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 September 30, 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	**81-4895761**
(State or other jurisdiction of incorporation or organization)	(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:

Title of each class	Trading Symbol	Name of each exchange on which registered
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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 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 November 6, 2024, the registrant had 46,144,417 shares of common stock, $0.0001 par value per share, outstanding.

TABLE OF CONTENTS

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)

	September 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 24,404	$ 30,312
Accounts receivable, net	15,756	16,890
Inventories	58,221	75,354
Prepaid expenses and other current assets	4,551	5,510
Assets held for sale	470	—
Total current assets	103,402	128,066
Property, plant and equipment, net	39,770	47,360
Operating lease right-of-use assets	45,723	54,494
Intangible assets, net	255,258	275,881
Other assets	1,788	1,842
Total assets	$ 445,941	$ 507,643
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 10,169	$ 12,613
Accrued expenses and other current liabilities	9,497	9,529
Deferred revenue	2,821	3,231
Current portion of operating lease liabilities	7,689	8,336
Current portion of finance lease liabilities	455	954
Current portion of long-term debt	1,318	2,989
Total current liabilities	31,949	37,652
Long-term operating lease liabilities	40,420	47,506
Long-term finance lease liabilities	7,956	8,734
Long-term debt	114,820	115,412
Deferred tax liabilities	3,232	3,232
Other long-term liabilities	4,582	4,497
Total liabilities	202,959	217,033
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock ($0.0001 par value; 300,000,000 shares authorized; 46,078,322 and 45,789,890 shares issued and outstanding at September 30, 2024, and December 31, 2023, respectively)	5	5
Additional paid-in capital	790,012	787,846
Accumulated other comprehensive loss	(7,087)	(6,497)
Accumulated deficit	(539,948)	(490,744)
Total stockholders' equity	242,982	290,610
Total liabilities and stockholders' equity	$ 445,941	$ 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 September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net sales	$ 44,009	$ 54,168	$ 152,974	$ 179,397
Cost of goods sold	35,490	50,859	122,679	150,234
Gross profit	8,519	3,309	30,295	29,163
Operating expenses:				
Selling, general and administrative	17,556	19,543	55,836	67,442
Loss on asset disposition	—	—	11,520	—
Loss from operations	(9,037)	(16,234)	(37,061)	(38,279)
Interest expense	(3,910)	(3,963)	(11,652)	(11,423)
Other income, net	80	402	374	22
Loss before tax	(12,867)	(19,795)	(48,339)	(49,680)
Income tax (expense) benefit	(279)	(89)	(865)	82
Net loss	$ (13,146)	$ (19,884)	$ (49,204)	$ (49,598)
Net loss per share:				
Basic	$ (0.29)	$ (0.44)	$ (1.07)	$ (1.09)
Diluted	$ (0.29)	$ (0.44)	$ (1.07)	$ (1.09)
Weighted-average shares of common stock outstanding:				
Basic	46,034,799	45,607,195	45,942,827	45,429,139
Diluted	46,034,799	45,607,195	45,942,827	45,429,139

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 September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net loss	**$ (13,146)**	**$ (19,884)**	**$ (49,204)**	**$ (49,598)**
Other comprehensive loss:				
Foreign currency translation gain (loss)	**480**	**(1,686)**	**(590)**	**(146)**
Total comprehensive loss	**$ (12,666)**	**$ (21,570)**	**$ (49,794)**	**$ (49,744)**

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, June 30, 2023	45,540,217	$ 5	$ 785,893	$ (5,695)	$ (455,645)	$ 324,558
Issuance of common stock for vesting of stock awards	226,685	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(78,207)	—	(86)	—	—	(86)
Stock-based compensation expense	—	—	1,022	—	—	1,022
Net loss	—	—	—	—	(19,884)	(19,884)
Foreign currency translation loss	—	—	—	(1,686)	—	(1,686)
Balance, September 30, 2023	45,688,695	$ 5	$ 786,829	$ (7,381)	$ (475,529)	$ 303,924
Balance, June 30, 2024	45,980,321	$ 5	$ 789,373	$ (7,567)	$ (526,802)	$ 255,009
Issuance of common stock for vesting of stock awards	149,641	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	(51,640)	—	(29)	—	—	(29)
Stock-based compensation expense	—	—	668	—	—	668
Net loss	—	—	—	—	(13,146)	(13,146)
Foreign currency translation gain	—	—	—	480	—	480
Balance, September 30, 2024	46,078,322	$ 5	$ 790,012	$ (7,087)	$ (539,948)	$ 242,982

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, December 31, 2022	**45,197,249**	**$ 5**	**$ 783,042**	**$ (7,235)**	**$ (425,931)**	**$ 349,881**
Issuance of common stock for vesting of stock awards	**665,012**	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	**(173,566)**	—	**(234)**	—	—	**(234)**
Stock-based compensation expense	—	—	**4,021**	—	—	**4,021**
Net loss	—	—	—	—	**(49,598)**	**(49,598)**
Foreign currency translation loss	—	—	—	**(146)**	—	**(146)**
Balance, September 30, 2023	**45,688,695**	**$ 5**	**$ 786,829**	**$ (7,381)**	**$ (475,529)**	**$ 303,924**
Balance, December 31, 2023	**45,789,890**	**$ 5**	**$ 787,846**	**$ (6,497)**	**$ (490,744)**	**$ 290,610**
Issuance of common stock for vesting of stock awards	**446,817**	—	—	—	—	—
Shares repurchased for withholding tax on stock awards	**(158,385)**	—	**(127)**	—	—	**(127)**
Stock-based compensation expense	—	—	**2,293**	—	—	**2,293**
Net loss	—	—	—	—	**(49,204)**	**(49,204)**
Foreign currency translation loss	—	—	—	**(590)**	—	**(590)**
Balance, September 30, 2024	**46,078,322**	**$ 5**	**$ 790,012**	**$ (7,087)**	**$ (539,948)**	**$ 242,982**

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)

	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Operating activities		
Net loss	$ (49,204)	$ (49,598)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation, depletion and amortization	23,325	24,165
Provision for inventory obsolescence	1,013	1,132
Restructuring expenses	516	8,443
Stock-based compensation expense	2,293	4,021
Non-cash operating lease expense	6,311	7,718
Non-cash loss from asset disposition	11,103	—
Other	827	1,089
Changes in assets and liabilities:		
Accounts receivable	819	183
Inventories	8,854	22,566
Prepaid expenses and other current assets	790	1,174
Other assets	(113)	(164)
Accounts payable	(2,258)	(542)
Accrued expenses and other current liabilities	147	(4,419)
Deferred revenue	(411)	(87)
Lease liabilities	(7,081)	(6,972)
Other long-term liabilities	89	(80)
Net cash (used in) from operating activities	(2,980)	8,629
Investing activities		
Capital expenditures of property, plant and equipment	(2,622)	(4,056)
Cash proceeds from Asset Sale for property, plant and equipment	3,700	—
Other	383	(2)
Net cash from (used in) investing activities	1,461	(4,058)
Financing activities		
Proceeds from Sale-Leaseback Transaction	—	8,598
Borrowings under foreign revolving credit facilities	334	753
Repayments of foreign revolving credit facilities	(345)	(778)
Repayments of Term Loan	(2,890)	(938)
Payment of withholding tax related to stock awards	(127)	(234)
Finance lease principal payments	(1,259)	(757)
Net cash (used in) from financing activities	(4,287)	6,644
Effect of exchange rate changes on cash and cash equivalents	(102)	(49)
Net (decrease) increase in cash and cash equivalents	(5,908)	11,166
Cash and cash equivalents at beginning of period	30,312	21,291
Cash and cash equivalents at end of period	$ 24,404	$ 32,457
Non-cash investing and financing activities		
Right-of-use assets relinquished under operating lease obligations, net	$ (1,924)	$ (768)
Assets acquired under finance lease obligations	—	185
Capital expenditures included in accounts payable and accrued liabilities	55	31
Supplemental information		
Cash paid for interest	12,038	10,519
Cash paid (refunded) for income taxes	130	(1,039)

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, CO_2, 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 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.

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.

(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 September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
United States	$ 36,318	$ 45,683	$ 120,869	$ 142,180
Canada	8,339	9,242	34,367	38,826
Intersegment eliminations	(648)	(757)	(2,262)	(1,609)
Total consolidated net sales	$ 44,009	$ 54,168	$ 152,974	$ 179,397

	September 30, 2024	December 31, 2023
United States	$ 53,525	$ 68,270
Canada	31,968	33,584
Total property, plant and equipment, net and operating lease right-of-use assets	$ 85,493	$ 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.

