ 8,362	\$ 8,336
Finance leases	Current portion of finance lease liabilities	929	954
Noncurrent:			
Operating leases	Long-term operating lease liabilities	45,161	47,506
Finance leases	Long-term finance lease liabilities	8,498	8,734
Total lease liabilities		\$ 62,950	\$ 65,530

The aggregate future minimum lease payments under long-term non-cancelable operating and finance leases with remaining terms greater than one year as of March 31, 2024, are as follows:

	Operating	Finance
For the period of April 1, 2024 to December 31, 2024	\$ 7,872	\$ 1,063
Year ending December 31,		
2025	10,315	1,303
2026	9,159	851
2027	8,938	853
2028	8,383	806
2029 and thereafter	16,800	8,039
Total lease payments	61,467	12,915
Less portion representing interest	(7,944)	(3,488)
Total principal	53,523	9,427
Less current portion	(8,362)	(929)
Long-term portion	\$ 45,161	\$ 8,498

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised the following:

	March 31, 2024	December 31, 2023
Machinery and equipment	\$ 27,768	\$ 27,417
Peat bogs and related development	12,670	12,256
Building and improvements	10,278	10,132
Land	6,109	6,114
Furniture and fixtures	4,370	4,360
Computer equipment	3,284	3,301
Leasehold improvements	5,166	5,169
Gross property, plant and equipment	69,645	68,749
Less: accumulated depreciation	(23,033)	(21,389)
Total property, plant and equipment, net	\$ 46,612	\$ 47,360

Depreciation, depletion and amortization expense related to property, plant and equipment, net was \$1,801 and \$1,962 for the three months ended March 31, 2024, and 2023, respectively.

As of March 31, 2024, Land, Building and improvements, Computer equipment, and Machinery and equipment contain finance leases assets, recorded at cost of \$12,173, less accumulated depreciation of \$3,153. As of December 31, 2023, Land, Building and improvements, Computer equipment, and Machinery and equipment contain finance leases assets, recorded at cost of \$12,783, less accumulated depreciation of \$3,468.

The Company operates peat bogs in Alberta, Canada. Under current provincial laws the Company is subject to certain asset retirement obligations ("AROs") and the remediation of the peat bog sites are under provincial oversight. The Company periodically evaluates expected remediation costs associated with the peat bog sites that it operates. When the Company concludes that it is probable that a liability has been incurred, a provision is made for management's estimate of the liability. As of March 31, 2024, and December 31, 2023, the Company had AROs of \$491 and \$759, respectively, recorded in Accrued expenses and other current liabilities on the condensed consolidated balance sheets. As of March 31, 2024, and December 31, 2023, the Company had AROs of \$4,382 and \$4,457, respectively, recorded in Other long-term liabilities on the condensed consolidated balance sheets. The ARO changes related to the various components of accretion, and additional obligations incurred were not significant.

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities comprised the following:

	March 31, 2024	December 31, 2023
Accrued compensation and benefits	\$ 2,600	\$ 2,096
Interest accrual	169	1,214
Freight, custom and duty accrual	1,140	1,040
Goods in transit accrual	1,653	360
Income tax accrual	146	—
Other accrued liabilities	4,769	4,819
Total accrued expenses and other current liabilities	\$ 10,477	\$ 9,529

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

9. DEBT

Debt is comprised of the following:

	March 31, 2024	December 31, 2023
Term loan - net of unamortized discount and deferred financing costs of \$3,983 and \$4,259 as of March 31, 2024, and December 31, 2023, respectively	\$ 116,543	\$ 118,241
Other	125	160
Total debt	\$ 116,668	\$ 118,401
Current portion of long-term debt	\$ 1,278	\$ 2,989
Long-term debt - net of unamortized discount and deferred financing costs of \$3,983 and \$4,259 as of March 31, 2024, and December 31, 2023, respectively	115,390	115,412
Total debt	\$ 116,668	\$ 118,401

Term Loan

On October 25, 2021, the Company and certain of its direct and indirect subsidiaries (the "Obligors") entered into a Credit and Guaranty Agreement with JPMorgan Chase Bank, N.A., as administrative agent for the lenders, pursuant to which the Company borrowed a \$125,000 senior secured term loan ("Term Loan"). The Term Loan was amended by Amendment No. 1 to Credit and Guaranty Agreement ("Amendment No. 1") effective on June 27, 2023, to replace the LIBOR referenced rates with SOFR referenced rates. Pursuant to Amendment No. 1, any Term Loan that constitutes a Eurodollar Rate Loan that is outstanding as of the Amendment No. 1 closing date shall continue until the end of the applicable interest period for such Eurodollar Rate Loan and the provisions of the Term Loan applicable thereto shall continue and remain in effect (notwithstanding the occurrence of the Amendment No. 1 closing date) until the end of the applicable interest period for such Eurodollar Rate Loan, after which such provisions shall have no further force or effect. Such Eurodollar Rate Loan shall subsequently either be an ABR Loan or a Term Benchmark Loan. The ABR Loans shall bear interest at the Alternate Base Rate (with a 2.0% floor) plus 4.50%, and Term Benchmark Loans shall bear interest at the Adjusted Term SOFR Rate (with a 1.0% floor), plus 5.50%. The ABR Loan and Term Benchmark Loan credit spreads of 4.50% and 5.50%, respectively, within the Amendment No. 1 have not changed from the credit spreads in the original Term Loan. Legal fees associated with Amendment No. 1 were not material, and were included in Other income, net, on the Condensed Consolidated Statements of Operations during the year ended December 31, 2023. The foregoing description of Amendment No. 1 does not purport to be complete and is qualified in its entirety by reference to the provisions of Amendment No. 1, included as Exhibit 10.8 to the 2023 Annual Report. Capitalized terms referenced above are defined in the Term Loan.

The Term Loan was subject to a call premium of 1% if called prior to October 25, 2023, and 0% thereafter, and matures on October 25, 2028 ("Maturity Date"). Deferred financing costs are being amortized to interest expense over the term of the loan. For the three months ended March 31, 2024, the effective interest rate was 12.03% and interest expense was \$3,652, which includes amortization of deferred financing costs and discount of \$220.

The principal amounts of the Term Loan are required to be repaid in consecutive quarterly installments in amounts equal to 0.25% of the original principal amount of the Term Loan, on the last day of each fiscal quarter commencing March 31, 2022, with the balance of the Term Loan payable on the Maturity Date. The Company is also required to make mandatory prepayments in the event of (i) achieving certain excess cash flow criteria, including the achievement and maintenance of a specific leverage ratio, (ii) certain asset sales that are collateral, or (iii) upon the issuance, offering, or placement of new debt obligations. As described in Note 6 – Leases, the Company received net cash proceeds in January 2023 from the Sale-Leaseback Transaction and is subject to a provision whereby such net cash proceeds can be reinvested into certain investments, such as capital expenditures. This provision of the Term Loan includes (i) cash investments made within a one-year period from the Sale Leaseback Transaction, and (ii) investments which are contractually committed within one-year of the Sale Leaseback Transaction and paid within 180 days after entering into such contractual commitment. The amount of any net cash proceeds which are not reinvested would require the Company to make an offer to prepay the corresponding amount on the Term Loan in 2024. In accordance with this provision, the Company classified \$1,665 as current debt as of December 31, 2023, and prepaid the Term Loan in this amount in the first quarter of 2024. In addition, the Company had \$2,187 of contractual commitments

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

pursuant to this provision as of December 31, 2023. Should any of the \$2,187 balance not be paid within 180 days of the contractual commitment dates, the Company will be required to make an additional offer to prepay the corresponding amount. The foregoing description of the reinvestment provision does not purport to be complete and is qualified in its entirety by reference to the provisions of the Term Loan.

As of March 31, 2024, and December 31, 2023, the outstanding principal balance on the Term Loan was \$120,526 and \$122,500, respectively.

The Term Loan requires the Company to maintain certain reporting requirements, affirmative covenants, and negative covenants, and the Company was in compliance with all requirements as of March 31, 2024. The Term Loan is secured by a first lien on the non-working capital assets of the Company and a second lien on the working capital assets of the Company.

Revolving Credit Facility

On March 29, 2021, the Obligors entered into a Senior Secured Revolving Credit Facility (the "Revolving Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent, issuing bank and swingline lender, and the lenders from time to time party thereto. The Revolving Credit Facility is due on June 30, 2026, or any earlier date on which the revolving commitments are reduced to zero.

The Revolving Credit Facility originally had a borrowing limit of \$50,000. On August 31, 2021, the Obligors entered into an amendment (the "First Amendment") to increase their original borrowing limit to \$100,000. In connection with the First Amendment, the Company's previously acquired subsidiaries became party to the Revolving Credit Facility as either borrowers or as guarantors. On October 25, 2021, the Company and its subsidiaries entered into a second amendment (the "Second Amendment"), with JPMorgan Chase Bank, N.A., pursuant to which the parties consented to the Term Loan described above, and made certain conforming changes to comport with the Term Loan provisions. The Revolving Credit Facility was further amended by a third amendment and joinder dated August 23, 2022 (the "Third Amendment"), pursuant to which several previously acquired subsidiaries became parties to the Revolving Credit Facility and granted liens on their assets. On December 22, 2022, the Company entered into a fourth amendment (the "Fourth Amendment") pursuant to which a sale-leaseback transaction was permitted, and certain other changes were made, including a reduction of the maximum commitment amount under the Revolving Credit Facility from \$100,000 to \$75,000 and transitioning the LIBOR based rates to SOFR based rates. On March 31, 2023, the Company and certain of its subsidiaries entered into an amendment (the "Fifth Amendment") pursuant to which the maturity date was extended to June 30, 2026, the maximum commitment amount under the Revolving Credit Facility was reduced to \$55,000, and the interest rate on borrowings was revised to various spreads, based on the Company's fixed charge coverage ratio.

The unamortized debt discount and deferred financing costs were \$484 and \$538 as of March 31, 2024, and December 31, 2023, respectively, and are included in other assets in the condensed consolidated balance sheets. Debt discount and deferred financing costs are being amortized to interest expense over the term of the Revolving Credit Facility.

The Revolving Credit Facility is an asset-based facility that is secured by a first lien on the working capital assets of the Company and a second lien on the non-working capital assets of the Company (including most of the Company's subsidiaries). The borrowing base is based on a detailed monthly calculation of the sum of (a) a percentage of the Eligible Accounts at such time, plus (b) the lesser of (i) a percentage of the Eligible Inventory, at such time, valued at the lower of cost or market value, determined on a first-in-first-out basis, and (ii) the product of a percentage multiplied by the Net Orderly Liquidation Value percentage identified in the most recent inventory appraisal ordered by the Administrative Agent multiplied by the Eligible Inventory, valued at the lower of cost or market value, determined on a first-in-first-out basis, minus (c) Reserves (each of the defined terms above, as defined in the Revolving Credit Facility documents).

The Company is required to maintain certain reporting requirements, affirmative covenants and negative covenants, pursuant to terms outlined in the agreement. Additionally, if the Company's Excess Availability (as defined in the Revolving Credit Facility documents) is less than an amount equal to 10% of the Aggregate Revolving Commitment (currently \$55,000), the Company will be required to maintain a minimum fixed charge coverage ratio of 1.1x on a rolling twelve-month basis until the Excess Availability is more than 10% of the Aggregate Revolving Commitment for thirty consecutive days. In order to consummate permitted acquisitions or to make restricted payments, the Company would be required to comply with a higher

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

fixed charge coverage ratio of 1.15x, but no such acquisitions or payments are currently contemplated. As of March 31, 2024, the Company is in compliance with the covenants contained in the Revolving Credit Facility.

The Revolving Credit Facility provides for various interest rate options including the Adjusted Term SOFR Rate, the Adjusted REVSOFR30 Rate, the CB Floating Rate, the Adjusted Daily Simple SOFR, the CBFR, the Canadian Prime Rate, or the CDOR Rate. The rates that use SOFR as the reference rate (Adjusted Term SOFR Rate, the Adjusted REVSOFR30 Rate, the Adjusted Daily Simple SOFR and the CBFR rate) use the Term SOFR Rate plus 1.95%. Each rate has a 0.0% floor. A fee of 0.40% per annum is charged for available but unused borrowings.

As of March 31, 2024, and December 31, 2023, the Company had zero borrowed under the facility. As of March 31, 2024, the Company would be able to borrow approximately \$25 million under the Revolving Credit Facility, before the Company would be required to comply with the minimum fixed charge coverage ratio of 1.1x.

Other Debt

Other debt of \$125 and \$160 as of March 31, 2024, and December 31, 2023, respectively, was primarily comprised of a foreign subsidiary's other debt which constitutes an immaterial revolving line of credit and mortgage.

