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, 2022

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 Global Select Market**

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 October 31, 2022, the registrant had 45,170,429 shares of common stock, $0.0001 par value per share, outstanding.

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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, has 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;
- 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 recent 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 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 in “Risk Factors.”

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, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 16,493	$ 26,607
Restricted cash	—	1,777
Accounts receivable, net	23,800	41,484
Inventories	137,035	189,134
Note receivable	475	622
Prepaid expenses and other current assets	8,852	9,760
Total current assets	186,655	269,384
Property, plant and equipment, net	51,224	50,473
Operating lease right-of-use assets	49,251	45,245
Goodwill	—	204,868
Intangible assets, net	306,168	314,819
Other assets	3,976	6,453
Total assets	$ 597,274	$ 891,242
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 19,044	$ 26,685
Accrued expenses and other current liabilities	12,505	33,996
Deferred revenue	7,066	18,273
Current portion of lease liabilities	8,009	7,198
Current portion of long-term debt	2,101	2,263
Total current liabilities	48,725	88,415
Long-term lease liabilities	42,710	38,595
Long-term debt	118,807	119,517
Deferred tax liabilities	—	5,631
Other long-term liabilities	4,527	3,904
Total liabilities	214,769	256,062
Commitments and contingencies (Note 13)		
Stockholders’ equity		
Common stock ($0.0001 par value; 300,000,000 shares authorized; 45,125,768 and 44,618,357 shares issued and outstanding at September 30, 2022, and December 31, 2021, respectively)	5	4
Additional paid-in capital	781,430	777,074
Accumulated other comprehensive loss	(8,267)	(1,382)
Accumulated deficit	(390,663)	(140,516)
Total stockholders’ equity	382,505	635,180
Total liabilities and stockholders’ equity	$ 597,274	$ 891,242

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,	
	2022	2021	2022	2021
Net sales	$ 74,155	$ 123,822	$ 283,040	$ 369,011
Cost of goods sold	68,291	93,833	253,231	286,209
Gross profit	5,864	29,989	29,809	82,802
Operating expenses:				
Selling, general and administrative	26,186	32,395	92,407	76,495
Impairments	—	—	192,328	—
(Loss) income from operations	(20,322)	(2,406)	(254,926)	6,307
Interest expense	(3,073)	(132)	(7,863)	(276)
Loss on debt extinguishment	—	—	—	(680)
Other income (expense), net	615	(41)	971	86
(Loss) income before tax	(22,780)	(2,579)	(261,818)	5,437
Income tax (expense) benefit	(759)	19,844	11,671	19,025
Net (loss) income	$ (23,539)	$ 17,265	$ (250,147)	$ 24,462
Net (loss) income per share:				
Basic	$ (0.52)	$ 0.39	$ (5.57)	$ 0.64
Diluted	$ (0.52)	$ 0.37	$ (5.57)	$ 0.58
Weighted-average shares of common stock outstanding:				
Basic	45,089,286	43,760,975	44,907,355	38,497,925
Diluted	45,089,286	46,288,075	44,907,355	42,494,624

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

Hydrofarm Holdings Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net (loss) income	**$ (23,539)**	**$ 17,265**	**$ (250,147)**	**$ 24,462**
Other comprehensive loss:				
Foreign currency translation loss	**(4,714)**	**(2,640)**	**(6,885)**	**(2,037)**
Total comprehensive (loss) income	**$ (28,253)**	**$ 14,625**	**$ (257,032)**	**$ 22,425**

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 Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, June 30, 2021	41,296,585	$ 4	$ 707,690	$ 1,202	$ (146,735)	$ 562,161
Common stock issued upon exercise of options	23,464	—	198	—	—	198
Issuance of common stock for vesting of restricted stock units	287,236	—	—	—	—	—
Shares repurchased for withholding tax on restricted stock units	(57,709)	—	(2,984)	—	—	(2,984)
Issuance of common stock under cashless warrant exercise	77,047	—	—	—	—	—
Issuance of common stock under investor warrant exercise	2,016,117	—	33,992	—	—	33,992
Issuance of common stock in connection with business combination	456,499	—	25,824	—	—	25,824
Stock-based compensation expense	—	—	1,226	—	—	1,226
Net income	—	—	—	—	17,265	17,265
Foreign currency translation loss	—	—	—	(2,640)	—	(2,640)
Balance, September 30, 2021	44,099,239	$ 4	$ 765,946	$ (1,438)	$ (129,470)	$ 635,042
Balance, June 30, 2022	45,011,652	$ 4	$ 779,911	$ (3,553)	$ (367,124)	$ 409,238
Issuance of common stock for vesting of restricted stock units	159,526	1	—	—	—	1
Shares repurchased for withholding tax on restricted stock units	(45,410)	—	(149)	—	—	(149)
Stock-based compensation expense	—	—	1,668	—	—	1,668
Net loss	—	—	—	—	(23,539)	(23,539)
Foreign currency translation loss	—	—	—	(4,714)	—	(4,714)
Balance, September 30, 2022	45,125,768	$ 5	$ 781,430	$ (8,267)	$ (390,663)	$ 382,505