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 and nine months ended September 30, 2024, the Company estimated inventory markdowns relating to restructuring charges based upon current and 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 $1,463 and $6,672 during the three and nine months ended September 30, 2024, respectively, and $1,813 and $7,099 during the three and nine months ended September 30, 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 $2,821 and $3,231 as of September 30, 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.

(dollars in thousands, except share and per share amounts)

3. RESTRUCTURING AND ASSET DISPOSITIONS

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 September 30, 2023, the Company recorded a net restructuring benefit of $243 for the first phase of the Restructuring Plan, primarily due to reversing an immaterial restructuring accrual. During the nine months ended September 30, 2023, the Company recorded net pre-tax charges of $1,956, which were primarily related to the relocation and termination of certain facilities in Canada, partially offset by the aforementioned restructuring benefit. The Company incurred $0 and $744 of non-cash charges during the three and nine months ended September 30, 2023, respectively, relating to asset dispositions and write-downs. 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. During the three and nine months ended September 30, 2023, the Company recorded pre-tax restructuring charges of $7,846 for the second phase, relating primarily to non-cash raw material inventory write-downs as the Company plan to sell these assets and reduce storage space within certain manufacturing facilities. These restructuring charges were recorded within Cost of goods sold on the condensed consolidated statements of operations, and subject to significant estimate. During the three and nine months ended September 30, 2024, the Company recorded pre-tax restructuring charges of $656 and $1,721, respectively, for the second phase, relating primarily to cash charges associated with the consolidation and closure of U.S. manufacturing facilities including termination and disposal costs associated with inventory, facilities, and headcount reductions. The non-cash charges consist of fixed asset and inventory write-downs. Of the $656 and $1,721 recorded charges, $577 and $1,558, was recorded within Cost of goods sold on the condensed consolidated statements of operations during the three and nine months ended September 30, 2024, respectively. The Company recorded $79 and $163 within SG&A expenses on the condensed consolidated statements of operations during the three and nine months ended September 30, 2024, respectively. Total costs incurred relating to this second phase of the Restructuring Plan, from its commencement in 2023 through September 30, 2024, were (i) $9,383 of non-cash charges relating primarily to inventory markdowns of durable equipment products, and (ii) $1,524 of cash charges relating primarily to the consolidation of U.S. manufacturing facilities including termination and disposal costs associated with inventory, facilities, and headcount reductions.

In total for both phases of the Restructuring Plan, the Company recorded $7,444 and $9,401 of restructuring charges within Cost of goods sold on the consolidated statements of operations for the three and nine months ended September 30, 2023, respectively. The Company also recorded $159 and $401 of restructuring charges within Selling, general and administrative ("SG&A") expenses on the consolidated statements of operations for the three and nine months ended September 30, 2023, respectively.

The following tables present the activity in accrued expenses and other current liabilities for restructuring costs related to the Restructuring Plan for the three and nine months ended September 30, 2024, respectively:

	Three Months Ended September 30, 2024
Restructuring Accruals as of June 30, 2024	**$ 309**
Expense	**453**
Cash Payments	**(607)**
Restructuring Accruals as of September 30, 2024	**$ 155**

(dollars in thousands, except share and per share amounts)

	Nine Months Ended September 30, 2024
Restructuring Accruals as of December 31, 2023	$ 187
Expense	1,205
Cash Payments	(1,237)
Restructuring Accruals as of September 30, 2024	$ 155

The following tables present the activity in accrued expenses and other current liabilities for restructuring costs related to the Restructuring Plan for the three and nine months ended September 30, 2023, respectively:

	Three Months Ended September 30, 2023	
	Phase 1	Phase 2
Restructuring Accruals as of June 30, 2023	$ 493	$ —
(Reversal) Expense	(243)	150
Cash Payments	(225)	—
Restructuring Accruals as of September 30, 2023	$ 25	$ 150

	Nine Months Ended September 30, 2023	
	Phase 1	Phase 2
Restructuring Accruals as of December 31, 2022	$ 696	$ —
Expense	1,213	150
Cash Payments	(1,884)	—
Restructuring Accruals as of September 30, 2023	$ 25	$ 150

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.

Asset Disposition

On May 10, 2024, in connection with the Company's restructuring of its durable manufacturing operations, the Company entered into an agreement (the "Purchase Agreement") with CM Fabrication, LLC (the "Buyer") to sell assets relating to the production of Innovative Growers Equipment ("IGE") durable equipment products for $8,660 (the "Asset Sale") and retain the proprietary brand and customer relationships. The Asset Sale closed on May 31, 2024, and the Company continues to sell its IGE branded durable products, including horticulture benches, racking and LED lighting systems. In connection with the transaction, the Company entered into an exclusive supply agreement with the Buyer to provide for contract manufacturing, which is expected to yield a more efficient cost model.

Assets and liabilities that were sold, disposed or terminated in connection with the Asset Sale included $11,616 of inventories, $3,721 of property, plant and equipment, technology intangible assets of $2,573, and other net liabilities of $90. The Company paid cash to terminate the facility operating lease for $1,275 and certain equipment finance leases for $668. The Company incurred an estimated $417 of transaction costs, including legal fees and other transaction-related expenses. The Company recorded a Loss on asset disposition of $11,520 on the condensed consolidated statements of operations for the nine months ended September 30, 2024, which included the aforementioned assets and liabilities derecognized, and operating and finance lease termination payments. The Company estimated the amount of cash proceeds associated with the sale of inventories as $4,960 and property, plant and equipment as $3,700, and classified the amounts within net cash from operating activities and investing activities, respectively, on the condensed consolidated statements of cash flows for the nine months ended September 30, 2024.

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

Pursuant to requirements in the Company's Revolving Credit Facility, consent was obtained from JPMorgan Chase Bank, N.A., as administrative agent to permit the Asset Sale. The Company intends to reinvest the net proceeds from the Asset Sale into certain permitted investments, such as capital expenditures, in accordance with provisions of the Term Loan.

The foregoing description of the Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement, which was filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2024.

Assets Held for Sale

During the second quarter of 2024, the Company entered into an agreement to sell approximately 20 acres of the 140 acres of excess owned land at the Goshen, New York location. The transaction is expected to close in the second half of 2024. The estimated sale price less costs to sell are consistent with the carrying value of the land, and therefore no estimated gain or loss was recorded in the three and nine months ended September 30, 2024. The $470 carrying value of the land has been reclassified from "Property, plant and equipment, net" to "Assets held for sale" on the Company's condensed consolidated balance sheet at September 30, 2024.

4. INTANGIBLE ASSETS, NET

Intangible assets, net comprised the following:

	September 30, 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	$ 9,329	$ (8,590)	$ 739	$ 9,325	$ (8,357)	$ 968
Customer relationships	99,805	(37,393)	62,412	99,805	(31,883)	67,922
Technology, formulations and recipes	110,381	(31,074)	79,307	114,181	(25,124)	89,057
Trade names and trademarks	131,493	(21,759)	109,734	131,493	(16,740)	114,753
Other	4,782	(4,517)	265	4,802	(4,422)	380
Total finite-lived intangible assets, net	355,790	(103,333)	252,457	359,606	(86,526)	273,080
Indefinite-lived intangible asset:						
Trade name	2,801	—	2,801	2,801	—	2,801
Total Intangible assets, net	$ 358,591	$ (103,333)	$ 255,258	$ 362,407	$ (86,526)	$ 275,881

Amortization expense related to intangible assets was $5,942 and $18,062 for the three and nine months ended September 30, 2024, respectively. Amortization expense related to intangible assets was $6,180 and $18,272 for the three and nine months ended September 30, 2023, respectively.

In conjunction with the Asset Sale, the Company disposed of technology intangible assets with a net book value of $2,573. Refer to Note 3 – *Restructuring and Asset Dispositions* for further details.

(dollars in thousands, except share and per share amounts)

The following are the estimated useful lives and the weighted-average amortization period remaining as of September 30, 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	9 years
Technology, formulations and recipes	8 to 12 years	9 years
Trade names and trademarks	15 to 20 years	16 years

The estimated aggregate future amortization expense for intangible assets subject to amortization as of September 30, 2024, is summarized below:

	Estimated Future Amortization Expense
For the period of October 1, 2024 to December 31, 2024	$ **5,971**
Year ending December 31,	
2025	**23,859**
2026	**23,576**
2027	**23,432**
2028	**22,710**
2029 and thereafter	**152,909**
Total	$ **252,457**

5. 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.