Aggregate future principal payments

As of March 31, 2024, the aggregate future principal payments under long-term debt are as follows:

	Debt
For the period of April 1, 2024 to December 31, 2024	\$ 965
Year ending December 31,	
2025	1,252
2026	1,252
2027	1,253
2028	115,929
2029 and thereafter	—
Total	\$ 120,651

10. STOCKHOLDERS' EQUITY

Common stock

Each holder of common stock is entitled to one vote for each share of common stock. Common stockholders have no pre-emptive rights to acquire additional shares of common stock or other securities. The common stock is not subject to redemption rights and carries no subscription or conversion rights. In the event of liquidation, the stockholders are entitled to share in corporate assets on a pro rata basis after the Company satisfies all liabilities and after provision is made for any class of capital stock having preference over the common stock. Subject to corporate regulations and preferences to preferred stock, if any, dividends are at the discretion of the Board of Directors. As of March 31, 2024, there were 45,977,935 shares outstanding and 300,000,000 shares authorized.

Warrants

On July 19, 2021, the Company completed the redemption ("Redemption") of certain of its outstanding warrants (the "Investor Warrants") that were issued in connection with a private placement of units (the "private placement"), each consisting of a share of common stock and a warrant to purchase an additional one-half (1/2) shares of common stock. In connection with the private placement, the Company agreed to engage the placement agent (the "Placement Agent") as the Company's warrant solicitation agent in the event the Investor Warrants were called for Redemption. The Company agreed to pay a warrant solicitation fee to the Placement Agent equal to five percent of the amount of net cash proceeds solicited by the Placement

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

Agent upon the exercise of certain Investor Warrants following such call for Redemption. As of March 31, 2024, and December 31, 2023, respectively, there were no Investor Warrants outstanding. In connection with the private placement, the Placement Agent was issued warrants (the "placement agent warrants") which expired on December 14, 2023. As of March 31, 2024, and December 31, 2023, there were no outstanding placement agent warrants.

11. STOCK-BASED COMPENSATION

Stock-based compensation plan overview

The Company maintains three equity incentive plans: the 2018 Equity Incentive Plan ("2018 Plan"), the 2019 Employee, Director and Consultant Equity Incentive Plan ("2019 Plan") and the 2020 Employee, Director, and Consultant Equity Incentive Plan ("2020 Plan" and collectively, "Incentive Plans"). The 2020 Plan serves as the successor to the 2019 Plan and 2018 Plan and provides for the issuance of incentive stock options ("ISOs"), stock grants and stock-based awards to employees, directors, and consultants of the Company. No further awards will be issued under the 2018 Plan and 2019 Plan. As of March 31, 2024, a total of 4,065,385 shares were available for grant under the 2020 Plan.

The Incentive Plans are administered by the Company's Board of Directors. Notwithstanding the foregoing, the Board of Directors may delegate concurrent responsibility for administering each plan, including with respect to designated classes of persons eligible to receive an award under each plan, to a committee or committees (which term shall include subcommittees) consisting of one or more members of the Board of Directors (collectively, the "Plan Administrator"), subject to such limitations as the Board of Directors deems appropriate.

In November 2020, the Board of Directors and stockholders approved the 2020 Plan and reserved an aggregate of 2,284,053 shares of common stock for issuance under the 2020 Plan. Pursuant to the 2020 Plan, the number of shares available for issuance under the 2020 Plan may be increased on January 1 of each year, beginning on January 1, 2021, and ending on January 2, 2030, in an amount equal to the lesser of (i) 4% of the outstanding shares of the Company's common stock on such date or (ii) such number of shares determined by the Plan Administrator.

The 2020 Plan provides for the grant of ISOs, nonqualified stock options, stock grants, and stock-based awards that are based in whole or in part by reference to the Company's common stock.

- The Plan Administrator may grant options designated as incentive stock options or nonqualified stock options. Options shall be granted with an exercise price per share not less than 100% of the fair market value of the common stock on the grant date, subject to certain limitations and exceptions as described in the plan agreements. Generally, the maximum term of an option shall be 10 years from the grant date. The Plan Administrator shall establish and set forth in each instrument that evidences an option the time at which, or the installments in which, the option shall vest and become exercisable.
- The Plan Administrator may grant stock grants and stock-based awards, including securities convertible into shares, stock appreciation rights, phantom stock awards or stock units on such terms and conditions which may be based on continuous service with the Company or related company or the achievement of any performance goals, as the Plan Administrator shall determine in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the award.

Restricted Stock Unit ("RSU") Activity

RSUs granted to certain executives, employees and members of the Board of Directors expire 10 years after the grant date. The awards generally have a time-based vesting requirement (based on continuous employment). Upon vesting, the RSUs convert into shares of the Company's common stock. The stock-based compensation expense related to service-based awards is recorded over the requisite service period. During the first quarter of 2023, the Company granted RSU awards that are expected to vest with two equal vesting tranches, one of which vested on October 31, 2023, and the second of which is scheduled to vest on October 31, 2024. During the second quarter of 2023, the Company granted RSU awards to members of the Board of Directors that are expected to vest on the one year anniversary of the grant date.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

The following table summarizes the activity related to the Company's RSUs for the three months ended March 31, 2024. For purposes of this table, vested RSUs represent the shares for which the service condition had been fulfilled during the three months ended March 31, 2024:

	Number of RSUs	Weighted average grant date fair value
Balance, December 31, 2023	1,242,210	\$ 3.06
Vested	(112,720)	\$ 13.75
Balance, March 31, 2024	1,129,490	\$ 1.99

As of March 31, 2024, total unamortized stock-based compensation cost related to unvested RSUs was \$1,269 and the weighted-average period over which the compensation is expected to be recognized is less than one year. For the three months ended March 31, 2024, the Company recognized \$752 of total stock-based compensation expense for RSUs. As of March 31, 2024, there were 6,357 RSUs which had previously vested, but were not yet issued due to the recipients' elections to defer the awards.

Performance Stock Unit ("PSU") Activity

The following table summarizes the activity related to the Company's PSUs for the three months ended March 31, 2024:

	Number of PSUs	Weighted average grant date fair value
Balance, December 31, 2023	921,182	\$ 1.77
Vested	(180,298)	\$ 1.77
Forfeited	(740,884)	\$ 1.77
Balance, March 31, 2024	—	\$ —

During the three months ended March 31, 2024, the PSU forfeitures were due to employee terminations and performance conditions that were not satisfied, while PSU vests were from awards granted in prior periods. The majority of the PSUs outstanding as of December 31, 2023 were forfeited in the three months ended March 31, 2024, as a result of not meeting certain performance conditions. As of March 31, 2024, there was no unamortized stock-based compensation cost or unvested PSUs outstanding. For the three months ended March 31, 2024, the Company recognized \$72 of total stock-based compensation expense for PSUs. The Company issued 1,372,188 additional PSUs in April 2024, which are scheduled to vest in April 2025, assuming certain performance metrics are achieved.

Stock Options

The vesting of stock options is subject to certain change in control provisions as provided in the incentive plan agreements and options may be exercised up to 10 years from the date of issuance.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

There were no stock options granted or exercised during the three months ended March 31, 2024. The following table summarizes the stock option activity for the three months ended March 31, 2024:

	Number	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)
Outstanding as of December 31, 2023	571,359	\$ 9.47	\$ 2.01	3.69
Cancelled	(127,576)	\$ 8.44	\$ 0.92	
Forfeited	(39)	\$ 11.06	\$ 9.89	
Outstanding as of March 31, 2024	<u>443,744</u>	\$ 9.76	\$ 2.33	4.44
Options exercisable as of March 31, 2024	<u>427,922</u>	\$ 9.38	\$ 1.95	4.35
Vested and expected to vest as of March 31, 2024	<u>443,744</u>	\$ 9.76	\$ 2.33	4.44

The following table summarizes the unvested stock option activity for the three months ended March 31, 2024:

	Number	Weighted average grant date fair value
Unvested as of December 31, 2023	16,674	\$ 12.15
Vested	(813)	\$ 3.85
Forfeited	(39)	\$ 9.89
Unvested as of March 31, 2024	<u>15,822</u>	\$ 12.59

As of March 31, 2024, total compensation cost related to unvested options not yet recognized was \$84 and the weighted-average period over which the compensation is expected to be recognized is less than one-year. For the three months ended March 31, 2024, the Company recognized \$29 of total stock-based compensation expense for stock options.

12. INCOME TAXES

The Company recorded income tax expense of \$196 for the three months ended March 31, 2024, representing an effective tax rate of (1.6)%. The Company's effective tax rate for the three months ended March 31, 2024, differs from the federal statutory rate of 21% primarily due to the Company maintaining a full valuation allowance against its net deferred tax assets in the U.S. and most foreign jurisdictions. The income tax expense for the three months ended March 31, 2024, was primarily due to U.S. state taxes and foreign taxes in certain jurisdictions.

The Company recorded income tax expense of \$147 for the three months ended March 31, 2023, representing an effective tax rate of (0.9)%. The Company's effective tax rate for the three months ended March 31, 2023, differs from the federal statutory rate of 21% primarily due to the Company maintaining a full valuation allowance against its net deferred tax assets in the U.S. and most foreign jurisdictions. The tax expense for the three months ended March 31, 2023, was primarily due to foreign tax expense.

13. COMMITMENTS AND CONTINGENCIES

Purchase commitments

From time to time in the normal course of business, the Company will enter into agreements with suppliers which provide favorable pricing in return for a commitment to purchase minimum amounts of inventory over a defined time period.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

Contingencies

In the normal course of business, certain claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims. Based on available information, management does not expect that the outcome of any matters, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations, cash flows or future earnings of the Company.

14. FAIR VALUE MEASUREMENTS

Recurring and Nonrecurring

The Company did not have any assets or liabilities that were remeasured to fair value on a recurring or nonrecurring basis during the periods presented.

Other Fair Value Measurements

The following table summarizes the fair value of the Company's assets and liabilities which are provided for disclosure purposes:

	Fair Value Hierarchy Level	March 31, 2024		December 31, 2023	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets					
Cash and cash equivalents	Level 1	24,152	24,152	30,312	30,312
Liabilities					
Finance leases	Level 3	9,427	9,427	9,688	9,688
Term Loan	Level 2	120,526	97,024	122,500	98,000

Cash and cash equivalents included funds deposited in banks, and the fair values approximated carrying values due to their short-term maturities. The fair values of other current assets and liabilities including accounts receivable, accounts payable, accrued expenses and other current liabilities approximated their carrying value due to their short-term maturities.

The estimated fair value of finance leases approximated their carrying value given the applicable interest rates and the nature of the security interest in the Company's assets, which were considered Level 3 fair value measurements. Finance leases primarily relate to the Sale-Leaseback transaction that was entered into in the first quarter of 2023. The fair value of the Term Loan was estimated based on Level 2 fair value measurements and was based on bank quotes. The carrying amount of the Term Loan reported above excludes unamortized debt discount and deferred financing costs. Refer to Note 6 – Leases and Note 9 – Debt, for further discussion of the Company's finance leases and Term Loan, respectively.

The Company did not have any transfers between Levels within the fair value hierarchy during the periods presented.

15. SUBSEQUENT EVENTS

On May 10, 2024, in connection with the Company's restructuring of its durable manufacturing operations, the Company entered into an agreement with CM Fabrication, LLC, (the "Buyer") to sell assets relating to the production of certain durable equipment products, including an estimate of approximately \$16,000 of inventories, property, plant and equipment, and other assets to the Buyer for approximately \$8,700 (the "Asset Sale"). In connection with the Asset Sale, the Company intends to terminate and payoff the facility operating lease estimated at approximately \$1,300 and certain equipment finance leases estimated at approximately \$700. The Asset Sale is expected to close in the second quarter of 2024, subject to customary closing conditions. The Company estimates it will record a loss on the disposition of the tangible and intangible assets of approximately \$12,000 in the second quarter of 2024, upon closing of the Asset Sale.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(dollars in thousands, except share and per share amounts)

The Company will continue to sell its proprietary branded durable products. In connection with the transaction, the Company is entering into an exclusive supply agreement with the Buyer to provide for contract manufacturing, yielding a more efficient cost model going forward. JPMorgan Chase Bank, N.A., as administrative agent to the Company's Revolving Credit Facility, granted a consent to permit the Asset Sale. In accordance with the Company's Term Loan, the net proceeds from the Asset Sale transaction are required to be reinvested into certain permitted investments, such as capital expenditures, or offered to prepay Term Loan principal.