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 Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2021	33,499,953	$ 3	$ 364,248	$ 599	$ (153,932)	$ 210,9
Common stock issued upon exercise of options	125,411	—	1,057	—	—	1,0
Issuance of common stock for vesting of restricted stock units	652,983	—	—	—	—	
Shares repurchased for withholding tax on restricted stock units	(204,369)	—	(11,805)	—	—	(11,8
Issuance of common stock under cashless warrant exercise	418,309	—	—	—	—	
Issuance of common stock under investor warrant exercise	3,367,647	—	56,779	—	—	56,7
Issuance of common stock in connection with follow-on public offering, net of offering costs of $16,303	5,526,861	1	309,781	—	—	309,7
Issuance of common stock in connection with business combination	712,444	—	42,560	—	—	42,5
Stock-based compensation expense	—	—	3,326	—	—	3,3
Net income	—	—	—	—	24,462	24,4
Foreign currency translation loss	—	—	—	(2,037)	—	(2,0
Balance, September 30, 2021	44,099,239	$ 4	$ 765,946	$ (1,438)	$ (129,470)	$ 635,0
Balance, January 1, 2022	44,618,357	$ 4	$ 777,074	$ (1,382)	$ (140,516)	$ 635,1
Common stock issued upon exercise of options	8,283	—	75	—	—	
Issuance of common stock for vesting of restricted stock units	699,704	1	—	—	—	
Shares repurchased for withholding tax on restricted stock units	(200,675)	—	(2,368)	—	—	(2,3
Issuance of common stock under cashless warrant exercise	99	—	—	—	—	
Stock-based compensation expense	—	—	6,649	—	—	6,6
Net loss	—	—	—	—	(250,147)	(250,1
Foreign currency translation loss	—	—	—	(6,885)	—	(6,8
Balance, September 30, 2022	45,125,768	$ 5	$ 781,430	$ (8,267)	$ (390,663)	$ 382,5

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,	
	2022	2021
Operating activities		
Net (loss) income	$ (250,147)	$ 24,462
Adjustments to reconcile net (loss) income to net cash from (used in) operating activities:		
Depreciation, depletion and amortization	33,215	8,638
Provision for inventory obsolescence	16,348	1,052
Stock-based compensation expense	6,649	3,326
Non-cash operating lease expense	7,275	3,678
Impairments	192,328	—
Change in fair value of contingent consideration	(1,560)	(126)
Deferred income tax benefit	(12,387)	(21,252)
Other	1,064	434
Changes in assets and liabilities:		
Accounts receivable	13,135	(1,740)
Inventories	37,146	(51,071)
Prepaid expenses and other current assets	(42)	2,350
Other assets	(76)	(2,567)
Accounts payable	(6,542)	(362)
Accrued expenses and other current liabilities	(4,462)	16,505
Deferred revenue	(10,971)	2,190
Lease liabilities	(5,328)	(3,118)
Other long-term liabilities	(155)	91
Net cash from (used in) operating activities	15,490	(17,510)
Investing activities		
Business combinations, net of cash and cash equivalents	190	(415,918)
Purchases of property, plant and equipment	(7,113)	(3,069)
Other	(463)	(420)
Net cash used in investing activities	(7,386)	(419,407)
Financing activities		
Proceeds from issuance of common stock upon follow-on public offering, net of offering costs	—	309,781
Proceeds from exercises of investor warrants	—	56,779
Payment of withholding tax related to restricted stock units	(2,381)	(17,894)
Borrowings under revolving credit facilities	773	96,970
Repayments of revolving credit facilities	(891)	(70,680)
Repayments of Term Loan	(938)	—
Payments to settle contingent consideration	(15,574)	—
Other	(469)	(509)
Net cash (used in) from financing activities	(19,480)	374,447
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(515)	(29)
Net decrease in cash, cash equivalents and restricted cash	(11,891)	(62,499)
Cash, cash equivalents and restricted cash at beginning of period	28,384	76,955
Cash, cash equivalents and restricted cash at end of period	$ 16,493	$ 14,456

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. and its subsidiaries (collectively, the “Company”) was formed in May 2017 under the laws of the state of Delaware to acquire and continue the business of Hydrofarm, LLC established in 1977. The Company is a leading independent manufacturer and distributor of controlled environment agriculture (“CEA”, principally hydroponics) equipment and supplies, including a broad portfolio of proprietary branded products. Products offered include agricultural lighting devices, indoor climate control equipment, hydroponics and 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.