(dollars in thousands, except share and per share amounts)

The following table presents basic and diluted loss per common share for the three and nine months ended September 30, 2024 and 2023:

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Net loss	$ (13,146)	$ (19,884)	$ (49,204)	$ (49,598)
Weighted-average shares of common stock outstanding	46,034,799	45,607,195	45,942,827	45,429,139
Dilutive effect of warrants and share based compensation awards using the treasury stock method	—	—	—	—
Diluted weighted-average shares of common stock outstanding	46,034,799	45,607,195	45,942,827	45,429,139
Basic loss per common share	$ (0.29)	$ (0.44)	$ (1.07)	$ (1.09)
Diluted loss per common share	$ (0.29)	$ (0.44)	$ (1.07)	$ (1.09)

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 September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Shares subject to warrants outstanding	—	17,669	—	17,669
Shares subject to unvested or deferred performance and restricted stock units	3,086,823	2,310,588	3,086,823	2,310,588
Shares subject to stock options outstanding	409,017	577,961	409,017	577,961

6. ACCOUNTS RECEIVABLE, NET, AND INVENTORIES

Accounts receivable, net comprised the following:

	September 30, 2024	December 31, 2023
Trade accounts receivable	$ 15,781	$ 16,740
Allowance for doubtful accounts	(859)	(920)
Other receivables	834	1,070
Total accounts receivable, net	$ 15,756	$ 16,890

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
Beginning balance	$ (763)	$ (1,660)	$ (920)	$ (1,556)
Changes in estimates	(296)	(113)	(572)	(1,217)
Write-offs	43	68	379	240
Collections/Other	157	361	254	1,189
Ending balance	$ (859)	$ (1,344)	$ (859)	$ (1,344)

(dollars in thousands, except share and per share amounts)

Inventories comprised the following:

	September 30, 2024	December 31, 2023
Finished goods	$ 50,895	$ 58,346
Work-in-process	1,307	3,891
Raw materials	13,768	23,256
Allowance for inventory obsolescence	(7,749)	(10,139)
Total inventories	$ 58,221	$ 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.

In conjunction with the Asset Sale, the Company sold $11,616 of inventories. Refer to Note 3 – *Restructuring and Asset Dispositions* for further details.

7. 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 $2,426 and $7,787 during the three and nine months ended September 30, 2024, respectively, and $2,897 and $9,622 during the three and nine months ended September 30, 2023, respectively. These costs are included primarily within SG&A in the condensed consolidated statements of operations and do not include lease termination costs associated with the Asset Sale. Refer to Note 3 – *Restructuring and Asset Dispositions* for further details.

The Company has operating subleases and logistics agreements 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 and nine months ended September 30, 2024, the Company recorded sublease and logistics income of $931 and $2,454, respectively. For the three and nine months ended September 30, 2023, the Company recorded sublease and logistics income of $323 and $1,495, 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 accounted 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 10 – *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	September 30, 2024	December 31, 2023
Lease assets			
Operating lease assets	Operating lease right-of-use assets	$ 45,723	$ 54,494
Finance lease assets	Property, plant and equipment, net	7,467	9,315
Total lease assets		$ 53,190	$ 63,809
Lease liabilities			
Current:			
Operating leases	Current portion of operating lease liabilities	$ 7,689	$ 8,336
Finance leases	Current portion of finance lease liabilities	455	954
Noncurrent:			
Operating leases	Long-term operating lease liabilities	40,420	47,506
Finance leases	Long-term finance lease liabilities	7,956	8,734
Total lease liabilities		$ 56,520	$ 65,530

In connection with the Asset Sale, the Company paid cash to terminate a facility operating lease for $1,275 and certain equipment finance leases for $668. Refer to Note 3 – *Restructuring and Asset Dispositions* for further details.

The aggregate future minimum lease payments under long-term non-cancelable operating and finance leases with terms greater than one year as of September 30, 2024 are as follows:

	Operating	Finance
For the period of October 1, 2024 to December 31, 2024	$ 2,416	$ 218
Year ending December 31,		
2025	9,543	885
2026	8,848	851
2027	8,943	853
2028	8,387	806
2029 and thereafter	16,819	8,039
Total lease payments	54,956	11,652
Less portion representing interest	(6,847)	(3,241)
Total principal	48,109	8,411
Less current portion	(7,689)	(455)
Long-term portion	$ 40,420	$ 7,956

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

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net comprised the following:

	September 30, 2024	December 31, 2023
Machinery and equipment	$ 24,366	$ 27,417
Peat bogs and related development	12,614	12,256
Building and improvements	10,268	10,132
Land	5,646	6,114
Furniture and fixtures	4,292	4,360
Computer equipment	3,269	3,301
Leasehold improvements	3,193	5,169
Gross property, plant and equipment	63,648	68,749
Less: accumulated depreciation	(23,878)	(21,389)
Total property, plant and equipment, net	$ 39,770	$ 47,360

Depreciation, depletion and amortization expense related to property, plant and equipment, net was $1,721 and $5,262 for the three and nine months ended September 30, 2024, respectively. Depreciation, depletion and amortization expense related to property, plant and equipment, net was $1,728 and $5,893 for the three and nine months ended September 30, 2023, respectively.

As of September 30, 2024, Land, Building and improvements, Computer equipment, and Machinery and equipment contain finance leases assets, recorded at cost of $9,847, less accumulated depreciation of $2,379. 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.

In conjunction with the Asset Sale, the Company sold $3,721 of property, plant and equipment, net. Refer to Note 3 – *Restructuring and Asset Dispositions* for further details.

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 September 30, 2024, and December 31, 2023, the Company had AROs of $394 and $759, respectively, recorded in Accrued expenses and other current liabilities on the condensed consolidated balance sheets. As of September 30, 2024, and December 31, 2023, the Company had AROs of $4,535 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 that were not significant.

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

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities comprised the following:

	September 30, 2024	December 31, 2023
Accrued compensation and benefits	$ 3,183	$ 2,096
Interest accrual	56	1,214
Freight, custom and duty accrual	1,047	1,040
Goods in transit accrual	714	360
Income tax accrual	326	—
Asset retirement obligations	394	759
Other accrued liabilities	3,777	4,060
Total accrued expenses and other current liabilities	$ 9,497	$ 9,529

10. DEBT

Debt is comprised of the following:

	September 30, 2024	December 31, 2023
Term Loan - Principal	$ 119,610	$ 122,500
Term Loan - Unamortized discount and deferred financing costs	(3,623)	(4,259)
Term Loan - Net of unamortized discount and deferred financing costs	115,987	118,241
Other	151	160
Total debt	$ 116,138	$ 118,401
Current portion of long-term debt	$ 1,318	$ 2,989
Long-term debt - net of unamortized discount and deferred financing costs of $3,623 and $4,259 as of September 30, 2024, and December 31, 2023, respectively	114,820	115,412
Total debt	$ 116,138	$ 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 September 30, 2024, the effective interest rate was 11.77% and interest expense was $3,552, which includes amortization of deferred financing costs and discount of $179. For the nine months ended September 30, 2024, the effective interest rate was 11.86% and interest expense was $10,734, which includes amortization of deferred financing costs and discount of $571.

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, reduced pro-rata by any additional payments made, 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 7 – *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 pursuant to this provision as of December 31, 2023. As of September 30, 2024, the Company has satisfied this provision through a combination of payments made pursuant to the contractual commitments and an additional $300 repayment of the Term Loan. As described in Note 3 – *Restructuring and Asset Dispositions*, the Company sold assets for $8,660 in May 2024. The net cash proceeds from this transaction are subject to the same Term Loan reinvestment provision described above, including (i) cash investments made within a one-year period, and (ii) investments which are contractually committed within one-year of the Asset Sale and paid within 180 days after entering into such contractual commitment. 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 September 30, 2024, and December 31, 2023, the outstanding principal balance on the Term Loan was $119,610 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 September 30, 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. On November 1, 2024, the Company and certain of its subsidiaries entered into a sixth amendment (the “Sixth Amendment”) to the Revolving Credit Facility which reduced the maximum commitment amount under the Revolving Credit Facility to $35,000.

The unamortized debt discount and deferred financing costs were $376 and $538 as of September 30, 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 ($55,000 as of September 30, 2024), 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 fixed charge coverage ratio of 1.15x, but no such acquisitions or payments are currently contemplated. As of September 30, 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, or the CBFR. 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 September 30, 2024, and December 31, 2023, the Company had zero borrowed under the facility. As of September 30, 2024, the Company would be able to borrow approximately $17 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 $151 and $160 as of September 30, 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.

(dollars in thousands, except share and per share amounts)

Aggregate future principal payments

As of September 30, 2024, the aggregate future principal payments under long-term debt are as follows:

		Debt
For the period of October 1, 2024 to December 31, 2024	$	**371**
Year ending December 31,		
2025		**1,250**
2026		**1,250**
2027		**1,250**
2028		**115,640**
2029 and thereafter		**—**
Total	**$**	**119,761**

11. 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 September 30, 2024, there were 46,078,322 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 Agent upon the exercise of certain Investor Warrants following such call for Redemption. As of September 30, 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 September 30, 2024, and December 31, 2023, there were no outstanding placement agent warrants.