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

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial condition. You should read this analysis in conjunction with our audited and unaudited consolidated financial statements and the notes contained elsewhere in this Quarterly Report on Form 10-Q and our 2023 Annual Report. This discussion and analysis contains statements of a forward-looking nature relating to future events or our future financial performance. Actual events or results may differ materially from forward-looking statements. In evaluating such statements, you should carefully consider the various factors identified in this Quarterly Report on Form 10-Q, which could cause actual results to differ materially from those expressed in, or implied by, any forward-looking statements, including those set forth in "Risk Factors" in our 2023 Annual Report. See "Special Note Regarding Forward-Looking Statements."

Company Overview

We are a leading independent manufacturer and distributor of branded hydroponics equipment and supplies for controlled environment agriculture ("CEA"), including grow lights, climate control solutions, growing media and nutrients, as well as a broad portfolio of innovative and proprietary branded products. We primarily serve the U.S. and Canadian markets, and believe we are one of the leading companies in these markets in an otherwise fragmented industry. For over 40 years, we have helped growers make growing easier and more productive. Our mission is to empower growers, farmers and cultivators with products that enable greater quality, efficiency, consistency, and speed in their grow projects.

Hydroponics is the farming of plants using soilless growing media and often artificial lighting in a controlled indoor or greenhouse environment. Hydroponics is the primary category of CEA and we use the terms CEA and hydroponics interchangeably. Our products are used to grow, farm, and cultivate cannabis, flowers, fruits, plants, vegetables, grains and herbs in controlled environment settings that allow end users to control key farming variables including temperature, humidity, CO₂, light intensity spectrum, nutrient concentration and pH. Through CEA, growers are able to be more efficient with physical space, water and resources, while enjoying year-round and more rapid grow cycles as well as more predictable and abundant grow yields, when compared to other traditional growing methods.

We reach commercial farmers and consumers through a broad and diversified network of over 2,000 wholesale customer accounts, who we connect with primarily through our proprietary online ordering platform. Our products are distributed across the United States and Canada through a diversified range of retailers of commercial and home gardening equipment and supplies. Our customers include specialty hydroponic retailers, commercial resellers and greenhouse builders, garden centers, hardware stores, and e-commerce retailers. Specialty hydroponic retailers can provide growers with specialized merchandise assortments and knowledgeable staff.

Market Conditions

We have experienced adverse financial results which we believe is primarily a result of an agricultural oversupply impacting our market. An agricultural oversupply has impacted our industry, driving cannabis wholesale prices down and resulting in a decrease in indoor and outdoor cultivation in the markets where we operate. The extent these market conditions will continue to negatively impact our business and results of operations is uncertain and difficult to predict at this time. We believe COVID-19 may have provided a positive demand impact for the Company in 2020 and 2021 from shelter-in-place orders in the United States, a possible negative supply chain impact from workforce disruption at international and domestic suppliers, and a possible negative growth rate impact in 2022 and 2023 due to agricultural oversupply initiated during the height of COVID-related shelter-in-place orders in 2020 and 2021.

In connection with our previously disclosed evaluation of our facility footprint and product and brand portfolio, we initiated a restructuring plan (the "Restructuring Plan") during 2022. In connection with the first phase of our Restructuring Plan, our major initiatives included (i) narrowing our product and brand portfolio, including removing approximately one-third of all products and one-fifth of all brands relating to our primary product portfolio, which excluded our garden center business in Canada, and (ii) relocating and consolidating certain manufacturing and distribution centers, including headcount reductions and reorganization to drive a solution based approach, focusing commercial sales on competencies and product assortment gained from our recent acquisitions. Total costs incurred relating to this first phase of the Restructuring Plan from its commencement in 2022 to its completion in 2023, were (i) \$6.4 million relating primarily to inventory markdowns, and (ii) \$3.4 million relating primarily to the relocation and termination of certain facilities in Canada.

As a result of the continued adverse market conditions, in the third quarter of 2023 we began a second phase of the Restructuring Plan, including U.S. manufacturing facility consolidations, in particular with respect to our production of certain

durable equipment products. We are reducing facility space and consolidating our manufacturing operations in the U.S. to improve efficiency and reduce costs. These restructuring charges are primarily recorded within Cost of goods sold on the consolidated statements of operations. During the three months ended March 31, 2024, we recorded pre-tax restructuring charges of \$0.1 million, relating primarily to cash charges associated with the consolidation of U.S. manufacturing facilities. Further, we estimate additional charges associated with this second phase of the Restructuring Plan may exceed \$2.0 million and be incurred through the next several quarters as we consolidate and exit facilities. These estimated additional charges include an estimated cash impact that may exceed \$1.0 million for facility consolidations and lease and other contract terminations. We anticipate the second phase of our restructuring plan and related actions may result in cost savings of approximately \$1.5 million on an annualized basis. The amounts we will ultimately realize or disburse in connection with both phases of the Restructuring Plan could differ materially from our estimates, and we may not be able to realize the full extent of our anticipated cost savings.

We review intangible assets with finite lives and indefinite lives for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. We noted a deterioration in customer demand in the United States and Canada caused by macroeconomic and industry conditions and fully impaired goodwill in 2022. However, we did not identify a triggering event requiring a test for impairment of intangible assets during the year ended December 31, 2023, or the three months ended March 31, 2024.

We maintain an allowance for excess and obsolete inventory that is based upon assumptions about future demand and market conditions. While we believe our estimates of charges relating to our Restructuring Plan, long-lived assets, inventory obsolescence, and accounts receivable allowances are reasonable, it is possible that we may incur additional charges in the future and actual results may differ significantly from these estimates and assumptions. Depending on the length and severity of the industry and market conditions impacting our business, it is possible we may execute additional restructuring plan actions and incur future associated charges, and we may not be able to realize the full extent of our anticipated cost savings.

Results of Operations—Comparison of three months ended March 31, 2024 and 2023

The following table sets forth our unaudited interim condensed consolidated statements of operations for the three months ended March 31, 2024, and 2023, including amounts and percentages of net sales for each period and the period-to-period change in dollars and percent (amounts in thousands):

	Three months ended March 31,				Period change	
	2024		2023			
Net sales	\$ 54,172	100.0 %	\$ 62,178	100.0 %	\$ (8,006)	-12.9 %
Cost of goods sold	43,247	79.8 %	50,797	81.7 %	(7,550)	-14.9 %
Gross profit	10,925	20.2 %	11,381	18.3 %	(456)	-4.0 %
Operating expenses:						
Selling, general and administrative	19,621	36.2 %	24,431	39.3 %	(4,810)	-19.7 %
Loss from operations	(8,696)	-16.1 %	(13,050)	-21.0 %	4,354	33.4 %
Interest expense	(3,931)	-7.3 %	(3,692)	-5.9 %	239	6.5 %
Other income, net	215	0.4 %	40	0.1 %	175	437.5 %
Loss before tax	(12,412)	-22.9 %	(16,702)	-26.9 %	4,290	25.7 %
Income tax expense	(196)	-0.4 %	(147)	-0.2 %	49	33.3 %
Net loss	\$ (12,608)	-23.3 %	\$ (16,849)	-27.1 %	\$ 4,241	25.2 %

Net sales

Net sales for the three months ended March 31, 2024, were \$54.2 million, a decrease of \$8.0 million, or 12.9% compared to the same period in 2023.

The 12.9% decrease in net sales for the three months ended March 31, 2024, as compared to the same period in 2023, was due to a 12.6% decline in volume/mix of products sold and a 0.3% decrease in price. The decrease in volume/mix of products sold was primarily related to the aforementioned oversupply in the cannabis industry.

Gross profit

Gross profit for the three months ended March 31, 2024, was \$10.9 million, a decrease of \$0.5 million, or 4.0%, compared to the same period in 2023. The decrease was due to lower net sales. Our gross profit margin percentage increased to

20.2% for the three months ended March 31, 2024, from 18.3% in the same period in 2023, primarily as a result of our restructuring and related cost savings initiatives which drove improved productivity in manufacturing.

Selling, general and administrative expenses

SG&A expenses for the three months ended March 31, 2024, were \$19.6 million, a decrease of \$4.8 million, or 19.7% compared to the same period in 2023. The decrease was due to lower expenses in several areas, including as a result of our cost saving and restructuring initiatives: (i) \$1.4 million decrease in facility costs, (ii) \$1.0 million decrease in professional and outside services, (iii) \$0.8 million decrease in insurance costs, and (iv) \$0.8 million decrease in salaries and benefits, along with other expense reductions in multiple areas.

Interest expense

Interest expense for the three months ended March 31, 2024, was \$3.9 million, an increase of \$0.2 million compared to the same period in the prior year. The increase was primarily due to higher variable interest rates on our Term Loan.

Other income, net

Other income, net for the three months ended March 31, 2024, was \$0.2 million, an increase of \$0.2 million compared to the same period in the prior year. Other income, net for the three months ended March 31, 2024, was primarily driven by interest income and foreign currency exchange rate gains.

Income taxes

We recorded income tax expense of \$0.2 million for the three months ended March 31, 2024, representing an effective tax rate of (1.6)%. Our effective tax rate for the three months ended March 31, 2024, differs from the federal statutory rate of 21% primarily due to maintaining a full valuation allowance against our net deferred tax assets in the United States and most foreign jurisdictions. The income tax expense for the three months ended March 31, 2024, was primarily due to U.S. state taxes and foreign taxes in certain jurisdictions.

We recorded an income tax expense of \$0.1 million for the three months ended March 31, 2023, representing an effective income tax rate of (0.9)%. Our effective tax rate for the three months ended March 31, 2023, differs from the federal statutory rate of 21% primarily due to the Company maintaining a full valuation allowance against its net deferred tax assets in the U.S. and most foreign jurisdictions. The income tax expense for the three months ended March 31, 2023, was primarily due to foreign taxes in certain jurisdictions.

Liquidity and Capital Resources

Cash Flow from Operating, Investing, and Financing Activities

Comparison of the three months ended March 31, 2024, and March 31, 2023

The following table summarizes our cash flows for the three months ended March 31, 2024, and 2023 (amounts in thousands):

	Three months ended March 31,	
	2024	2023
Net cash used in operating activities	\$ (2,297)	\$ (8,950)
Net cash used in investing activities	(1,408)	(1,602)
Net cash (used in) from financing activities	(2,358)	7,959
Effect of exchange rate changes on cash and cash equivalents	(97)	5
Net decrease in cash and cash equivalents	(6,160)	(2,588)
Cash and cash equivalents at beginning of period	30,312	21,291
Cash and cash equivalents at end of period	\$ 24,152	\$ 18,703

Operating Activities

Net cash used in operating activities was \$2.3 million for the three months ended March 31, 2024. Consistent with historical seasonal trends, we utilized cash from operating activities in the first quarter to fund our working capital. The \$1.3

million net reduction in working capital was primarily driven by a \$5.7 million increase of accounts receivable and a \$2.0 million decrease of lease liabilities, partially offset by a \$4.2 million increase of accounts payable and accrued expenses and other current liabilities and a \$2.2 million decrease of inventory.

Net cash used in operating activities was \$9.0 million for the three months ended March 31, 2023, primarily due to a net loss of \$16.8 million, partially offset by net non-cash items. Additionally, we had a \$5.5 million net cash usage for working capital. This was primarily due to an increase of \$5.1 million in accounts receivable, net, and decreases of \$3.1 million of accrued expenses and other current liabilities, \$2.2 million of lease liabilities, and \$1.1 million in deferred revenue, partially offset by a decrease of \$7.3 million in inventories.

Investing Activities

Net cash used in investing activities was \$1.4 million and \$1.6 million for the three months ended March 31, 2024, and March 31, 2023, respectively, primarily due to capital expenditures of property, plant and equipment.

Financing Activities

Net cash used in financing activities was \$2.4 million for the three months ended March 31, 2024, primarily driven by \$2.0 million of Term Loan repayments relating to required quarterly payments of principal and prepayments made in conjunction with the Sale-Leaseback Transaction.

Net cash from financing activities was \$8.0 million for the three months ended March 31, 2023, primarily driven by \$8.6 million of proceeds from the Sale-Leaseback Transaction.

Availability and Use of Cash

Our ability to make investments in our business, service our debt and maintain liquidity will depend upon our ability to generate excess operating cash flows through our operating subsidiaries. We believe that our cash flows from operating activities, combined with current cash levels and borrowing availability under the Revolving Credit Facility, will be adequate to support our ongoing operations, to fund debt service requirements, capital expenditures, lease obligations and working capital needs through the next twelve months of operations. However, we cannot guarantee that our business will generate sufficient cash flow from operating activities or that future borrowings will be available under our borrowing agreements in amounts sufficient to pay indebtedness or fund other working capital needs. Actual results of operations will depend on numerous factors, many of which are beyond our control as further discussed in *Item 1A. Risk Factors* included in this Quarterly Report on Form 10-Q and in our 2023 Annual Report.