Initial public offering and follow-on public offering

On December 14, 2020, the Company closed its initial public offering (“IPO”) under a registration statement effective December 9, 2020, in which it issued and sold 9,966,667 shares of its common stock, including the full exercise by the underwriters of their option to purchase 1,300,000 additional shares of common stock. The public offering price was $20.00 per share. The Company received net proceeds of $182,271 from the IPO after deducting underwriting discounts and commissions and offering expenses, of which $148 of offering expenses were paid in 2021.

On May 3, 2021, the Company closed its follow-on public offering ("follow-on offering") under a registration statement effective April 28, 2021, in which it issued and sold 5,526,861 shares of its common stock, including the full exercise by the underwriters of their option to purchase 720,894 additional shares of common stock. The public offering price was $59.00 per share. The Company received net proceeds of approximately $309,782 from the follow-on offering after deducting underwriting discounts and commissions and offering expenses.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and the requirements of the U.S. Securities and Exchange Commission (“SEC”) for interim financial reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in the opinion of management, reflect all normal and recurring adjustments which are necessary for the fair statement of the Company’s financial information. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2022, or for any other interim period or for any other future year. All intercompany balances and transactions have been eliminated in consolidation. The Company reclassified the balance within "Impairment, restructuring and other" on the condensed consolidated statements of operations for the prior period into "Selling, general and administrative expenses" to conform to the current period presentation. The Company reclassified the balance of customer deposits, totaling $18,273 as of December 31, 2021, previously reported in "accounts payable" into "deferred revenue" in the condensed consolidated balance sheet as of December 31, 2021, to conform to the current period presentation. Consistent with the reclassifications on the condensed consolidated balance sheet, the Company made corresponding reclassifications to conform with the current period presentation in the condensed consolidated statement of cash flows.

The condensed consolidated balance sheet as of December 31, 2021, has been derived from the audited consolidated financial statements of the Company, which is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 ("2021 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 2021 Annual Report.

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

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 and goodwill, estimated useful lives of long lived assets, incremental borrowing rate applied in lease accounting, valuation of stock-based compensation, recognition of deferred income taxes, recognition of liabilities related to commitments and contingencies 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.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred, liabilities incurred to the former owners of the acquiree, and the equity interests issued in exchange for control of the acquiree. Acquisition related costs are recognized in net income (loss) as incurred.

When the consideration transferred in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration is established for business acquisitions where the Company has the obligation to transfer additional assets or equity interests to the former owners if specified future events occur or conditions are met. Contingent consideration is classified as a liability when the obligation requires settlement in cash or other assets and is classified as equity when the obligation requires settlement in the Company's own equity instruments. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with a corresponding adjustment to goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. All other subsequent changes in the fair value of contingent consideration classified as a liability are included in net income (loss) in the period. Changes in the fair value of contingent consideration classified as equity are not recognized.

For a given acquisition, the Company may identify certain pre-acquisition contingencies as of the acquisition date and may extend its review and evaluation of these pre-acquisition contingencies throughout the measurement period to obtain sufficient information to assess these contingencies as part of acquisition accounting, as applicable.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquire (if any) over the net of the acquisition-date fair value amounts of the identifiable assets acquired, and the liabilities assumed.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that time. Upon conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to net income (loss).

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.

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

The business is organized as two operating segments, the U.S. 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.

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

Sales to external customers and property, plant and equipment, and operating lease right-of-use assets, net in the United States and Canada, determined by the location of the subsidiaries, were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
United States	$ 61,234	$ 104,623	$ 233,328	$ 306,651
Canada	13,605	21,268	54,444	67,364
Intersegment eliminations	(684)	(2,069)	(4,732)	(5,004)
Total consolidated net sales	$ 74,155	$ 123,822	$ 283,040	$ 369,011

	September 30, 2022	December 31, 2021
United States	$ 82,419	$ 85,167
Canada	18,056	10,551
Total property, plant and equipment, and operating lease right-of-use assets, net	$ 100,475	$ 95,718

All of the products sold by the Company are similar and classified as CEA equipment and supplies. The Company's underlying accounting records currently do not support presentation of disaggregated net sales and any attempt to report them would be impracticable.