12. 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 September 30, 2024, a total of 2,015,574 shares were available for grant under the 2020 Plan.

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

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 second quarter of 2024, 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.

The following table summarizes the activity related to the Company's RSUs for the nine months ended September 30, 2024. For purposes of this table, vested RSUs represent the shares for which the service condition had been fulfilled during the nine months ended September 30, 2024:

	Number of RSUs	Weighted average grant date fair value
Balance, December 31, 2023	**1,242,210**	**$ 3.06**
Granted	**802,315**	**$ 0.78**
Vested	**(885,334)**	**$ 3.12**
Forfeited	**(1,008)**	**$ 24.61**
Balance, September 30, 2024	**1,158,183**	**$ 1.42**

As of September 30, 2024, total unamortized stock-based compensation cost related to unvested RSUs was $1,039 and the weighted-average period over which the compensation is expected to be recognized is less than one-year. For the three and nine months ended September 30, 2024, the Company recognized $405 and $1,585, respectively, of total stock-based compensation expense for RSUs. During the nine months ended September 30, 2024, 618,815 RSUs that vested were not issued due to the recipients' elections to defer the conversion into common stock. As of September 30, 2024, there were 625,172 RSUs which had vested, but were not yet issued due to the recipients' elections.

Hydrofarm Holdings Group, Inc.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
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Performance Stock Unit ("PSU") Activity

The Company granted 1,372,188 PSUs during the second quarter of 2024 that are subject to a one-year vesting requirement (based on continuous employment) and contain performance conditions based on certain performance metrics. The following table summarizes the activity related to the Company's PSUs for the nine months ended September 30, 2024:

	Number of PSUs	Weighted average grant date fair value
Balance, December 31, 2023	**921,182**	**$ 1.77**
Granted	**1,372,188**	**$ 0.99**
Vested	**(180,298)**	**$ 1.77**
Forfeited	**(809,604)**	**$ 1.70**
Balance, September 30, 2024	**1,303,468**	**$ 0.99**

During the nine months ended September 30, 2024, the PSU forfeitures were due to employee terminations and performance conditions that were not satisfied, while PSU vests were from awards granted in the prior year. The majority of the PSUs outstanding as of December 31, 2023 were forfeited during the first quarter of 2024, as a result of not meeting certain performance conditions. As of September 30, 2024, total unamortized stock-based compensation cost related to unvested PSUs was $574 and the weighted-average period over which the compensation is expected to be recognized is less than one-year. For the three and nine months ended September 30, 2024, the Company recognized $238 and $623, respectively, of total stock-based compensation expense for PSUs.

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.

There were no stock options granted or exercised during the nine months ended September 30, 2024. The following table summarizes the stock option activity for the nine months ended September 30, 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	**(161,113)**	**$ 8.92**	**$ 1.17**	
Forfeited	**(1,229)**	**$ 11.06**	**$ 9.89**	
Outstanding as of September 30, 2024	**409,017**	**$ 9.68**	**$ 2.32**	**3.98**
Options exercisable as of September 30, 2024	**398,116**	**$ 9.64**	**$ 2.12**	**3.92**
Vested and expected to vest as of September 30, 2024	**409,017**	**$ 9.68**	**$ 2.32**	**3.98**

(dollars in thousands, except share and per share amounts)

The following table summarizes the unvested stock option activity for the nine months ended September 30, 2024:

	Number	Weighted average grant date fair value
Unvested as of December 31, 2023	**16,674**	**$ 12.15**
Vested	**(4,544)**	**$ 18.21**
Forfeited	**(1,229)**	**$ 9.89**
Unvested as of September 30, 2024	**10,901**	**$ 9.89**

As of September 30, 2024, total compensation cost related to unvested options not yet recognized was $18 and the weighted-average period over which the compensation is expected to be recognized is less than one-year. For the three and nine months ended September 30, 2024, the Company recognized $25 and $85, respectively, of total stock-based compensation expense for stock options.

13. INCOME TAXES

The Company recorded income tax expense of $279 and $865 for the three and nine months ended September 30, 2024, respectively, representing an effective tax rate of (2.2)% and (1.8)%, respectively. The Company's effective tax rate for the nine months ended September 30, 2024, differs from the federal statutory rate of 21% primarily due to U.S. and foreign jurisdictions in full valuation allowance. The income tax expense for the three and nine months ended September 30, 2024, was primarily due to foreign taxes in certain jurisdictions and U.S. state taxes.

The Company recorded income tax expense of $89 for the three months ended September 30, 2023, representing an effective tax rate of (0.4)%. The Company recorded an income tax benefit of $82 for the nine months ended September 30, 2023, representing an effective income tax rate of 0.2%. The Company's effective tax rate for the nine months ended September 30, 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 and benefit for the three and nine months ended September 30, 2023, respectively, was primarily due to minor foreign tax items in certain jurisdictions.

14. 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.

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.

(dollars in thousands, except share and per share amounts)

15. FAIR VALUE MEASUREMENTS

Recurring and Nonrecurring

As described in Note 3 – *Restructuring and asset dispositions,* during the second quarter of 2024, the Company entered into an agreement to sell approximately 20 acres of the 140 acres of owned land at its Goshen, New York location. The Company measured the held-for-sale land asset at estimated fair value based on the agreement, which was considered a Level 2 fair value measurement. The land had a carrying value of $470, which was consistent with the estimated sale price less costs to sell, and therefore no estimated gain or loss was recorded in the three and nine months ended September 30, 2024. The $470 carrying value of the land has been reclassified from "Property, plant and equipment, net", to "Assets held for sale" on the Company's condensed consolidated balance sheet at September 30, 2024.

The Company did not have any other 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:

		September 30, 2024		December 31, 2023	
	Fair Value Hierarchy Level	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets					
Cash and cash equivalents	**Level 1**	**24,404**	**24,404**	**30,312**	**30,312**
Liabilities					
Finance leases	**Level 3**	**8,411**	**7,929**	**9,688**	**9,688**
Term Loan	**Level 2**	**119,610**	**95,688**	**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, which were considered Level 3 fair value measurements, were calculated as the present value of the required future cash outflows discounted at an estimated borrowing rate. 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 7 – *Leases* and Note 10 – *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.

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, CO_2, 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 and resulting in a decrease in indoor and outdoor cultivation. 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 2022, we undertook the following major initiatives in connection the first phase of our previously disclosed restructuring plan (the "Restructuring Plan"): (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 which included U.S. manufacturing facility consolidations, in particular with respect to our production of certain durable equipment products. In 2023, we recorded $9.2 million of restructuring charges for the second phase. These charges primarily related to estimated non-cash raw material inventory write-downs as we reduced our capacity and facility space, given the change in customer demand for these products. These restructuring charges were primarily recorded within Cost of goods sold on the condensed consolidated statements of operations.

In 2024, we evaluated alternatives to maximize the recovery value of our assets and the cost structure associated with manufacturing our IGE branded durable equipment products. In the second quarter of 2024, we entered into the Purchase Agreement with the Buyer to sell the inventories, and property, plant and equipment associated with our IGE branded products for approximately $8.7 million, while retaining our proprietary brand and customer relationships. In connection with the Asset Sale, we entered into an exclusive supply agreement with the Buyer, pursuant to which the Buyer provides contract manufacturing and we continue to sell our proprietary branded durable products, which include horticulture benches, racking and LED lighting systems. As a result of the Asset Sale and new contract manufacturing arrangement, we expect improved profitability on future IGE branded product sales from an anticipated decrease in fixed costs. The Asset Sale closed on May 31, 2024 and we sold or disposed of approximately $11.6 million of inventories, $3.7 million of property, plant and equipment, and technology intangible assets of $2.6 million. In connection with the Asset Sale, we terminated and paid-off the facility operating lease for $1.3 million and certain equipment finance leases for $0.7 million. We recorded a loss on asset disposition of approximately $11.5 million on the condensed consolidated statements of operations for the nine months ended September 30, 2024.

During the three and nine months ended September 30, 2024, we continued to execute further restructuring actions, including consolidation of other U.S. manufacturing facilities, and outsourcing certain distribution center locations to reduce costs and further consolidate our facility footprint. These actions resulted in restructuring charges of $0.7 million and $1.7 million for the three and nine months ended September 30, 2024, respectively, including termination and disposal costs associated with inventory, facilities and headcount reductions. After completion of the Asset Sale and the aforementioned restructuring actions, we have now consolidated our manufacturing operations into two U.S. locations and our peat moss harvesting and processing operation in Canada. We are evaluating other opportunities to sell excess owned land to supplement our cash position and potential contract manufacturing or other outsourcing arrangements. We estimate additional charges associated with completing the second phase of our Restructuring Plan may approximate $1.0 million. We anticipate the second phase of our Restructuring Plan and the related actions described above may result in annual cost savings of over $2.0 million. The amounts we will ultimately realize or disburse in connection with the Restructuring Plan could differ materially from our estimates, and we may incur additional non-cash charges in future periods depending on our ability to execute asset sales or pursue other alternatives. We may not be able to realize the full extent of our anticipated cost savings if industry conditions persist and net sales volumes worsen.