If necessary, we believe that we could supplement our cash position through additional sale-leasebacks, asset sales and equity financing. We believe it is prudent to be prepared if required and, accordingly, continue to be engaged in the process of evaluating and preparing to implement one or more of the aforementioned activities. Any potential such event may be subject to provisions referenced in our Term Loan and Revolving Credit Facility, such as subjecting the Company to making mandatory prepayments.

In January 2023, Gotham Properties LLC, an Oregon limited liability company and our subsidiary ("Seller"), consummated a Purchase and Sale Agreement with J & D Property, LLC, a Nevada limited liability company ("Purchaser") pursuant to which certain real property located in the City of Eugene, County of Lane, State of Oregon (the "Eugene Property") was sold to Purchaser for \$8.6 million and then leased back by Seller. The new lease has a term of 15 years with annual rent starting at approximately \$0.7 million and increases to the final year when annual rent is approximately \$1.0 million. The Eugene Property serves as the manufacturing and processing site for certain of our grow media and nutrient brands. Refer to further discussion below relating to Term Loan reinvestment provisions regarding the net cash proceeds of the Sale Leaseback Transaction.

Term Loan

On October 25, 2021, we and certain of our direct and indirect subsidiaries entered into the Term Loan with JPMorgan Chase Bank, N.A., as administrative agent for the lenders, pursuant to which we borrowed a \$125 million senior secured term loan (the "Term Loan"). The Term Loan was amended by Amendment No. 1 effective as of June 27, 2023, to replace the LIBOR referenced rates with SOFR referenced rates. Pursuant to Amendment No. 1, any Term Loan that constitutes a Eurodollar Rate Loan that is outstanding as of the Amendment No. 1 closing date shall continue until the end of the applicable interest period for such Eurodollar Rate Loan and the provisions of the Term Loan applicable thereto shall continue and remain in effect (notwithstanding the occurrence of the Amendment No. 1 closing date) until the end of the applicable interest period for such Eurodollar Rate Loan, after which such provisions shall have had no further force or effect. Such Eurodollar Rate Loan

shall subsequently either be an ABR Loan or a Term Benchmark Loan. The ABR Loans shall bear interest at the Alternate Base Rate (with a 2.0% floor) plus 4.50%, and Term Benchmark Loans shall bear interest at the Adjusted Term SOFR Rate (with a 1.0% floor) plus 5.50%. As of the date of filing this Quarterly Report on Form 10-Q, the ABR Loan and Term Benchmark Loan credit spreads of 4.50% and 5.50%, respectively, within the Amendment No. 1 have not changed from the credit spreads in the original Term Loan. The Term Loan matures on October 25, 2028.

The principal amounts of the Term Loan are scheduled to be repaid in consecutive quarterly installments in amounts equal to 0.25% of the original principal amount of the Term Loan on the last day of each fiscal quarter commencing March 31, 2022, with the balance of the Term Loan payable on the Maturity Date of October 25, 2028.

We are also required to make mandatory prepayments in the event of (i) achieving certain excess cash flow criteria, including the achievement and maintenance of a specific leverage ratio, (ii) certain asset sales that are collateral, or (iii) upon the issuance, offering, or placement of new debt obligations. As described in Note 6 – *Leases*, we received net cash proceeds in January 2023 from the Sale-Leaseback Transaction and are subject to a provision whereby such net cash proceeds can be reinvested into certain investments, such as capital expenditures. This provision of the Term Loan includes (i) cash investments made within a one-year period from the Sale Leaseback Transaction, and (ii) investments which are contractually committed within one-year of the Sale Leaseback Transaction, and paid within 180 days after entering into such contractual commitment. The amount of any net cash proceeds which are not reinvested would require us to make an offer to prepay the corresponding amount on the Term Loan in 2024. In accordance with this provision, we classified \$1.7 million as current debt on our consolidated balance sheet as of December 31, 2023, and prepaid the Term Loan in this amount during the three months ended March 31, 2024. In addition, we had \$2.2 million of contractual commitments pursuant to this provision as of December 31, 2023. Should any of the \$2.2 million of contractual commitments not be paid within 180 days of their contractual commitment dates, we will be required to make an additional offer to prepay the corresponding amount in 2024. The foregoing description of the reinvestment provision does not purport to be complete and is qualified in its entirety by reference to the provisions of the Term Loan.

As of March 31, 2024, and December 31, 2023, the outstanding principal balance on the Term Loan was \$120.5 million and \$122.5 million, respectively.

The Term Loan requires us to maintain certain reporting requirements, affirmative covenants, and negative covenants. We were in compliance with all debt covenants as of March 31, 2024. The Term Loan is secured by a first lien on our non-working capital assets and a second lien on our working capital assets.

Revolving Credit Facility

On March 29, 2021, we and certain of our subsidiaries entered into the Revolving Credit Facility (the "Revolving Credit Facility") with JPMorgan Chase Bank, N.A., as administrative agent, issuing bank and swingline lender for a revolving line of credit up to \$50 million. The Revolving Credit Facility was amended by the First Amendment dated August 31, 2021, which increased the revolving line of credit by an additional \$50 million for an aggregate borrowing limit of \$100 million. The Revolving Credit Facility was further amended by the Second Amendment dated October 25, 2021 which, among other things, permitted the incurrence of the Term Loan and made certain other changes including subordinating its liens on non-working capital assets to the obligations under the Term Loan. The Revolving Credit Facility was further amended by the Third Amendment and Joinder dated August 23, 2022, pursuant to which several previously acquired subsidiaries became parties to the Revolving Credit Facility and granted liens on their assets. On December 22, 2022, we entered into the Fourth Amendment pursuant to which a sale-leaseback transaction was permitted, and certain other changes were made, including a reduction of the maximum commitment amount under the Revolving Credit Facility from \$100 million to \$75 million and transitioning the LIBOR based rates to SOFR based rates. On March 31, 2023, we and certain of our subsidiaries entered into the Fifth Amendment, pursuant to which the maturity date was extended to June 30, 2026, the maximum commitment amount under the Revolving Credit Facility was reduced to \$55 million, and the interest rate on borrowings was revised to various spreads, based on our fixed charge coverage ratio.

The Revolving Credit Facility provides for various interest rate options including the Adjusted Term SOFR Rate, the Adjusted REVSOFR30 Rate, the CB Floating Rate, the Adjusted Daily Simple SOFR, the CBFR, the Canadian Prime Rate, or the CDOR Rate. The rates that use SOFR as the reference rate (Adjusted Term SOFR Rate, the Adjusted REVSOFR30 Rate, the Adjusted Daily Simple SOFR and the CBFR rate) use the Term SOFR Rate plus 1.95%. Each rate has a 0.0% floor. A fee of 0.40% per annum is charged for available but unused borrowings. Our obligations under the Revolving Credit Facility are secured by a first priority lien (subject to certain permitted liens) in substantially all of our and our subsidiaries' respective personal property assets pursuant to the terms of a U.S. and Canadian Pledge and Security Agreement dated March 29, 2021 and other security documents, as amended to include additional subsidiaries.

The Revolving Credit Facility maintains certain reporting requirements, affirmative covenants, negative covenants and financial covenants. A certain financial covenant becomes applicable in the event that our excess availability under the Revolving Credit Facility is less than an amount equal to 10% of the Aggregate Revolving Commitment (currently \$55 million) and would require us to maintain a minimum fixed charge coverage ratio of 1.1x on a rolling twelve-month basis.

In order to consummate permitted acquisitions or to make restricted payments, we would be required to comply with a higher fixed charge coverage ratio of 1.15x, but no such acquisitions or payments are currently contemplated.

We were in compliance with all debt covenants as of March 31, 2024. As of March 31, 2024, approximately \$25 million was available to borrow under the Revolving Credit Facility, before we would be required to comply with the minimum fixed charge coverage ratio of 1.1x.

As of March 31, 2024, and December 31, 2023, we had zero borrowed under the Revolving Credit Facility.

The aforementioned financing arrangements and other transactions are more fully described in the notes to the condensed financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Cash and Cash Equivalents

The cash and cash equivalents balances of \$24.2 million and \$30.3 million at March 31, 2024, and December 31, 2023, respectively, included \$7.1 million and \$8.5 million, respectively, held by foreign subsidiaries.

Material Cash Requirements

Our material cash requirements include (i) principal repayments and anticipated interest payments on our long-term debt, (ii) finance lease payments, (iii) operating lease payments, and (iv) balances subject to the Term Loan reinvestment provision, as well as other purchase obligations to support our operations. Variable rates on our Term Loan are subject to change as further described in *Item 3. Quantitative and Qualitative Disclosures About Market Risk*. Refer to *Item 1. Financial Statements*, Note 9 – *Debt*, Note 6 – *Leases*, and Note 13 – *Commitments and Contingencies* for details relating to our material cash requirements for debt, our leasing arrangements, including future maturities of our operating lease liabilities, and purchase obligations, respectively. From time to time in the normal course of business, we will enter into agreements with suppliers which provide favorable pricing in return for a commitment to purchase minimum amounts of inventory over a defined time period.

Critical Accounting Policies and Estimates

The preceding discussion and analysis of our consolidated results of operations and financial condition should be read in conjunction with our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Our critical accounting policies and estimates are identified in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of the 2023 Annual Report and include the discussion of estimates used in indefinite lived intangible assets, long-lived tangible and finite-lived intangible assets, and inventory valuation. Such accounting policies and estimates require significant judgments and assumptions to be used in the preparation of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, and actual results could differ materially from the amounts reported.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, refer to Note 2 – *Basis of Presentation and Significant Accounting Policies — Recent accounting pronouncements*, to our Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of economic losses due to adverse changes in financial market prices and rates. Our primary market risk has been interest rate, foreign currency and inflation risk. We do not have material exposure to commodity risk.

Interest Rate Risk

We are exposed to interest rate risk through our variable rate debt. As of March 31, 2024, we had \$120.5 million of Term Loan debt that is subject to variable interest rates that are based on Secured Overnight Financing Rate (“SOFR”) or an alternate base rate. Refer to *Item 1. Financial Statements*, Note 9 – *Debt* for details relating to the debt. If the rates were to increase by 100 basis points from the rates in effect as of March 31, 2024, our interest expense on the variable-rate debt would increase by an average of \$1.1 million annually. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumptions that interest rate changes would be instantaneous, while SOFR changes regularly. We do not currently hedge our interest rate risks, but may determine to do so in the future.

Foreign Currency Risk

The functional currencies of our foreign subsidiary operations are predominantly in the Canadian dollar (“CAD”) and the Euro. For the purposes of presenting these condensed consolidated financial statements, the assets, and liabilities of subsidiaries with CAD or Euro functional currencies are translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average rate prevailing during the period with exchange differences impacting other comprehensive income (loss) in equity. Therefore, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, principally the CAD. We are impacted by changes in foreign currency exchange rates when we sell product in currencies different from the currency in which costs were incurred. The functional currencies and our purchasing and sales activities primarily include USD, CAD and Euro. As these currencies fluctuate against each other, and other currencies, we are exposed to foreign currency exchange rate risk on sales, purchasing transactions, and labor. To date, we have not entered into any foreign currency exchange contracts and currently do not expect to enter into foreign currency exchange contracts for trading or speculative purposes.

Impact of Inflation

Our results of operations and financial condition are presented based on historical costs. We cannot provide assurances that our results of operations and financial condition will not be materially impacted by inflation in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation and supervision of our Chief Executive Officer and our Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q 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

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. We are currently not aware of any legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS

For a discussion of risk factors, please read Item 1A, "Risk Factors" in our 2023 Annual Report. Such risk factors continue to be relevant to an understanding of our business, financial condition and operating results. As of the date of this Quarterly Report on Form 10-Q, there have been the following material changes with respect to such risk factors.

If we fail to meet the continued listing standards of Nasdaq, our common stock may be delisted, which may adversely affect the market price and liquidity of our common stock.

Our common stock is currently traded on The Nasdaq Stock Market LLC ("Nasdaq"). Nasdaq requires us to meet certain financial, public float, bid price and liquidity standards on an ongoing basis in order to continue the listing of our common stock, including that we maintain a minimum closing bid price of \$1.00 per share (the "Minimum Bid Price Requirement").