Note receivable

In 2019, the Company executed a note receivable secured by equipment to a third-party, the terms of which were amended and restated during the first quarter of 2021. The note receivable provided for interest and installment payments to the Company, and full maturity of the note in 2024. During the first quarter of 2022 the third-party defaulted on interest payments, and the Company measured an impairment on the note receivable based on the estimated fair value of the collateral. The Company recorded impairment losses of zero and $2,636 during the three and nine months ended September 30, 2022, respectively, in "Impairments" on the condensed consolidated statements of operations. There were no impairment losses recorded in the three and nine months ended September 30, 2021. As of September 30, 2022, the note receivable carrying value was $475.

Revenue recognition

The Company follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606") 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 controlled environment agriculture 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 reported is comprised of fixed consideration and 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 $3,103 and $10,661 during the three and nine months ended September 30, 2022, respectively, and $2,242 and $5,170 during the three and nine months ended September 30, 2021, 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, are reported within deferred revenue in the condensed consolidated balance sheets, totaled $7,066 and $18,273 as of September 30, 2022, and December 31, 2021, respectively. There are no significant financing components. 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.

Intangible assets and goodwill

Definite-lived intangible assets are amortized using the straight-line method over their estimated useful lives. The Company has one trade name that is considered to have an indefinite useful life. Intangible assets with finite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill represents the excess of the acquisition price of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed in a business combination less any subsequent write-downs for impairment. Goodwill is tested for impairment on an annual basis in the fourth quarter and more frequently if indicators of potential impairment exist. Impairment testing is conducted at the reporting unit level, which is generally defined as an operating segment or one level below an operating segment (also known as a component), for which discrete financial information is available and segment management regularly reviews the operating results. The Company has determined that its reporting units for the purpose of goodwill impairment testing are the U.S. and Canada.

Goodwill impairment reviews include performing either an initial qualitative or quantitative evaluation for each of the reporting units. Several methods may be used to estimate a reporting unit's fair value, including market quotations, asset and liability fair values and other valuation techniques. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then the excess is charged to earnings as an impairment loss. Intangible assets with indefinite lives are also tested for impairment at least annually and when events or changes in circumstances indicate that, more-likely-than-not, the asset is impaired. Significant judgment is required in estimating fair values and performing goodwill and indefinite-lived intangible asset impairment tests.

Primarily due to a sustained decline in the Company's market value of common stock and market conditions, the Company identified a triggering event requiring a test for impairment as of June 30, 2022. As a result of the triggering event and subsequent testing for impairment, the Company fully impaired its Goodwill to zero as of June 30, 2022, but determined that no impairment was needed for intangible assets. During the three months ended September 30, 2022, the Company assessed whether a triggering event had occurred which would again require testing the intangible assets for impairment, however, no triggering event was identified. Refer to Note 4 - *Goodwill and Intangible Assets, Net* for additional details.

Income taxes—interim tax provision

The Company recorded income tax expense and an income tax benefit of $759 and $11,671 for the three and nine months ended September 30, 2022, respectively. The effective income tax rate for the three months ended September 30, 2022, was (3.3%). Given the Company's valuation allowances, there was no significant income tax benefit recorded from the pre-tax loss during the three months ended September 30, 2022, and the Company recorded tax expense in certain profitable jurisdictions. The Company's effective income tax rate was 4.5% for the nine months ended September 30, 2022, and differs from the federal statutory rate of 21% primarily due to the impairment of goodwill for certain 2021 acquisitions which was not deductible for U.S. tax purposes, increases in the Company's valuation allowance on U.S. deferred tax assets, and the establishment of a valuation allowance for Canadian deferred tax assets. As described in Note 4 - *Goodwill and Intangible Assets, Net*, during the three months ended June 30, 2022, the Company fully impaired the goodwill associated with all 2021 acquisitions. For the nine months ended September 30, 2022, the Company recorded discrete income tax benefits of $12,058 relating primarily to measurement period adjustments associated with 2021 acquisitions, and certain tax benefits related to goodwill impairment.

The Company recorded an income tax benefit of $19,844 and $19,025 for the three and nine months ended September 30, 2021, respectively. The Company’s effective tax rate for the nine months ended September 30, 2021, differs from the federal statutory rate of 21% primarily as a result of reducing valuation allowances on the Company's net deferred tax assets due to certain acquisitions in the prior year.