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 and nine months ended September 30, 2024 and 2023

The following table sets forth our unaudited interim condensed consolidated statements of operations for the three and nine months ended September 30, 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 September 30,					
	2024		2023		Period change	
Net sales	$ 44,009	100.0 %	$ 54,168	100.0 %	$ (10,159)	-18.8 %
Cost of goods sold	35,490	80.6 %	50,859	93.9 %	(15,369)	-30.2 %
Gross profit	8,519	19.4 %	3,309	6.1 %	5,210	157.4 %
Operating expenses:						
Selling, general and administrative	17,556	39.9 %	19,543	36.1 %	(1,987)	-10.2 %
Loss on asset disposition	—	0.0 %	—	0.0 %	—	N/A
Loss from operations	(9,037)	-20.5 %	(16,234)	-30.0 %	7,197	44.3 %
Interest expense	(3,910)	-8.9 %	(3,963)	-7.3 %	(53)	-1.3 %
Other income, net	80	0.2 %	402	0.7 %	(322)	-80.1 %
Loss before tax	(12,867)	-29.2 %	(19,795)	-36.5 %	6,928	35.0 %
Income tax expense	(279)	-0.6 %	(89)	-0.2 %	190	213.5 %
Net loss	$ (13,146)	-29.9 %	$ (19,884)	-36.7 %	$ 6,738	33.9 %

	Nine Months Ended September 30,					
	2024		2023		Period change	
Net sales	$ 152,974	100.0 %	$ 179,397	100.0 %	$ (26,423)	-14.7 %
Cost of goods sold	122,679	80.2 %	150,234	83.7 %	(27,555)	-18.3 %
Gross profit	30,295	19.8 %	29,163	16.3 %	1,132	3.9 %
Operating expenses:						
Selling, general and administrative	55,836	36.5 %	67,442	37.6 %	(11,606)	-17.2 %
Loss on asset disposition	11,520	7.5 %	—	0.0 %	11,520	N/A
Loss from operations	(37,061)	-24.2 %	(38,279)	-21.3 %	1,218	3.2 %
Interest expense	(11,652)	-7.6 %	(11,423)	-6.4 %	229	2.0 %
Other income, net	374	0.2 %	22	0.0 %	352	1,600.0 %
Loss before tax	(48,339)	-31.6 %	(49,680)	-27.7 %	1,341	2.7 %
Income tax (expense) benefit	(865)	-0.6 %	82	0.0 %	947	1,154.9 %
Net loss	$ (49,204)	-32.2 %	$ (49,598)	-27.6 %	$ 394	0.8 %

Net sales

Net sales for the three months ended September 30, 2024, were $44.0 million, a decrease of $10.2 million, or 18.8% compared to the same period in 2023. Net sales for the nine months ended September 30, 2024, were $153.0 million, a decrease of $26.4 million, or 14.7% compared to the same period in 2023.

The 18.8% decrease in net sales for the three months ended September 30, 2024, as compared to the same period in 2023, was primarily due to a 13.7% decline in volume/mix of products sold and a 4.9% decrease in price. The decrease in volume/mix of products sold was primarily related to the aforementioned oversupply in the cannabis industry. The 14.7% decrease in net sales for the nine months ended September 30, 2024, as compared to the same period in 2023, was primarily due to a 11.3% decline in volume/mix of products sold and a 3.3% 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 September 30, 2024, was $8.5 million, an increase of $5.2 million, or 157.4%, compared to the same period in 2023. Gross profit for the nine months ended September 30, 2024, was $30.3 million, an increase of $1.1 million, or 3.9%, compared to the same period in 2023. Our gross profit margin percentage increased to 19.4%

for the three months ended September 30, 2024, from 6.1% in the same period in 2023. Our gross profit margin percentage increased to 19.8% for the nine months ended September 30, 2024, from 16.3% in the same period in 2023.

Gross profit and gross profit margin for the three and nine months ended September 30, 2024, increased primarily due to $6.9 million and $7.8 million of decreases in restructuring charges, respectively, from the prior year period. Additionally, gross profit increased during the three and nine months ended September 30, 2024 due to selling a higher proportion of proprietary brand products, as well as improved productivity. These increases more than offset the impact of lower net sales.

Selling, general and administrative expenses

SG&A expenses for the three months ended September 30, 2024, were $17.6 million, a decrease of $2.0 million, or 10.2% compared to the same period in 2023. SG&A expenses for the nine months ended September 30, 2024, were $55.8 million, a decrease of $11.6 million, or 17.2% compared to the same period in 2023.

SG&A expenses decreased $2.0 million for the three months ended September 30, 2024, as 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) a $0.9 million decrease in facility costs, (ii) a $0.6 million decrease in employee compensation costs, including stock-based compensation and salaries and benefits, and (iii) a $0.4 million decrease in insurance, along with other expense reductions in multiple areas including professional fees and outside services.

The $11.6 million decrease in SG&A expenses for the nine months ended September 30, 2024, as compared to the same period in 2023, was primarily due to lower expenses in several areas, including as a result of our cost saving and restructuring initiatives: (i) a $3.6 million decrease in facility costs, (ii) a $2.5 million decrease in salaries and benefits, (iii) a $1.8 million decrease in stock-based compensation, (iv) a $1.5 million decrease in professional fees and outside services, and (v) a $1.5 million decrease in insurance costs, along with other expense reductions in multiple areas.

Loss on asset disposition

As previously described, we entered into a Purchase Agreement with CM Fabrication, LLC to sell assets relating to the production of durable equipment products for $8.7 million. The Asset Sale closed during the second quarter of 2024, and we sold or disposed of inventories and other assets. We recorded a Loss on asset disposition of $11.5 million for the nine months ended September 30, 2024. Refer to Note 3 – *Restructuring and asset dispositions* for a further description of the Asset Sale.

Interest expense

Interest expense for the three months ended September 30, 2024, was $3.9 million, which is a slight decrease from $4.0 million of interest expense recorded in the same period in the prior year. Interest expense for the nine months ended September 30, 2024, was $11.7 million, an increase of $0.2 million compared to the same period in the prior year. The decrease for the three months ended September 30, 2024 was due to lower debt outstanding due to principal repayments, partially offset by higher variable interest rates on our Term Loan. The increase during nine months ended September 30, 2024, was primarily due to higher variable interest rates on our Term Loan, partially offset by lower debt outstanding due to principal repayments.

Other income, net

Other income, net for the three months ended September 30, 2024, was $0.1 million, a decrease of $0.3 million compared to $0.4 million during the same period in the prior year. Other income, net for the nine months ended September 30, 2024, was $0.4 million, an increase of $0.4 million compared to less than $0.1 million during the same period in the prior year. Other income, net for the three and nine months ended September 30, 2024, was primarily driven by interest income and foreign currency exchange gains.

Income taxes

We recorded income tax expense of $0.3 million and $0.9 million for the three and nine months ended September 30, 2024, respectively, representing an effective tax rate of (2.2)% and (1.8)%, respectively. Our effective tax rate for the nine months ended September 30, 2024, differs from the federal statutory rate of 21% primarily due to U.S. and foreign jurisdictions in full valuation allowance. The income tax expense for the three and nine months ended September 30, 2024, was primarily due to foreign taxes in certain jurisdictions and U.S. state taxes.

We recorded income tax expense of $0.1 million for the three months ended September 30, 2023, representing an effective tax rate of (0.4)%. We recorded an income tax benefit of $0.1 million for the nine months ended September 30, 2023, representing an effective income tax rate of 0.2%. Our effective tax rate for the nine months ended September 30, 2023, 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 and benefit for the three and nine months ended September 30, 2023, respectively, was primarily due to minor foreign tax items in certain jurisdictions.