On March 14, 2024, we received written notice from the Listing Qualifications Department of Nasdaq notifying us that for the preceding 30 consecutive business days, our common stock did not maintain compliance with the Minimum Bid Price Requirement. The notice had no immediate effect on the listing or trading of our common stock, which has continued to trade on The Nasdaq Global Select Market under the symbol "HYFM."

In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have a grace period of 180 calendar days, or until September 10, 2024 (the "Compliance Period"), to regain compliance with Nasdaq Listing Rule 5550(a)(2). Compliance can be achieved automatically and without further action if the closing bid price of our common stock is at or above \$1.00 for a minimum of 10 consecutive business days at any time during the Compliance Period, in which case Nasdaq will notify us of our compliance and the matter will be closed.

If, however, we do not achieve compliance with the Minimum Bid Price Requirement during the Compliance Period, we may be eligible for additional time to comply. In order to be eligible for such additional time, we will be required to meet the continued listing requirement for market value of publicly held shares and all other Nasdaq initial listing standards, with the exception of the Minimum Bid Price Requirement, and must notify Nasdaq in writing of our intention to cure the deficiency during the second compliance period, by effecting a reverse stock split if necessary.

There can be no assurance that we will be able to regain compliance with the Minimum Bid Price Requirement during the Compliance Period or that we will be able to maintain compliance with the other requirements for continued listing of our common stock on Nasdaq. If our common stock is delisted and we are unable to list our common stock on another U.S. national securities exchange, we expect our securities would be quoted on an over-the-counter market. If this were to occur, our stockholders could face significant material adverse consequences, including limited availability of market quotations for our common stock and reduced liquidity for the trading of our securities. Furthermore, if our common stock were delisted it could adversely affect our ability to obtain financing for the continuation of our operations and/or result in the loss of confidence by investors, customers, suppliers and employees.

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

On May 10, 2024, Innovative Growers Equipment, Inc., a wholly-owned indirect subsidiary of the Company (“IGE”), Manufacturing & Supply Chain Services, Inc., a wholly-owned indirect subsidiary of the Company (“MSCSI” and collectively with IGE, the “Sellers”), CM Fabrication, LLC (the “Buyer”) and Chris Mayer, Senior Vice President of Commercial Sales of the Company, entered into an Asset Purchase Agreement (the “Purchase Agreement”) pursuant to which IGE and MSCSI agreed to sell certain assets relating to the production of durable equipment products, including inventories, property, plant and equipment, and other assets, owned by the Sellers (the “Certain Assets”) to the Buyer for approximately \$8.7 million (the “Asset Sale”). The Asset Sale is expected to close (the “Closing”) in the second quarter of 2024, subject to customary closing conditions (such date of closing, the “Closing Date”).

The Purchase Agreement includes certain confidentiality, non-competition, non-solicitation and non-disparagement provisions applicable to the Buyer and Mr. Mayer for a period beginning on the Closing Date and ending on the later of (i) the term of the Supply Agreement (as defined below) and (ii) the term of the Consulting Agreement (as defined below), and, in certain circumstances, may be the later of (i) the fourth anniversary of the Closing Date, (ii) the term of the Supply Agreement and (iii) the term of the Consulting Agreement. Additionally, pursuant to the Purchase Agreement, subject to limited exceptions, the Company has a right of first refusal with respect to any sale by the Buyer of all or substantially all of the Certain Assets for a period beginning on the Closing Date and ending on the later of (i) the eighth anniversary of the Closing Date and (ii) the term of the Supply Agreement. The Purchase Agreement includes other customary representations, warranties and covenants regarding the Sellers and the Buyer.

At the Closing, the Buyer and Hydrofarm will enter into an exclusive supply agreement, pursuant to which the Buyer will continue to supply substantially all of the products historically made in the Company’s manufacturing facility, including horticulture benches, racking and LED lighting systems, to the Sellers for an initial term of five years (the “Supply Agreement”).

In addition, at the Closing the Company and Mr. Mayer will enter into a Consulting Agreement, pursuant to which Mr. Mayer will provide consulting services to the Company for a five-year period (the “Consulting Agreement”). Such consulting services shall relate to sales and business development efforts. In connection with the Consulting Agreement, Mr. Mayer will resign from his position at the Company.

Pursuant to the Term Loan, the Company is required to either reinvest the net proceeds from the Asset Sale into certain permitted investments, such as capital expenditures, or offer to prepay Term Loan principal. In connection with the Asset Sale, the Company intends to pay in full and terminate a facility operating lease for approximately \$1.3 million and certain finance leases for approximately \$0.7 million.

The foregoing descriptions of the Purchase Agreement do not purport to be complete and are qualified in their entirety by reference to the Purchase Agreement, which will be filed as an exhibit to the Company’s quarterly report on Form 10-Q for the period ending June 30, 2024.

ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit	Description
10.1*+	Form of Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan Stock Option Grant Notice.
10.2*+	Form of Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan Restricted Stock Unit Grant Notice.
10.3*+	Form of Hydrofarm Holdings Group, Inc. 2020 Equity Incentive Plan Performance Stock Unit Grant Notice.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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.
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.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document.
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Filed herewith.

+ Denotes management contract or compensatory plan or arrangement.

The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Company for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Hydrofarm Holdings Group, Inc.

Date: May 14, 2024

/s/ William Toler

William Toler
Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2024

/s/ B. John Lindeman

B. John Lindeman
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

Option No. _____

HYDROFARM HOLDINGS GROUP, INC.

Stock Option Grant Notice

Stock Option Grant under the Company's
2020 Employee, Director and Consultant Equity Incentive Plan

1. Name and address of participant:
2. Grant date:
3. Type of grant:
4. Maximum number of shares for which this option is exercisable:
5. Exercise (purchase) price per share:
6. Option expiration date:
7. Vesting start date:
8. Vesting schedule: this option shall become exercisable (and the shares issued upon exercise shall be vested) as follows provided the Participant is an Employee, director or consultant of the Company or of an Affiliate on the applicable vesting date:

[Insert Vesting Schedule]

The foregoing rights are cumulative and are subject to the other terms and conditions of this Stock Option Grant Notice and the Plan.

The Company and the Participant acknowledge receipt of this Stock Option Grant Notice and agree to the terms of the Stock Option Agreement attached hereto and incorporated by reference herein, the Company's 2020 Employee, Director and Consultant Equity Incentive Plan and the terms of this Option Grant as set forth above.

HYDROFARM HOLDINGS GROUP, INC.

By:

Name:

Title:

Participant:

HYDROFARM HOLDINGS GROUP, INC.

STOCK OPTION AGREEMENT - INCORPORATED TERMS AND CONDITIONS

AGREEMENT (this "Agreement") made as of the date of grant set forth in the Stock Option Grant Notice by and between Hydrofarm Holdings Group, Inc. (the "Company"), a Delaware corporation, and the individual whose name appears on the Stock Option Grant Notice (the "Participant").

WHEREAS, the Company desires to grant to the Participant an Option to purchase shares of its common stock, \$0.0001 par value per share (the "Shares"), under and for the purposes set forth in the Company's 2020 Employee, Director and Consultant Equity Incentive Plan (the "Plan");

WHEREAS, the Company and the Participant understand and agree that any terms used and not defined herein have the same meanings as in the Plan; and

WHEREAS, the Company and the Participant each intend that the Option granted herein shall be of the type set forth in the Stock Option Grant Notice.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties hereto agree as follows:

1. **GRANT OF OPTION.** The Company hereby grants to the Participant the right and option to purchase all or any part of an aggregate of the number of Shares set forth in the Stock Option Grant Notice, on the terms and conditions and subject to all the limitations set forth herein, under United States securities and tax laws, and in the Plan, which is incorporated herein by reference. The Participant acknowledges receipt of a copy of the Plan.

2. **EXERCISE PRICE.** The exercise price of the Shares covered by the Option shall be the amount per Share set forth in the Stock Option Grant Notice, subject to adjustment, as provided in the Plan, in the event of a stock split, reverse stock split or other events affecting the holders of Shares after the date hereof (the "Exercise Price"). Payment shall be made in accordance with Paragraph 10 of the Plan.

3. **EXERCISABILITY OF OPTION.** Subject to the terms and conditions set forth in this Agreement and the Plan, the Option granted hereby shall become vested and exercisable as set forth in the Stock Option Grant Notice and is subject to the other terms and conditions of this Agreement and the Plan.

4. **TERM OF OPTION.** This Option shall terminate on the Option Expiration Date as specified in the Stock Option Grant Notice and, if this Option is designated in the Stock Option Grant Notice as an ISO and the Participant owns as of the date hereof more than 10% of the total combined voting power of all classes of capital stock of the Company or an Affiliate, such date may not be more than five years from the date of this Agreement, but shall be subject to earlier termination as provided herein or in the Plan.

If the Participant ceases to be an Employee, director or Consultant of the Company or of an Affiliate for any reason other than the death or Disability of the Participant, or termination of the Participant for Cause (the "Termination Date"), the Option to the extent then vested and exercisable pursuant to Section 3 hereof as of the Termination Date, and not previously terminated in accordance with this Agreement, may be exercised within three months after the Termination Date, or on or prior to the Option Expiration Date as specified in the Stock Option Grant Notice, whichever is earlier, but may not be exercised thereafter except as set forth below. In such event, the unvested portion of the Option shall not be exercisable and shall expire and be cancelled on the Termination Date.

If this Option is designated in the Stock Option Grant Notice as an ISO and the Participant ceases to be an Employee of the Company or of an Affiliate but continues after termination of employment to provide service to the Company or an Affiliate as a director or Consultant, this Option shall continue to vest in accordance with Section 3 above as if this Option had not terminated until the Participant is no longer providing services to the Company. In such case, this Option shall automatically convert and be deemed a Non-Qualified Option as of the date that is three months from termination of the Participant's employment and this Option shall continue on the same terms and conditions set forth herein until such Participant is no longer providing service to the Company or an Affiliate.

Notwithstanding the foregoing, in the event of the Participant's Disability or death within three months after the Termination Date, the Participant or the Participant's Survivors may exercise the Option within one year after the Termination Date, but in no event after the Option Expiration Date as specified in the Stock Option Grant Notice.

In the event the Participant's service is terminated by the Company or an Affiliate for Cause, the Participant's right to exercise any unexercised portion of this Option even if vested shall cease immediately as of the time the Participant is notified his or her service is terminated for Cause, and this Option shall thereupon terminate. Notwithstanding anything herein to the contrary, if subsequent to the Participant's termination, but prior to the exercise of the Option, the Administrator determines that, either prior or subsequent to the Participant's termination, the Participant engaged in conduct which would constitute Cause, then the Participant shall immediately cease to have any right to exercise the Option and this Option shall thereupon terminate.

In the event of the Disability of the Participant, as determined in accordance with the Plan, the Option shall be exercisable within one year after the Participant's termination of service due to Disability or, if earlier, on or prior to the Option Expiration Date as specified in the Stock Option Grant Notice. In such event, the Option shall be exercisable:

- (a) to the extent that the Option has become exercisable but has not been exercised as of the date of the Participant's termination of service due to Disability; and
- (b) in the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of the Participant's termination of service due to Disability of any additional vesting rights that would have accrued on the next vesting date had the Participant not become Disabled. The proration shall be based upon the number of days accrued in the current vesting period prior to the date of the Participant's termination of service due to Disability.

In the event of the death of the Participant while an Employee, director or Consultant of the Company or of an Affiliate, the Option shall be exercisable by the Participant's Survivors within one year after the date of death of the Participant or, if earlier, on or prior to the Option Expiration Date as specified in the Stock Option Grant Notice. In such event, the Option shall be exercisable:

- (x) to the extent that the Option has become exercisable but has not been exercised as of the date of death; and
- (y) in the event rights to exercise the Option accrue periodically, to the extent of a pro rata portion through the date of death of any additional vesting rights that would have accrued on the next vesting date had the Participant not died. The proration shall be based upon the number of days accrued in the current vesting period prior to the Participant's date of death.

5. **METHOD OF EXERCISING OPTION.** Subject to the terms and conditions of this Agreement, the Option may be exercised by written notice to the Company or its designee, in substantially the form of Exhibit A attached hereto (or in such other form acceptable to the Company, which may include electronic notice). Such notice shall state the number of Shares with respect to which the Option is being exercised and shall be signed by the person exercising the Option (which signature may be provided electronically in a form acceptable to the Company). Payment of the Exercise Price for such Shares shall be made in accordance with Paragraph 10 of the Plan. The Company shall deliver such Shares as soon as practicable after the notice shall be received, provided, however, that the Company may delay issuance of such Shares until completion of any action or obtaining of any consent, which the Company deems necessary under any applicable law (including, without limitation, state securities or “blue sky” laws). The Shares as to which the Option shall have been so exercised shall be registered in the Company’s share register in the name of the person so exercising the Option (or, if the Option shall be exercised by the Participant and if the Participant shall so request in the notice exercising the Option, shall be registered in the Company’s share register in the name of the Participant and another person jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person exercising the Option. In the event the Option shall be exercised, pursuant to Section 4 hereof, by any person other than the Participant, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. All Shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and nonassessable.