Recent accounting pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the FASB. There were no ASUs that were assessed and determined to be applicable or expected to have a material impact on the Company's condensed consolidated financial statements.

3. BUSINESS COMBINATIONS

During 2021, the Company completed five acquisitions of branded manufacturers of CEA products, resulting in a significant expansion of its portfolio of proprietary branded products and specialized manufacturing capabilities. The Company finalized the determination of its allocation of the purchase price relating to these acquisitions as of June 30, 2022.

During the first quarter of 2022, the Company evaluated and adjusted the useful lives of certain intangible assets associated with entities that were acquired during 2021. In addition, the Company determined that the preliminary allocation of assets acquired related to indefinite lived trade names have a finite useful life because the expected usefulness of the trade names is limited. As a result of these adjustments to the provisional amounts, the Company recorded $5,894 of additional amortization expense during the first quarter of 2022, which related to amortization expense that would have been recorded in the previous reporting period from the acquisition date through December 31, 2021. The intangible assets were assigned estimated useful lives as follows: (i) customer relationships: 7 to 12 years, (ii) technology, formulations and recipes: 8 to 12 years, and (iii) trade names: 15 to 20 years.

Heavy 16 Acquisition

On May 3, 2021, the Company acquired 100% of the issued and outstanding membership interests of Field 16, LLC ("Heavy 16"), a manufacturer and supplier of branded plant nutritional products. As a result of the acquisition, the Company broadened its proprietary branded offering into the plant nutrients category complementing other product offerings. The acquisition fair value of the consideration transferred for Heavy 16 was $77,367, consisting of $60,287 in cash, $16,736 of the Company's common stock and $344 contingent consideration. The fair value of the common stock issued was determined based on the closing market price of the Company's common stock on the acquisition date.

Pursuant to the purchase agreement, the Company was required to pay up to an additional $2,500 of contingent consideration based on $200 for each $1,000 above a $21,000 threshold for net sales in calendar year 2021. As a result, the Company recorded a liability for contingent consideration at its estimated fair value of $344 as of the acquisition date in the condensed consolidated balance sheets. The contingent consideration was estimated using a Black-Scholes valuation model, which utilized Level 3 inputs as defined in ASC 820 - *Fair Value Measurements*. As of December 31, 2021, contingent consideration of $200 was calculated utilizing actual net sales for the full year ended December 31, 2021, and was paid in April 2022. The amount of goodwill is fully deductible for tax purposes. The financial results of Heavy 16 are included in the U.S. operating segment since the acquisition date.

House & Garden Acquisition

On June 1, 2021, the Company acquired 100% of the issued and outstanding shares of capital stock of House & Garden, Inc. (“HG”), Humboldt Wholesale, Inc. (“HW”), Allied Imports & Logistics, Inc. (“Allied”), South Coast Horticultural Supply, Inc. (“SC” and, together with HG, HW and Allied, the “H&G Entities”), a manufacturer and distributor of plant nutrients and fertilizers to domestic and various international markets. As a result of the acquisition, the Company further broadened its proprietary branded offering into the plant nutrients category complementing other product offerings. The acquisition date fair value of the consideration transferred for the H&G Entities was $133,483 in cash. The amount of goodwill is not deductible for tax purposes. As part of the share acquisition of the H&G Entities, the Company allocated a significant value of the acquisition to identified intangible assets that are not deductible for U.S. tax purposes. Therefore, a deferred tax liability arose providing an additional source of taxable income to support the realization of pre-existing deferred tax assets. The financial results of the H&G Entities are included in the U.S. operating segment since the acquisition date.

Aurora Acquisition

On July 1, 2021, the Company acquired 100% of the issued and outstanding membership interests of Gotham Properties LLC (“Gotham Properties”), Aurora Innovations, LLC (“Aurora Innovations”), Aurora International, LLC (“Aurora International” and, together with Gotham Properties and Aurora Innovations, “Aurora”), a manufacturer of plant fertility product lines. As a result of the acquisition, the Company further broadened its proprietary branded offering into the plant nutrients and grow media category complementing other product offerings. The preliminary acquisition fair value of the consideration transferred for Aurora was $178,871, consisting of $133,962 in cash, $25,824 of the Company's common stock, $19,300 contingent consideration and $215 forgiveness of accounts payable. The fair value of the common stock issued was determined based on the closing market price of the Company's common stock on the acquisition date. The forgiveness of accounts payable represents an effective settlement of a preexisting relationship between the parties.