Liquidity and Capital Resources

Cash Flow from Operating, Investing, and Financing Activities

Comparison of the nine months ended September 30, 2024, and September 30, 2023

The following table summarizes our cash flows for the nine months ended September 30, 2024, and 2023 (amounts in thousands):

	Nine months ended September 30,	
	2024	2023
Net cash (used in) from operating activities	$ (2,980)	$ 8,629
Net cash from (used in) investing activities	1,461	(4,058)
Net cash (used in) from financing activities	(4,287)	6,644
Effect of exchange rate changes on cash and cash equivalents	(102)	(49)
Net (decrease) increase in cash and cash equivalents	(5,908)	11,166
Cash and cash equivalents at beginning of period	30,312	21,291
Cash and cash equivalents at end of period	$ 24,404	$ 32,457

Operating Activities

Net cash used in operating activities was $3.0 million for the nine months ended September 30, 2024. The net cash usage was primarily due to a $0.8 million net cash inflow from a reduction in working capital, offset by a net loss of $49.2 million, less net non-cash items of $45.4 million. The $0.8 million net reduction in working capital was primarily comprised of a $8.9 million decrease of inventories, a $0.8 million decrease in accounts receivable, and a $0.8 million decrease of prepaid expenses and other current assets, partially offset by a $7.1 million decrease of lease liabilities and a $2.3 million decrease in accounts payable. As described in Note 3 – *Restructuring and asset dispositions,* in connection with the Asset Sale, we estimated the amount of cash proceeds associated with the sale of inventories as $5.0 million and classified the amount within net cash from operating activities. In addition, the Company paid cash of $1.3 million to terminate the facility operating lease in connection with the Asset Sale.

Net cash from operating activities was $8.6 million for the nine months ended September 30, 2023, driven by positive cash from operating activities in the second and third quarters. The net cash from operating activities was primarily due to a $11.7 million net cash inflow from a reduction in working capital, partially offset by a reported net loss of $49.6 million less non-cash items of $46.6 million. The net reduction in working capital was primarily driven by decreases of inventories of $22.6 million and prepaid expenses and other current assets of $1.2 million, partially offset by decreases of $7.0 million of lease liabilities and $4.4 million of accrued expenses and other current liabilities.

Investing Activities

Net cash from investing activities was $1.5 million for the nine months ended September 30, 2024, and net cash used in investing activities was $4.1 million for the nine months ended September 30, 2023. We received cash proceeds from the Asset Sale associated with the sale of property, plant and equipment of $3.7 million during the second quarter of 2024, along with other cash from investing activities of $0.4 million. These cash proceeds were partially offset by $2.6 million of capital expenditures of property, plant and equipment. The net cash used in investing activities for the nine months ended September 30, 2023, was primarily due to capital expenditures of property, plant and equipment. The capital expenditures of property, plant and equipment in 2024 and 2023 primarily relate to investments in our peat moss harvesting operation in Canada.

Financing Activities

Net cash used in financing activities was $4.3 million for the nine months ended September 30, 2024, primarily driven by (i) $2.9 million of Term Loan repayments relating to required quarterly payments of principal and prepayments made in conjunction with the Sale-Leaseback Transaction, and (ii) finance lease principal payments of $1.3 million which included approximately $0.7 million relating to equipment finance lease payments made in connection with the Asset Sale.

Net cash from financing activities was $6.6 million for the nine months ended September 30, 2023, primarily driven by $8.6 million of proceeds from the Sale-Leaseback Transaction. In addition, we paid $0.9 million on the Term Loan relating to required quarterly payments of principal.

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.

As further described in Note 3 – *Restructuring and asset dispositions,* we closed on an Asset Sale and received gross proceeds of $8.7 million during the three months ended June 30, 2024. In accordance with the Company's Term Loan, the net proceeds, approximately $6.3 million, 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. The Company intends to reinvest the net proceeds from the Asset Sale into certain permitted investments, such as capital expenditures, in accordance with provisions of the Term Loan.

If necessary, we believe that we could supplement our cash position through additional sale-leasebacks, asset sales and equity financing. During the second quarter of 2024, we entered into an agreement to sell a portion of the excess owned land at our Goshen, New York location, and are evaluating other opportunities to sell excess owned land to supplement our cash position. 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 make mandatory prepayments.

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 filling 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 7 – *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. As of September 30, 2024, we have satisfied this provision through a combination of payments made pursuant to the contractual commitments and an additional $0.3 million repayment of the Term Loan. 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 September 30, 2024, and December 31, 2023, the outstanding principal balance on the Term Loan was $119.6 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 September 30, 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. On November 1, 2024, the Company and certain of its subsidiaries entered into the Sixth Amendment to the Revolving Credit Facility pursuant to which the maximum commitment amount was reduced to $35 million.

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, or the CBFR. 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 ($55 million as of September 30, 2024) 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 September 30, 2024. As of September 30, 2024, approximately $17 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 September 30, 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 consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Cash and Cash Equivalents

The cash and cash equivalents balances of $24.4 million and $30.3 million at September 30, 2024, and December 31, 2023, respectively, included $11.2 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 10 – *Debt*, Note 7 – *Leases*, and Note 14 – *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 September 30, 2024, we had $119.6 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 10 – *Debt* for details relating to the debt. If the rates were to increase by 100 basis points from the rates in effect as of September 30, 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:

We are not currently in compliance with the continued listing requirements for Nasdaq. If the price of our common stock continues to trade below $1.00 per share for a sustained period or we do not meet other continued listing requirements, our common stock may be delisted from the Nasdaq Capital Market, which could affect the market price and liquidity for our common stock and reduce our ability to raise additional capital.

On March 14, 2024, we received written notice (the “Notification Letter”) from The Nasdaq Stock Market LLC (“Nasdaq”) notifying us that the Company was not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(a)(2) requires listed securities maintain a minimum closing bid price of $1.00 per share, and Nasdaq Listing Rule 5810(c)(3)(A) provides that a failure to meet the minimum closing bid price requirement exists if the deficiency continues for a period of 30 consecutive business days. Based on the closing bid price of the Company’s common stock for the 30 consecutive business days prior to the date of the Notification Letter, the Company did not meet the minimum closing bid price requirement. To regain compliance, the closing bid price of the Company’s common stock must be at least $1.00 per share for a minimum of 10 consecutive business days at any time prior to September 10, 2024.

On August 9, 2024, the Company submitted a request to Nasdaq for a 180-day extension to regain compliance with the Minimum Bid Price Requirement. The Company indicated to Nasdaq that it met the continued listing requirement for market value of publicly-held shares and all other initial listing standards for the Nasdaq Capital Market, with the exception of the Minimum Bid Price Requirement, and provided notice of its intention to cure the deficiency during the extended compliance period by effecting a reverse stock split, if necessary. On June 6, 2024, the Company’s stockholders approved an amendment to the Company’s certificate of incorporation to effect a reverse stock split of the Company’s issued and outstanding common stock at a ratio between 1-for-1.1 and 1-for-25, with the decision of whether to implement such split being subject to the discretion of the Company’s Board of Directors.

On September 12, 2024, Nasdaq notified the Company that it had approved the Company’s application to transfer its listing from Nasdaq’s Global Select Market tier to the Capital Market tier. This transfer was effective at the opening of business on Friday, September 13, 2024. Nasdaq also approved an additional 180-day extension to March 10, 2025 to regain compliance with the Minimum Bid Price Requirement, in accordance with Nasdaq Listing Rule 5810(c)(3)(A). We continue to monitor the closing bid price of our common stock and consider our available options to resolve our noncompliance with the Minimum Bid Price Requirement. There can be no assurance that we will be able to regain compliance with the Minimum Bid Price Requirement or we will otherwise be in compliance with other Nasdaq listing criteria. If we fail to regain compliance with the Minimum Bid Price Requirement or to meet the other applicable continued listing requirements for the Nasdaq Capital Market in the future, our common stock may be delisted from Nasdaq.

Delisting from Nasdaq could adversely affect our ability to raise additional financing through the public or private sale of equity securities, would significantly affect the ability of investors to trade our securities and would negatively affect the value and liquidity of our common stock. Delisting could also have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities. If our common stock is delisted by Nasdaq, the price of our common stock may decline and our common stock may be eligible to trade on the OTC Bulletin Board, another over-the-counter quotation system, or on the pink sheets where an investor may find it more difficult to dispose of their common stock or obtain accurate quotations as to the market value of our common stock. Further, if we are delisted, we would incur additional costs under requirements of state “blue sky” laws in connection with any sales of our securities. These requirements could severely limit the market liquidity of our common stock and the ability of our stockholders to sell our common stock in the secondary market.

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 November 1, 2024, Hydrofarm Holdings Group, Inc. and certain of its subsidiaries entered into the "Sixth Amendment" to 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 Sixth Amendment reduced the maximum commitment amount under the Revolving Credit Facility from $55 million to $35 million.

As of September 30, 2024, the Company's borrowing base assets supported availability of approximately $17 million under the Revolving Credit Facility. Accordingly, the Company does not expect the maximum commitment amount reduction to have any material immediate negative impact on its overall liquidity position. Furthermore, as of November 1, 2024, the Company had no borrowings outstanding under the Revolving Credit Facility. The Sixth Amendment did not modify the existing financial covenant relating to the applicability of the Company's Fixed Charge Coverage Ratio. The Company is charged a fee of 0.40% per annum for unused borrowings under the maximum commitment amount and anticipates a reduction in these fees in future periods as a result of the commitment reduction pursuant to the Sixth Amendment.