6. **PARTIAL EXERCISE.** Exercise of this Option to the extent above stated may be made in part at any time and from time to time within the above limits, except that no fractional share shall be issued pursuant to this Option.

7. **NON-ASSIGNABILITY.** The Option shall not be transferable by the Participant otherwise than by will or by the laws of descent and distribution. If this Option is a Non-Qualified Option then it may also be transferred pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the rules thereunder. Except as provided above in this paragraph, the Option shall be exercisable, during the Participant’s lifetime, only by the Participant (or, in the event of legal incapacity or incompetency, by the Participant’s guardian or representative) and shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of the Option or of any rights granted hereunder contrary to the provisions of this Section 7, or the levy of any attachment or similar process upon the Option shall be null and void.

8. **NO RIGHTS AS STOCKHOLDER UNTIL EXERCISE.** The Participant shall have no rights as a stockholder with respect to Shares subject to this Agreement until registration of the Shares in the Company’s share register in the name of the Participant. Except as is expressly provided in the Plan with respect to certain changes in the capitalization of the Company, no adjustment shall be made for dividends or similar rights for which the record date is prior to the date of such registration.

9. **ADJUSTMENTS.** The Plan contains provisions covering the treatment of Options in a number of contingencies such as stock splits and mergers. Provisions in the Plan for adjustment with respect to stock subject to Options and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

10. **TAXES.** The Participant acknowledges and agrees that (i) any income or other taxes due from the Participant with respect to this Option or the Shares issuable pursuant to this Option shall be the Participant’s responsibility; (ii) the Participant was free to use professional advisors of his or her choice in connection with this Agreement, has received advice from his or her professional advisors in connection with this Agreement, understands its meaning and import, and is entering into this Agreement freely and without coercion or duress; (iii) the Participant has not received and is not relying upon any advice, representations or assurances made by or on behalf of the Company or any Affiliate or any employee of or counsel to the Company or any Affiliate regarding any tax or other effects or implications of the Option, the Shares or other matters contemplated by this Agreement; and (iv) neither the Administrator, the Company, its Affiliates, nor any of its officers or directors, shall be held liable for

any applicable costs, taxes, or penalties associated with the Option if, in fact, the Internal Revenue Service were to determine that the Option constitutes deferred compensation under Section 409A of the Code.

If this Option is designated in the Stock Option Grant Notice as a Non-Qualified Option or if the Option is an ISO and is converted into a Non-Qualified Option and such Non-Qualified Option is exercised, the Participant agrees that the Company may withhold from the Participant's remuneration, if any, to the extent permitted by applicable law, an amount sufficient to satisfy the federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, provided that such amount may not exceed the maximum statutory withholding rate. At the Company's discretion, the amount required to be withheld may be withheld in cash from such remuneration, or in kind from the Shares otherwise deliverable to the Participant on exercise of the Option. The Participant further agrees that, if the Company does not withhold an amount from the Participant's remuneration sufficient to satisfy the Company's income tax withholding obligation, the Participant will reimburse the Company on demand, in cash, for the amount under-withheld.

11. PURCHASE FOR INVESTMENT. Unless the offering and sale of the Shares to be issued upon the particular exercise of the Option shall have been effectively registered under the Securities Act, the Company shall be under no obligation to issue the Shares covered by such exercise unless the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act and until the following conditions have been fulfilled:

- (a) The person(s) who exercise the Option shall warrant to the Company, at the time of such exercise, that such person(s) are acquiring such Shares for their own respective accounts, for investment, and not with a view to, or for sale in connection with, the distribution of any such Shares, in which event the person(s) acquiring such Shares shall be bound by the provisions of the following legend which shall be endorsed upon any certificate(s) evidencing the Shares issued pursuant to such exercise:

“The shares represented by this certificate have been taken for investment and they may not be sold or otherwise transferred by any person, including a pledgee, unless (1) either (a) a Registration Statement with respect to such shares shall be effective under the Securities Act of 1933, as amended, or (b) the Company shall have received an opinion of counsel satisfactory to it that an exemption from registration under such Act is then available, and (2) there shall have been compliance with all applicable state securities laws;” and

- (b) If the Company so requires, the Company shall have received an opinion of its counsel that the Shares may be issued upon such particular exercise in compliance with the Securities Act without registration thereunder. Without limiting the generality of the foregoing, the Company may delay issuance of the Shares until completion of any action or obtaining of any consent, which the Company deems necessary under any applicable law (including without limitation state securities or “blue sky” laws).

12. RESTRICTIONS ON TRANSFER OF SHARES.

- (a) The Participant agrees that in the event the Company proposes to offer for sale to the public any of its equity securities and such Participant is requested by the Company and any underwriter engaged by the Company in connection with such offering to sign an agreement restricting the sale or other transfer of Shares, then it will promptly sign such agreement and will not transfer, whether in privately negotiated transactions or to the public in open market transactions or otherwise, any Shares or other securities of the Company held by him or her during such period as is determined by the Company and the underwriters, not to exceed 180 days following the closing of the offering, plus such additional period of time as may be required to comply with FINRA rules or similar rules

thereto promulgated by another regulatory authority (such period, the "Lock-Up Period"). Such agreement shall be in writing and in form and substance reasonably satisfactory to the Company and such underwriter and pursuant to customary and prevailing terms and conditions. Notwithstanding whether the Participant has signed such an agreement, the Company may impose stop-transfer instructions with respect to the Shares or other securities of the Company subject to the foregoing restrictions until the end of the Lock-Up Period.

- (b) The Participant acknowledges and agrees that neither the Company, its stockholders nor its directors and officers, has any duty or obligation to disclose to the Participant any material information regarding the business of the Company or affecting the value of the Shares before, at the time of, or following a termination of the service of the Participant by the Company, including, without limitation, any information concerning plans for the Company to make a public offering of its securities or to be acquired by or merged with or into another firm or entity.

13. NO OBLIGATION TO MAINTAIN RELATIONSHIP. The Participant acknowledges that: (i) the Company is not by the Plan or this Option obligated to continue the Participant as an employee, director or Consultant of the Company or an Affiliate; (ii) the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (iii) the grant of the Option is a one-time benefit which does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (iv) all determinations with respect to any such future grants, including, but not limited to, the times when options shall be granted, the number of shares subject to each option, the option price, and the time or times when each option shall be exercisable, will be at the sole discretion of the Company; (v) the Participant's participation in the Plan is voluntary; (vi) the value of the Option is an extraordinary item of compensation which is outside the scope of the Participant's employment or consulting contract, if any; and (vii) the Option is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments.

14. IF OPTION IS INTENDED TO BE AN ISO. If this Option is designated in the Stock Option Grant Notice as an ISO so that the Participant (or the Participant's Survivors) may qualify for the favorable tax treatment provided to holders of Options that meet the standards of Section 422 of the Code then any provision of this Agreement or the Plan which conflicts with the Code so that this Option would not be deemed an ISO is null and void and any ambiguities shall be resolved so that the Option qualifies as an ISO. The Participant should consult with the Participant's own tax advisors regarding the tax effects of the Option and the requirements necessary to obtain favorable tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements.

Notwithstanding the foregoing, to the extent that the Option is designated in the Stock Option Grant Notice as an ISO and is not deemed to be an ISO pursuant to Section 422(d) of the Code because the aggregate Fair Market Value (determined as of the Date of Option Grant) of any of the Shares with respect to which this ISO is granted becomes exercisable for the first time during any calendar year in excess of \$100,000, the portion of the Option representing such excess value shall be treated as a Non-Qualified Option and the Participant shall be deemed to have taxable income measured by the difference between the then Fair Market Value of the Shares received upon exercise and the price paid for such Shares pursuant to this Agreement.

Neither the Company nor any Affiliate shall have any liability to the Participant, or any other party, if the Option (or any part thereof) that is intended to be an ISO is not an ISO or for any action taken by the Administrator, including without limitation the conversion of an ISO to a Non-Qualified Option.

15. NOTICE TO COMPANY OF DISQUALIFYING DISPOSITION OF AN ISO. If this Option is designated in the Stock Option Grant Notice as an ISO then the Participant agrees to notify the Company in writing immediately after the Participant makes a Disqualifying Disposition of any of the Shares acquired pursuant to the exercise of the ISO. A Disqualifying Disposition is defined in Section 424(c) of the Code and includes any

disposition (including any sale) of such Shares before the later of (a) two years after the date the Participant was granted the ISO or (b) one year after the date the Participant acquired Shares by exercising the ISO, except as otherwise provided in Section 424(c) of the Code. If the Participant has died before the Shares are sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

16. NOTICES. Any notices required or permitted by the terms of this Agreement or the Plan shall be given by recognized courier service, facsimile, registered or certified mail, return receipt requested, addressed as follows:

If to the Company:

Hydrofarm Holdings Group, Inc.

Attention:

If to the Participant at the address set forth on the Stock Option Grant Notice or to such other address or addresses of which notice in the same manner has previously been given. Any such notice shall be deemed to have been given upon the earlier of receipt, one business day following delivery to a recognized courier service or three business days following mailing by registered or certified mail.

17. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of law principles thereof. For the purpose of litigating any dispute that arises under this Agreement, the parties hereby consent to exclusive jurisdiction in [State] and agree that such litigation shall be conducted in the state courts of [County], [State] or the federal courts of the United States for the District of [State].

18. BENEFIT OF AGREEMENT. Subject to the provisions of the Plan and the other provisions hereof, this Agreement shall be for the benefit of and shall be binding upon the heirs, executors, administrators, successors and assigns of the parties hereto.

19. ENTIRE AGREEMENT. This Agreement, together with the Plan, embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof (with the exception of acceleration of vesting provisions contained in any other agreement with the Company). No statement, representation, warranty, covenant or agreement not expressly set forth in this Agreement shall affect or be used to interpret, change or restrict, the express terms and provisions of this Agreement. Notwithstanding the foregoing in all events, this Agreement shall be subject to and governed by the Plan.

20. MODIFICATIONS AND AMENDMENTS. The terms and provisions of this Agreement may be modified or amended as provided in the Plan.

21. WAIVERS AND CONSENTS. Except as provided in the Plan, the terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent.

22. DATA PRIVACY. By entering into this Agreement, the Participant: (i) authorizes the Company and each Affiliate, and any agent of the Company or any Affiliate administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its Affiliates such information and data as the Company or any such Affiliate shall request in order to facilitate the grant of options and the administration of the Plan; (ii) to the extent permitted by applicable law waives any data privacy rights he or she may have with respect to

such information, and (iii) authorizes the Company and each Affiliate to store and transmit such information in electronic form for the purposes set forth in this Agreement.

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NOTICE OF EXERCISE OF STOCK OPTION

Form for Shares registered in the United States

To: Hydrofarm Holdings Group, Inc.

IMPORTANT NOTICE: This form of Notice of Exercise may only be used at such time as the Company has filed a Registration Statement with the Securities and Exchange Commission under which the issuance of the Shares for which this exercise is being made is registered and such Registration Statement remains effective.

Ladies and Gentlemen:

I hereby exercise my Stock Option to purchase _____ shares (the "Shares") of the common stock, \$0.0001 par value, of Hydrofarm Holdings Group, Inc. (the "Company"), at the exercise price of \$_____ per share, pursuant to and subject to the terms of that Stock Option Grant Notice dated _____, 202_.

I understand the nature of the investment I am making and the financial risks thereof. I am aware that it is my responsibility to have consulted with competent tax and legal advisors about the relevant national, state and local income tax and securities laws affecting the exercise of the Option and the purchase and subsequent sale of the Shares.

I am paying the option exercise price for the Shares as follows:

Please issue the Shares (check one):

to me; or

to me and _____, as joint tenants with right of survivorship,

at the following address:

My mailing address for stockholder communications, if different from the address listed above, is:

Very truly yours,

Participant Signature

Print Name

Date

HYDROFARM HOLDINGS GROUP, INC.

Restricted Stock Unit Award Grant Notice

**Restricted Stock Unit Award Grant under the Company's 2020 Employee,
Director, and Consultant Equity Incentive Plan**

1. Name of Participant:
2. Date of Grant of Restricted Stock Unit:
3. Maximum Number of Shares underlying
Restricted Stock Unit Award
4. Vesting of Award: This Restricted Stock Unit Award shall vest as follows provided the Participant is an Employee, Director or Consultant of the Company or of an Affiliate on the applicable vesting:

[Insert Vesting Schedule]

The Company and the Participant acknowledge receipt of this Restricted Stock Unit Award Grant Notice and agree to the terms of the Restricted Stock Unit Agreement attached hereto and incorporated by reference herein, the Company's 2020 Employee, Director and Consultant Equity Incentive Plan and the terms of this Restricted Stock Unit Award as set forth above.

HYDROFARM HOLDINGS GROUP, INC.

By:

Name:

Title:

Participant:

HYDROFARM HOLDINGS GROUP, INC.

**RESTRICTED STOCK UNIT AGREEMENT – INCORPORATED TERMS AND
CONDITIONS**

AGREEMENT (this “Agreement”) made as of the date of grant set forth in the Restricted Stock Unit Award Grant Notice between Hydrofarm Holdings Group, Inc. (the “Company”), a Delaware corporation, and the individual whose name appears on the Restricted Stock Unit Award Grant Notice (the “Participant”).

WHEREAS, the Company has adopted the 2020 Employee, Director and Consultant Equity Incentive Plan (the “Plan”), to promote the interests of the Company by providing an incentive for Employees, directors and Consultants of the Company and its Affiliates;

WHEREAS, pursuant to the provisions of the Plan, the Company desires to grant to the Participant restricted stock units (“RSUs”) related to the Company’s common stock, \$0.0001 par value per share (“Common Stock”), in accordance with the provisions of the Plan, all on the terms and conditions hereinafter set forth; and

WHEREAS, the Company and the Participant understand and agree that any terms used and not defined herein have the meanings ascribed to such terms in the Plan.

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

a. Grant of Award. The Company hereby grants to the Participant an award for the number of RSUs set forth in the Restricted Stock Unit Award Grant Notice (the “Award”). Each RSU represents a contingent entitlement of the Participant to receive one share of Common Stock, on the terms and conditions and subject to all the limitations set forth herein and in the Plan, which is incorporated herein by reference. The Participant acknowledges receipt of a copy of the Plan.

b. Vesting of Award.

(i) Subject to the terms and conditions set forth in this Agreement and the Plan, the Award granted hereby shall vest as set forth in the Restricted Stock Unit Award Grant Notice and is subject to the other terms and conditions of this Agreement and the Plan. On each vesting date set forth in the Restricted Stock Unit Award Grant Notice, the Participant shall be entitled to receive such number of shares of Common Stock equivalent to the number of RSUs as set forth in the Restricted Stock Unit Award Grant Notice provided that the Participant is employed or providing service to the Company or an Affiliate on such vesting date. Such shares of Common Stock shall thereafter be delivered by the Company to the Participant within five days of the applicable vesting date and in accordance with this Agreement and the Plan.

(ii) Except as otherwise set forth in this Agreement, if the Participant ceases to be employed or providing services for any reason by the Company or by an Affiliate (the

“Termination”) prior to a vesting date set forth in the Restricted Stock Unit Award Grant Notice, then as of the date on which the Participant’s employment or service terminates, all unvested RSUs shall immediately be forfeited to the Company and this Agreement shall terminate and be of no further force or effect.

c. Prohibitions on Transfer and Sale. This Award (including any additional RSUs received by the Participant as a result of stock dividends, stock splits or any other similar transaction affecting the Company’s securities without receipt of consideration) shall not be transferable by the Participant otherwise than (i) by will or by the laws of descent and distribution, or (ii) pursuant to a qualified domestic relations order as defined by the Internal Revenue Code or Title I of the Employee Retirement Income Security Act or the rules thereunder. Except as provided in the previous sentence, the shares of Common Stock to be issued pursuant to this Agreement shall be issued, during the Participant’s lifetime, only to the Participant (or, in the event of legal incapacity or incompetence, to the Participant’s guardian or representative). This Award shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of this Award or of any rights granted hereunder contrary to the provisions of this Section 3, or the levy of any attachment or similar process upon this Award shall be null and void.

d. Adjustments. The Plan contains provisions covering the treatment of RSUs and shares of Common Stock in a number of contingencies such as stock splits. Provisions in the Plan for adjustment with respect to this Award and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

e. Securities Law Compliance. The Participant specifically acknowledges and agrees that any sales of shares of Common Stock shall be made in accordance with the requirements of the Securities Act of 1933, as amended. The Company currently has an effective registration statement on file with the Securities and Exchange Commission with respect to the Common Stock to be granted hereunder. The Company intends to maintain this registration statement but has no obligation to do so. If the registration statement ceases to be effective for any reason, Participant will not be able to transfer or sell any of the shares of Common Stock issued to the Participant pursuant to this Agreement unless exemptions from registration or filings under applicable securities laws are available. Furthermore, despite registration, applicable securities laws may restrict the ability of the Participant to sell his or her Common Stock, including due to the Participant’s affiliation with the Company. The Company shall not be obligated to either issue the Common Stock or permit the resale of any shares of Common Stock if such issuance or resale would violate any applicable securities law, rule or regulation.

f. Rights as a Stockholder. The Participant shall have no right as a stockholder, including voting and dividend rights, with respect to the RSUs subject to this Agreement.

g. Incorporation of the Plan. The Participant specifically understands and agrees that the RSUs and the shares of Common Stock to be issued under the Plan will be issued to the Participant pursuant to the Plan, a copy of which Plan the Participant acknowledges he or she has

read and understands and by which Plan he or she agrees to be bound. The provisions of the Plan are incorporated herein by reference.

h. Tax Liability of the Participant and Payment of Taxes. The Participant acknowledges and agrees that any income or other taxes due from the Participant with respect to this Award or the shares of Common Stock to be issued pursuant to this Agreement or otherwise sold shall be the Participant's responsibility. Without limiting the foregoing, the Participant agrees that if under applicable law the Participant will owe taxes at each vesting date on the portion of the Award then vested the Company shall be entitled to immediate payment from the Participant of the amount of any tax or other amounts required to be withheld by the Company by applicable law or regulation. Any taxes or other amounts due shall be paid, at the option of the Administrator as follows:

(i) through reducing the number of shares of Common Stock entitled to be issued to the Participant on the applicable vesting date in an amount, to the extent permitted by applicable law, sufficient to satisfy the federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, provided that such amount may not exceed the maximum statutory withholding rate. Fractional shares will not be retained to satisfy any portion of the Company's withholding obligation. Accordingly, the Participant agrees that in the event that the amount of withholding required would result in a fraction of a share being owed, that amount will be satisfied by withholding the fractional amount from the Participant's paycheck;

(ii) requiring the Participant to deposit with the Company an amount of cash equal to the amount determined by the Company to be required to be withheld for the Participant's total tax and other withholding obligations due and payable by the Company or otherwise withholding from the Participant's paycheck an amount equal to such amounts due and payable by the Company; or

(iii) if the Company believes that the sale of shares can be made in compliance with applicable securities laws, authorizing, at a time when the Participant is not in possession of material nonpublic information, the sale by the Participant on the applicable vesting date of such number of shares of Common Stock as the Company instructs a registered broker to sell to satisfy the Company's withholding obligation, after deduction of the broker's commission, and the broker shall be required to remit to the Company the cash necessary in order for the Company to satisfy its withholding obligation. To the extent the proceeds of such sale exceed the Company's withholding obligation the Company agrees to pay such excess cash to the Participant as soon as practicable. In addition, if such sale is not sufficient to pay the Company's withholding obligation the Participant agrees to pay to the Company as soon as practicable, including through additional payroll withholding, the amount of any withholding obligation that is not satisfied by the sale of shares of Common Stock. The Participant agrees to hold the Company and the broker harmless from all costs, damages or expenses relating to any such sale. The Participant acknowledges that the Company and the broker are under no obligation to arrange for such sale at any particular price. In connection with such sale of shares of Common Stock, the Participant shall execute any such documents requested by the broker in order to effectuate the sale of shares of Common Stock and payment of the withholding obligation to the Company. The Participant

acknowledges that this paragraph is intended to comply with Section 10b5-1(c)(1)(i)(B) under the Exchange Act.

The Company shall not deliver any shares of Common Stock to the Participant until it is satisfied that all required withholdings have been made.

i. Participant Acknowledgements and Authorizations. The Participant

acknowledges the following:

- (i) The Company is not by the Plan or this Award obligated to continue the Participant as an employee, director or consultant of the Company or an Affiliate.
- (ii) The Plan is discretionary in nature and may be suspended or terminated by the Company at any time.
- (iii) The grant of this Award is considered a one-time benefit and does not create a contractual or other right to receive any other award under the Plan, benefits in lieu of awards or any other benefits in the future.
- (iv) The Plan is a voluntary program of the Company and future awards, if any, will be at the sole discretion of the Company, including, but not limited to, the timing of any grant, the amount of any award, vesting provisions and the purchase price, if any.
- (v) The value of this Award is an extraordinary item of compensation outside of the scope of the Participant's employment or consulting contract, if any. As such the Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments. The future value of the shares of Common Stock is unknown and cannot be predicted with certainty.
- (vi) The Participant (i) authorizes the Company and each Affiliate and any agent of the Company or any Affiliate administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its Affiliates such information and data as the Company or any such Affiliate shall request in order to facilitate the grant of the Award and the administration of the Plan; and (ii) authorizes the Company and each Affiliate to store and transmit such information in electronic form for the purposes set forth in this Agreement.

j. Notices. Any notices required or permitted by the terms of this Agreement or the Plan shall be given by recognized courier service, facsimile, registered or certified mail, return receipt requested, addressed as follows:

If to the Company:

Hydrofarm Holdings Group, Inc.
2225 Huntington Drive
Fairfield, CA 94533
Attn: _____

If to the Participant at the address set forth on the Restricted Stock Unit Award Grant Notice or to such other address or addresses of which notice in the same manner has previously been given. Any such notice shall be deemed to have been given on the earliest of receipt, one business day following delivery by the sender to a recognized courier service, or three business days following mailing by registered or certified mail.

k. Assignment and Successors.

(i) This Agreement is personal to the Participant and without the prior written consent of the Company shall not be assignable by the Participant otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Participant's legal representatives.

(ii) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

l. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of [___], without giving effect to the conflict of law principles thereof. For the purpose of litigating any dispute that arises under this Agreement, whether at law or in equity, the parties hereby consent to exclusive jurisdiction in the state of California and agree that such litigation shall be conducted in the state courts of the state of [___] or the federal courts of the United States for the District of [___].

m. Severability. If any provision of this Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, then such provision or provisions shall be modified to the extent necessary to make such provision valid and enforceable, and to the extent that this is impossible, then such provision shall be deemed to be excised from this Agreement, and the validity, legality and enforceability of the rest of this Agreement shall not be affected thereby.

n. Entire Agreement. This Agreement, together with the Plan, constitutes the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Agreement provided, however, in any event, this Agreement shall be subject to and governed by the Plan.

o. Modifications and Amendments; Waivers and Consents. The terms and provisions of this Agreement may be modified or amended as provided in the Plan. Except as provided in the Plan, the terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent.

p. Section 409A. The Award of RSUs evidenced by this Agreement is intended to be exempt from the nonqualified deferred compensation rules of Section 409A of the Code as a “short term deferral” (as that term is used in the final regulations and other guidance issued under Section 409A of the Code, including Treasury Regulation Section 1.409A-1(b)(4)(i)), and shall be construed accordingly.

q. Data Privacy. By entering into this Agreement, the Participant: (i) authorizes the Company and each Affiliate, and any agent of the Company or any Affiliate administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its Affiliates such information and data as the Company or any such Affiliate shall request in order to facilitate the grant of options and the administration of the Plan; (ii) to the extent permitted by applicable law waives any data privacy rights he or she may have with respect to such information, and (iii) authorizes the Company and each Affiliate to store and transmit such information in electronic form for the purposes set forth in this Agreement.

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HYDROFARM HOLDINGS GROUP, INC.

Performance Stock Unit Award Grant Notice

Performance Stock Unit Award Grant under the Company's 2020 Employee, Director, and Consultant Equity Incentive Plan

1. Name of Participant:
2. Date of Grant of Performance Stock Unit:
3. Maximum Number of Shares underlying Performance Stock Unit Award:
4. Vesting of Award: This Performance Stock Unit Award shall vest as follows provided the Participant is an Employee, Director or Consultant of the Company or of an Affiliate on the applicable vesting:

[Insert Vesting Schedule]

The Company and the Participant acknowledge receipt of this Performance Stock Unit Award Grant Notice and agree to the terms of the Performance Stock Unit Agreement attached hereto and incorporated by reference herein, the Company's 2020 Employee, Director and Consultant Equity Incentive Plan and the terms of this Performance Stock Unit Award as set forth above.