The foregoing description of the Sixth Amendment does not purport to be complete and is qualified in its entirety by reference to the provisions of the Sixth Amendment, a copy of which is filed as Exhibit 10.5 to this Form 10-Q and is incorporated herein by reference.

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.
10.4+	Purchase Agreement, dated May 10, 2024, by and between Hydrofarm Holdings Group, Inc. and CM Fabrication, LLC.
10.5*	Sixth Amendment to Credit Agreement, dated November 1, 2024, by and among Hydrofarm Holdings Group, Inc., Hydrofarm, LLC, Field 16, LLC, Innovative Growers Equipment, Inc., Manufacturing & Supply Chain Services, Inc., Hydrofarm Investment Corp., Hydrofarm Holdings LLC, EHH Holdings, LLC, Sunblaster LLC, Hydrofarm Canada, LLC, Sunblaster Holdings ULC, Eddi's Wholesale Garden Supplies Ltd., House & Garden Holdings, LLC, Aurora International, LLC, Aurora Peat Products ULC, Greenstar Plant Products Inc., Innovative AG Installation, Inc., Innovative Racking Systems, Inc., Innovative Shipping Solutions, Inc., Innovative Growers Equipment Canada, Inc., and JPMorgan Chase Bank, N.A., as lender and administrative agent.
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).

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* Filed herewith.

\+ In accordance with Item 601(b)(10)(iv) of Regulation S-K, certain information (indicated by "***") has been excluded from this exhibit because it is both not material and private or confidential. A copy of the omitted portion will be furnished to the Securities and Exchange Commission upon request. Additionally, certain schedules and exhibits have been omitted from this filing pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished to the Securities and Exchange Commission upon request.

\# 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: November 7, 2024	/s/ William Toler
	William Toler Chief Executive Officer (Principal Executive Officer)
Date: November 7, 2024	/s/ B. John Lindeman
	B. John Lindeman Executive Vice President & Chief Financial Officer (Principal Financial Officer)

Exhibit 10.5

SIXTH AMENDMENT TO CREDIT AGREEMENT

THIS SIXTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of November 1, 2024, is entered into by and among HYDROFARM HOLDINGS GROUP, INC., a Delaware corporation ("Company"), HYDROFARM, LLC, a California limited liability company ("HYD"), FIELD 16, LLC, a Delaware limited liability company ("F16"), Innovative Growers Equipment, Inc., an Illinois corporation, ("IGE"), Manufacturing & Supply Chain Services, Inc., a Delaware corporation ("MSCSI", and together with the Company, HYD, F16, IGE, and any other Person incorporated under the laws of a jurisdiction located in the U.S. who is joined as a Borrower in accordance with the terms of the Credit Agreement referred to below is referred to hereinafter, each individually, as a "Borrower", and individually and collectively, jointly and severally, as the "Borrowers"), HYDROFARM INVESTMENT CORP., a Delaware corporation ("HIC"), HYDROFARM HOLDINGS LLC, a Delaware limited liability company ("HHL"), EHH HOLDINGS, LLC, a Delaware limited liability company ("EHH"), SUNBLASTER LLC, a Delaware limited liability company ("Sunblaster"), HYDROFARM CANADA, LLC, a Delaware limited liability company ("HCL"), SUNBLASTER HOLDINGS ULC, an unlimited liability corporation existing under the laws of the Province of British Columbia ("SUN"), EDDI'S WHOLESALE GARDEN SUPPLIES LTD., a corporation organized under the laws of the Province of British Columbia ("EDDI"), HOUSE & GARDEN HOLDINGS, LLC, a Delaware limited liability company ("H&G Holdings"), AURORA INTERNATIONAL, LLC, an Oregon limited liability company ("Aurora International"), AURORA PEAT PRODUCTS ULC, an unlimited liability corporation existing under the laws of the Province of Alberta ("APP"), GREENSTAR PLANT PRODUCTS INC., a federal corporation organized under the laws of Canada ("GPP"), Innovative AG Installation, Inc., an Illinois corporation ("Innovative AG"), Innovative Racking Systems, Inc., an Illinois corporation ("Innovative Racking"), Innovative Shipping Solutions, Inc., an Illinois corporation ("Innovative Shipping"), Innovative Growers Equipment Canada, Inc., a corporation incorporated under the laws of the Province of Ontario ("Innovative Canada" and together with HIC, HHL, EHH, Sunblaster, HCL, SUN, EDDI, H&G Holdings, Aurora International, APP, Innovative AG, Innovative Racking and Innovating Shipping, and any other Person who is joined as a Loan Guarantor in accordance with the terms of the Credit Agreement referred to below is referred to hereinafter, each individually, as a "Loan Guarantor", and individually and collectively, jointly and severally, as the "Loan Guarantors", and the Borrowers and the Loan Guarantors are collectively referred to herein as the "Loan Parties" and each individually, a "Loan Party"), the Lenders (as defined below) party hereto, and JPMORGAN CHASE BANK, N.A., in its capacity as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

RECITALS

A. Reference is hereby made to that certain Credit Agreement, dated as of March 29, 2021 (as amended by (i) that First Amendment and Joinder to Credit Agreement, dated as of August 31, 2021, (ii) that Second Amendment to Credit Agreement, dated as of October 25, 2021, (iii) that Third Amendment and Joinder to Credit Agreement dated as of August 23, 2022, (iv) that Fourth Amendment to Credit Agreement and Limited Consent and Waiver, dated as of December 22, 2022, (v) that Fifth Amendment to Credit Agreement, dated as of March 31, 2023 and (vi) as may be further amended, amended and restated, restated, supplemented, modified or otherwise in effect from time to time prior to the date hereof, the "Existing Credit Agreement"; the Existing Credit Agreement as amended by this Amendment is hereinafter referred to as the "Credit Agreement"), by and among the Borrowers, the other Loan Parties from time to time party thereto, the Administrative Agent, and the financial institutions from time to time party thereto (collectively, the "Lenders"), pursuant to which the Lenders have made certain loans and financial accommodations available to Borrowers.

B. The Loan Parties have requested that the Administrative Agent and the Lenders make certain amendments to the Credit Agreement, and the Administrative Agent and the Lenders are willing to make such amendments, subject to and pursuant to the terms and conditions set forth herein.

C. The Loan Parties are entering into this Amendment with the understanding and agreement that, except as specifically provided herein, neither the Administrative Agent's nor any Lender's rights or remedies as set forth in the Credit Agreement and the other Loan Documents are being waived or modified by the terms of this Amendment.

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

AGREEMENT

1. Defined Terms. Unless otherwise specifically defined herein, each capitalized term used herein has the meaning assigned to such term in the Credit Agreement.

2. Amendments to Existing Credit Agreement. Subject to the satisfaction in full of the conditions precedent set forth in Section 3 hereof, effective as of the Effective Date (as defined below), the Existing Credit Agreement is hereby amended as follows:

   a. The definition of "Aggregate Revolving Commitment" set forth in Section 1.01 of the Existing Credit Agreement is hereby amended and restated in its entirety to read as follows:

      " "Aggregate Revolving Commitment" means, at any time, the aggregate of the Revolving Commitments of all of the Lenders, as increased or reduced from time to time pursuant to the terms and conditions hereof. As of the Sixth Amendment Effective Date, the Aggregate Revolving Commitment is $35,000,000."

   b. The definition of "Sixth Amendment Effective Date" set forth in Section 1.01 of the Existing Credit Agreement is hereby amended and restated in its entirety to read as follows:

      " "Sixth Amendment Effective Date" means November 1, 2024."

c. The Commitment Schedule to the Credit Agreement is hereby amended and restated in its entirety by Annex A attached hereto.

3. Conditions Precedent to Effectiveness of this Amendment. This Amendment shall become effective as of the date on which each of the following conditions precedent has been satisfied in full (the "Effective Date"):

   a. Amendment. Each of the Borrowers, the other Loan Parties, the Administrative Agent and the Lenders shall have duly executed and delivered this Amendment, and the Administrative Agent shall have received a fully executed counterpart hereof.

   b. Representations and Warranties. The representations and warranties of the Loan Parties set forth herein and in the Loan Documents must be true and correct in all material respects with the same effect as though made on the date hereof (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date, and that any representation or warranty which is subject to any materiality qualifier shall be required to be true and correct in all respects).

   c. Fees and Expenses. The Lenders and the Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented (including the reasonable fees and expenses of legal counsel), on or before the Effective Date.

   d. Other Required Documentation. The Administrative Agent shall have received such other documents as the Administrative Agent, the Issuing Bank, any Lender or their respective counsel may have reasonably requested.