HYDROFARM HOLDINGS GROUP, INC.

By:

Name:

Title:

Participant:

HYDROFARM HOLDINGS GROUP, INC.

PERFORMANCE STOCK UNIT AGREEMENT – INCORPORATED TERMS AND

CONDITIONS

AGREEMENT (this “Agreement”) made as of the date of grant set forth in the Performance Stock Unit Award Grant Notice between Hydrofarm Holdings Group, Inc. (the “Company”), a Delaware corporation, and the individual whose name appears on the Performance Stock Unit Award Grant Notice (the “Participant”).

WHEREAS, the Company has adopted the 2020 Employee, Director and Consultant Equity Incentive Plan (the “Plan”), to promote the interests of the Company by providing an incentive for Employees, directors and Consultants of the Company and its Affiliates;

WHEREAS, pursuant to the provisions of the Plan, the Company desires to grant to the Participant Performance stock units (“PSUs”) related to the Company’s common stock, \$0.0001 par value per share (“Common Stock”), in accordance with the provisions of the Plan, all on the terms and conditions hereinafter set forth; and

WHEREAS, the Company and the Participant understand and agree that any terms used and not defined herein have the meanings ascribed to such terms in the Plan.

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Grant of Award. The Company hereby grants to the Participant an award for the number of PSUs set forth in the Performance Stock Unit Award Grant Notice (the “Award”). Each PSU represents a contingent entitlement of the Participant to receive one share of Common Stock, on the terms and conditions and subject to all the limitations set forth herein and in the Plan, which is incorporated herein by reference. The Participant acknowledges receipt of a copy of the Plan.

2. Vesting of Award.

(a) Subject to the terms and conditions set forth in this Agreement and the Plan, the Award granted hereby shall vest as set forth in the Performance Stock Unit Award Grant Notice and is subject to the other terms and conditions of this Agreement and the Plan. On each vesting date set forth in the Performance Stock Unit Award Grant Notice, the Participant shall be entitled to receive such number of shares of Common Stock equivalent to the number of PSUs as set forth in the Performance Stock Unit Award Grant Notice provided that the Participant is employed or providing service to the Company or an Affiliate on such vesting date. Such shares of Common Stock shall thereafter be delivered by the Company to the Participant within five days of the applicable vesting date and in accordance with this Agreement and the Plan.

(b) Except as otherwise set forth in this Agreement, if the Participant ceases to be employed or providing services for any reason by the Company or by an Affiliate (the “Termination”) prior to a vesting date set forth in the Performance Stock Unit Award Grant Notice, then as of the date on which the Participant’s employment or service terminates, all unvested PSUs shall immediately be forfeited to the Company and this Agreement shall terminate and be of no further force or effect.

3. Prohibitions on Transfer and Sale. This Award (including any additional PSUs received by the Participant as a result of stock dividends, stock splits or any other similar transaction affecting the Company’s securities without receipt of consideration) shall not be transferable by the Participant otherwise than (i) by will or by the laws of descent and distribution, or (ii) pursuant to a qualified domestic relations order as defined by the Internal Revenue Code or Title I of the Employee Retirement Income Security Act or the rules thereunder.

Except as provided in the previous sentence, the shares of Common Stock to be issued pursuant to this Agreement shall be issued, during the Participant's lifetime, only to the Participant (or, in the event of legal incapacity or incompetence, to the Participant's guardian or representative). This Award shall not be assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process. Any attempted transfer, assignment, pledge, hypothecation or other disposition of this Award or of any rights granted hereunder contrary to the provisions of this Section 3, or the levy of any attachment or similar process upon this Award shall be null and void.

4. Adjustments. The Plan contains provisions covering the treatment of PSUs and shares of Common Stock in a number of contingencies such as stock splits. Provisions in the Plan for adjustment with respect to this Award and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

5. Securities Law Compliance. The Participant specifically acknowledges and agrees that any sales of shares of Common Stock shall be made in accordance with the requirements of the Securities Act of 1933, as amended. The Company currently has an effective registration statement on file with the Securities and Exchange Commission with respect to the Common Stock to be granted hereunder. The Company intends to maintain this registration statement but has no obligation to do so. If the registration statement ceases to be effective for any reason, Participant will not be able to transfer or sell any of the shares of Common Stock issued to the Participant pursuant to this Agreement unless exemptions from registration or filings under applicable securities laws are available. Furthermore, despite registration, applicable securities laws may restrict the ability of the Participant to sell his or her Common Stock, including due to the Participant's affiliation with the Company. The Company shall not be obligated to either issue the Common Stock or permit the resale of any shares of Common Stock if such issuance or resale would violate any applicable securities law, rule or regulation.

6. Rights as a Stockholder. The Participant shall have no right as a stockholder, including voting and dividend rights, with respect to the PSUs subject to this Agreement.

7. Incorporation of the Plan. The Participant specifically understands and agrees that the PSUs and the shares of Common Stock to be issued under the Plan will be issued to the Participant pursuant to the Plan, a copy of which Plan the Participant acknowledges he or she has read and understands and by which Plan he or she agrees to be bound. The provisions of the Plan are incorporated herein by reference.

8. Tax Liability of the Participant and Payment of Taxes. The Participant acknowledges and agrees that any income or other taxes due from the Participant with respect to this Award or the shares of Common Stock to be issued pursuant to this Agreement or otherwise sold shall be the Participant's responsibility. Without limiting the foregoing, the Participant agrees that if under applicable law the Participant will owe taxes at each vesting date on the portion of the Award then vested the Company shall be entitled to immediate payment from the Participant of the amount of any tax or other amounts required to be withheld by the Company by applicable law or regulation. Any taxes or other amounts due shall be paid, at the option of the Administrator as follows:

(a) through reducing the number of shares of Common Stock entitled to be issued to the Participant on the applicable vesting date in an amount sufficient to satisfy the federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, provided that such amount may not exceed the maximum statutory withholding rate. Fractional shares will not be retained to satisfy any portion of the Company's withholding obligation. Accordingly, the Participant agrees that in the event that the amount of withholding required would result in a fraction of a share being owed, that amount will be satisfied by withholding the fractional amount from the Participant's paycheck;

(b) requiring the Participant to deposit with the Company an amount of cash, or otherwise, to the extent permitted by applicable law, withholding from the Participant's paycheck such amount, sufficient to satisfy the federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, provided that such amount may not exceed the maximum statutory withholding rate; or

(c) if the Company believes that the sale of shares can be made in compliance with applicable securities laws, authorizing, at a time when the Participant is not in possession of material nonpublic information, the sale by the Participant on the applicable vesting date of such number of shares of Common Stock as the Company instructs a registered broker to sell to satisfy the Company's withholding obligation, after deduction of the broker's commission, and the broker shall be required to remit to the Company the cash necessary in order for the Company to satisfy its withholding obligation. To the extent the proceeds of such sale exceed the Company's withholding obligation the Company agrees to pay such excess cash to the Participant as soon as practicable. In addition, if such sale is not sufficient to pay the Company's withholding obligation the Participant agrees to pay to the Company as soon as practicable, including through additional payroll withholding, the amount of any withholding obligation that is not satisfied by the sale of shares of Common Stock. The Participant agrees to hold the Company and the broker harmless from all costs, damages or expenses relating to any such sale. The Participant acknowledges that the Company and the broker are under no obligation to arrange for such sale at any particular price. In connection with such sale of shares of Common Stock, the Participant shall execute any such documents requested by the broker in order to effectuate the sale of shares of Common Stock and payment of the withholding obligation to the Company. The Participant acknowledges that this paragraph is intended to comply with Section 10b5-1(c)(1)(i)(B) under the Exchange Act.

The Company shall not deliver any shares of Common Stock to the Participant until it is satisfied that all required withholdings have been made.

9. Participant Acknowledgements and Authorizations.

The Participant acknowledges the following:

(a) The Company is not, by the Plan or this Award, obligated to continue the Participant as an employee, director or consultant of the Company or an Affiliate.

(b) The Plan is discretionary in nature and may be suspended or terminated by the Company at any time.

(c) The grant of this Award is considered a one-time benefit and does not create a contractual or other right to receive any other award under the Plan, benefits in lieu of awards or any other benefits in the future.

(d) The Plan is a voluntary program of the Company and future awards, if any, will be at the sole discretion of the Company, including, but not limited to, the timing of any grant, the amount of any award, vesting provisions and the purchase price, if any.

(e) The value of this Award is an extraordinary item of compensation outside of the scope of the Participant's employment or consulting contract, if any. As such the Award is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments. The future value of the shares of Common Stock is unknown and cannot be predicted with certainty.

(f) The Participant (i) authorizes the Company and each Affiliate and any agent of the Company or any Affiliate administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its Affiliates such information and data as the Company or any such Affiliate shall request in order to facilitate the grant of the Award and the administration of the Plan; and (ii) authorizes the Company and each Affiliate to store and transmit such information in electronic form for the purposes set forth in this Agreement.

10. Notices. Any notices required or permitted by the terms of this Agreement or the Plan shall be given by recognized courier service, facsimile, registered or certified mail, return receipt requested, addressed as follows:

If to the Company:

Hydrofarm Holdings Group, Inc. 2225 Huntington
Drive
Fairfield, California 94533 Attn: Shanna
Peterson

If to the Participant at the address set forth on the Performance Stock Unit Award Grant Notice or to such other address or addresses of which notice in the same manner has previously been given. Any such notice shall be deemed to have been given on the earliest of receipt, one business day following delivery by the sender to a recognized courier service, or three business days following mailing by registered or certified mail.

11. Assignment and Successors.

(a) This Agreement is personal to the Participant and without the prior written consent of the Company shall not be assignable by the Participant otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Participant's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

12. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Delaware, without giving effect to the conflict of law principles thereof. For the purpose of litigating any dispute that arises under this Agreement, whether at law or in equity, the parties hereby consent to exclusive jurisdiction in the state of [____] and agree that such litigation shall be conducted in the state courts of the state of [____] or the federal courts of the United States for the District of [____].

13. Severability. If any provision of this Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, then such provision or provisions shall be modified to the extent necessary to make such provision valid and enforceable, and to the extent that this is impossible, then such provision shall be deemed to be excised from this Agreement, and the validity, legality and enforceability of the rest of this Agreement shall not be affected thereby.

14. Entire Agreement. This Agreement, together with the Plan, constitutes the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement not expressly set forth in this Agreement shall affect or be used to interpret, change or restrict the express terms and provisions of this Agreement provided, however, in any event, this Agreement shall be subject to and governed by the Plan.

15. Modifications and Amendments; Waivers and Consents. The terms and provisions of this Agreement may be modified or amended as provided in the Plan. Except as provided in the Plan, the terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the

party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent.

16. Section 409A. The Award of PSUs evidenced by this Agreement is intended to be exempt from the nonqualified deferred compensation rules of Section 409A of the Code as a “short term deferral” (as that term is used in the final regulations and other guidance issued under Section 409A of the Code, including Treasury Regulation Section 1.409A-1(b)(4)(i)), and shall be construed accordingly.

17. Data Privacy. By entering into this Agreement, the Participant: (i) authorizes the Company and each Affiliate, and any agent of the Company or any Affiliate administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its Affiliates such information and data as the Company or any such Affiliate shall request in order to facilitate the grant of options and the administration of the Plan; (ii) to the extent permitted by applicable law waives any data privacy rights he or she may have with respect to such information, and (iii) authorizes the Company and each Affiliate to store and transmit such information in electronic form for the purposes set forth in this Agreement.

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CERTIFICATIONS UNDER SECTION 302

I, William Toler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hydrofarm Holdings Group, Inc.;
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 presented 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 13a-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 involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2024

By: /s/ William Toler
William Toler
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 302

I, B. John Lindeman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hydrofarm Holdings Group, Inc.;
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 presented 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 13a-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 involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2024

By: /s/ B. John Lindeman

B. John Lindeman

Executive Vice President & Chief Financial Officer

(Principal Financial Officer)

CERTIFICATIONS UNDER SECTION 906

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Hydrofarm Holdings Group, Inc., a Delaware corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Quarterly Report for the quarter ended March 31, 2024 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2024

/s/ William Toler

William Toler
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS UNDER SECTION 906

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Hydrofarm Holdings Group, Inc., a Delaware corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Quarterly Report for the quarter ended March 31, 2024 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 14, 2024

/s/ B. John Lindeman

B. John Lindeman

Executive Vice President & Chief Financial Officer

(Principal Financial Officer)