4. Representations and Warranties. Each Borrower and each other Loan Party represents and warrants as follows:

   a. Authority; Enforceability. The transactions contemplated by this Amendment are within each Loan Party's corporate or other organizational powers and have been duly authorized by all necessary corporate or other organizational actions and approvals and, if required, actions and approvals by equity holders. This Amendment and each other Loan Document (as amended or modified hereby) to which each Loan Party is a party has been duly executed and delivered by such Loan Party and constitutes a legal, valid and binding obligation of such Loan Party, enforceable in accordance with its terms, subject to applicable Insolvency Laws, examinership, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

b. Representations and Warranties. After giving effect to this Amendment, the representations and warranties of the Loan Parties set forth in the Loan Documents shall be true and correct in all material respects with the same effect as though made on and as of the date hereof (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date, and that any representation or warranty which is subject to any materiality qualifier shall be required to be true and correct in all respects).

c. No Default. At the time of and immediately after giving to this Amendment, no Default has occurred and is continuing.

5. Governing Law; Waiver of Jury Trial. This Amendment shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the State of New York, but giving effect to federal laws applicable to national banks. The other terms of Section 9.09 and 9.10 of the Credit Agreement shall apply hereto as if fully set forth herein, *mutatis mutandis*.

6. Counterparts; Electronic Execution. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telecopy, emailed pdf. or any other electronic means that complies with the federal Electronic Signatures in Global and National Commerce Act, state enactments of the Uniform Electronic Transactions Act, or any other relevant and applicable electronic signatures law shall be effective as delivery of a manually executed counterpart of this Amendment. Each party agrees that this Amendment may be electronically signed, and that any electronic signatures appearing on this Amendment are the same as handwritten signatures for the purposes of validity, enforceability, and admissibility. As used herein, “electronic signatures” mean any electronic sound, symbol, or process attached to or logically associated with a record and executed and adopted by a party with the intent to sign such record. Notwithstanding the foregoing, the Loan Parties shall promptly deliver original signatures of this Amendment to the Administrative Agent.

7. Reference to and Effect on the Loan Documents.
    a. Upon and after the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “hereunder”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified and amended hereby.

    b. Except as specifically set forth in this Amendment, the Credit Agreement and all other Loan Documents are and shall continue to be in full force and effect and are hereby in all respects ratified, and confirmed and shall constitute the legal, valid, binding, and enforceable obligations of the Borrowers and the other Loan Parties to Administrative Agent and the Lenders without defense, offset, claim, or contribution.

c. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power, or remedy of Administrative Agent or any Lender under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

8. Ratification. Each Borrower and each other Loan Party hereby restates, ratifies and reaffirms each and every term and condition set forth in the Credit Agreement, as amended hereby, and the Loan Documents effective as of the date hereof.

9. Release; Covenant Not to Sue.

a. Each Loan Party hereby absolutely and unconditionally releases and forever discharges Administrative Agent and each Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing (each a "Released Party"), from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which any Loan Party has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising under or related to the Loan Documents from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown. It is the intention of each Loan Party in providing this release that the same shall be effective as a bar to each and every claim, demand and cause of action specified.

b. Each Loan Party acknowledges that it may hereafter discover facts different from or in addition to those now known or believed to be true with respect to such claims, demands, or causes of action and agree that this instrument shall be and remain effective in all respects notwithstanding any such differences or additional facts. Each Loan Party understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

c. Each Loan Party, on behalf of itself and its successors, assigns, and other legal representatives, hereby absolutely, unconditionally and irrevocably, covenants and agrees with and in favor of each Released Party above that it will not sue (at law, in equity, in any regulatory proceeding or otherwise) any Released Party on the basis of any claim released, remised and discharged by Borrower pursuant to the above release. If any Loan Party or any of its successors, assigns or other legal representatives violates the foregoing covenant, each Loan Party for itself and its successors, assigns and legal representatives, agree to pay, in addition to such other damages as any Released Party may sustain as a result of such violation, all attorneys' fees and costs incurred by such Released Party as a result of such violation.

10. Estoppel. To induce Administrative Agent and Lenders to enter into this Amendment and to induce Administrative Agent and the Lenders to continue to make advances to Borrowers under the Credit Agreement, each Borrower and each other Loan Party hereby acknowledges and agrees that, as of the date hereof, there exists no Default or Event of Default and no right of offset, defense, counterclaim, or objection in favor of any Borrower or any other Loan Party as against Administrative Agent or any Lender with respect to the Obligations.

11. Integration. This Amendment, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

12. Entire Agreement. The Credit Agreement, as amended hereby, and the other Loan Documents constitute the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

13. Severability. In case any provision in this Amendment shall be invalid, illegal, or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

14. Submission of Amendment. The submission of this Amendment to the parties or their agents or attorneys for review or signature does not constitute a commitment by Administrative Agent or any Lender to waive any of their respective rights and remedies under the Loan Documents, and this Amendment shall have no binding force or effect until all of the conditions to the effectiveness of this Amendment have been satisfied as set forth herein.

[*REMAINDER OF PAGE LEFT INTENTIONALLY BLANK; SIGNATURE PAGES FOLLOW.*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWERS:
HYDROFARM HOLDINGS GROUP, INC.,
a Delaware corporation

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

HYDROFARM, LLC,
a California limited liability company

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

FIELD 16, LLC,
a Delaware limited liability company

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

BORROWERS (CONT'D):

INNOVATIVE GROWERS EQUIPMENT, INC.,
an Illinois corporation

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

MANUFACTURING & SUPPLY CHAIN SERVICES, INC.,
a Delaware corporation

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

LOAN GUARANTORS:

HYDROFARM INVESTMENT CORP.,
a Delaware corporation

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

HYDROFARM HOLDINGS LLC,
a Delaware limited liability company

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

EHH HOLDINGS, LLC,
a Delaware limited liability company

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

SUNBLASTER LLC,
a Delaware limited liability company

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

HYDROFARM CANADA, LLC,
a Delaware limited liability company

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

<u>LOAN GUARANTORS (CONT'D)</u>:

SUNBLASTER HOLDINGS ULC,
an unlimited liability corporation existing under the laws of the Province of British Columbia

By: <u>/s/ B. John Lindeman</u>
Name: B. John Lindeman
Title: Secretary

EDDI'S WHOLESALE GARDEN SUPPLIES LTD.,
a corporation organized under the laws of the province of British Columbia

By: <u>/s/ B. John Lindeman</u>
Name: B. John Lindeman
Title: Secretary

HOUSE & GARDEN HOLDINGS, LLC,
a Delaware limited liability company

By: <u>/s/ B. John Lindeman</u>
Name: B. John Lindeman
Title: Chief Financial Officer

AURORA INTERNATIONAL, LLC,
an Oregon limited liability company

By: <u>/s/ B. John Lindeman</u>
Name: B. John Lindeman
Title: Chief Financial Officer

LOAN GUARANTORS (CONT'D):

AURORA PEAT PRODUCTS ULC,
an unlimited liability corporation existing under the laws of the Province of Alberta

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Secretary

GREENSTAR PLANT PRODUCTS INC.,
a federal corporation organized under the laws of Canada

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Director

INNOVATIVE AG INSTALLATION, INC.,
an Illinois corporation

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

INNOVATIVE RACKING SYSTEMS, INC.,
an Illinois corporation

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

INNOVATIVE SHIPPING SOLUTIONS, INC.,
an Illinois corporation

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Chief Financial Officer

LOAN GUARANTORS (CONT'D):

INNOVATIVE GROWERS EQUIPMENT CANADA, INC.,
a corporation incorporated under the laws of Ontario, Canada

By: /s/ B. John Lindeman
Name: B. John Lindeman
Title: Director

JPMORGAN CHASE BANK, N.A., as a Lender, Administrative Agent, Issuing Bank and Swingline Lender

By: /s/ Hashim Kamal
Name: Hashim Kamal
Title: Authorized Signatory

JPMORGAN CHASE BANK, N.A., Toronto Branch

By: /s/ Bruce Watson
Name: Bruce Watson
Title: Authorized Officer

ANNEX A

Commitment Schedule
to
Credit Agreement

Lenders	Amount of Revolving Commitment
JPMORGAN CHASE BANK, N.A.	$35,000,000
TOTAL	**$35,000,000**

Exhibit 31.1

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: November 7, 2024

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

Exhibit 31.2

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: November 7, 2024

By: /s/ B. John Lindeman
B. John Lindeman
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 September 30, 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: November 7, 2024	/s/ William Toler
	William Toler
	Chief Executive Officer
	(Principal Executive Officer)

Exhibit 32.2

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 September 30, 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: November 7, 2024

/s/ B. John Lindeman

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