Pursuant to the purchase agreement, the Company was required to pay a maximum contingent consideration equal to $70,997. To the extent 2021 EBITDA of Aurora exceeded $15,556, the excess was multiplied by eleven to determine contingent consideration. As a result, the Company recorded a liability for contingent consideration at its estimated fair value of $19,300 as of the acquisition date in the condensed consolidated balance sheets. The contingent consideration was estimated using the discounted cash flow method, which estimated the incremental EBITDA based on the Company's forecasted 2021 EBITDA of Aurora as of the acquisition date, discounted to a present value as of the acquisition date using a discount rate of 15%. That measure was based on significant inputs that are not observable in the market, which utilized Level 3 inputs as defined in ASC 820 - *Fair Value Measurements.* The contingent consideration was remeasured to fair value at each reporting date until resolution with changes in fair value recognized within “Selling, general and administrative expenses” ("SG&A") in the condensed consolidated statements of operations. The contingent consideration of $15,274 was paid in July 2022 using available cash on hand. The amount of goodwill is fully deductible for tax purposes. The financial results of Aurora are included in the U.S. operating segment since the acquisition date.

Greenstar/Grotek Acquisition

On August 3, 2021, the Company acquired 100% of the issued and outstanding shares of Greenstar Plant Products Inc., (“Greenstar”), a manufacturer of horticultural products and solutions for global, domestic and commercial use. As a result of the acquisition, the Company further broadened its proprietary branded offering into the plant nutrients and grow media category complementing other product offerings. The preliminary acquisition fair value of the consideration transferred for Greenstar was $83,520, consisting of $85,121 in cash, less $1,601 forgiveness of accounts payable, net, and obligations due under a distribution agreement. The forgiveness of accounts payable, net, and obligations due under a distribution agreement represent an effective settlement of a preexisting relationship between the parties. The amount of goodwill is not deductible for U.S. tax purposes, but it is partially deductible for Canadian tax purposes. The financial results of Greenstar are included in the Canada operating segment since the acquisition date.

Innovative Growers Equipment, Inc. Acquisition

On November 1, 2021, the Company acquired 100% of the issued and outstanding shares of Innovative Growers Equipment, Inc., an Illinois corporation (“IGE”), Innovative AG Installation, Inc., an Illinois corporation (“IAG”), Innovative Racking Systems, Inc., an Illinois corporation (“IRS”), and Innovative Shipping Solutions, Inc., an Illinois corporation (“ISS” and, together with IGE, IAG, IRS, and their respective subsidiaries, the “IGE Entities”), a manufacturer of horticulture benches, racking and LED lighting systems which complement the Company’s existing lineup of high performance, proprietary branded products. The preliminary acquisition fair value of the consideration transferred for the IGE Entities was $60,902, consisting of $49,129 in cash, $11,051 of the Company's common stock, and $722 forgiveness of a contract asset. The fair value of the common stock issued was determined based on the closing market price of the Company's common stock on the acquisition date. The forgiveness of contract asset represents an effective settlement of a preexisting relationship between the parties. The amount of goodwill is not deductible for U.S. tax purposes. The financial results of the IGE Entities are included in the U.S. operating segment since the acquisition date.

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The following table sets forth the components and allocation of the purchase price for the Company's acquisition of Heavy 16, the H&G Entities, Aurora, Greenstar and the IGE Entities:

	Heavy 16	H&G Entities	Aurora	Greenstar	IGE Entities
Component of Purchase Price:					
Cash	$ 60,287	$ 133,483	$ 133,962	$ 85,121	$ 49,129
Common stock	16,736	—	25,824	—	11,051
Contingent consideration	344	—	19,300	—	—
Forgiveness of assets and liabilities	—	—	(215)	(1,601)	722
Total purchase price	$ 77,367	$ 133,483	$ 178,871	$ 83,520	$ 60,902
Acquisition-related costs	$ 3,109	$ 5,063	$ 7,358	$ 3,688	$ 2,150
Allocation of Purchase Price:					
Identifiable assets (liabilities)					
Accounts receivable	$ 510	$ 3,308	$ 6,967	$ 982	$ 2,367
Inventories	1,451	6,559	11,031	8,728	30,592
Prepaid expenses and other current assets	34	493	1,086	447	470
Property, plant and equipment	1,078	358	37,991	1,717	4,274
Operating lease right-of-use assets	1,088	1,921	—	2,736	4,447
Other assets	25	213	—	176	—
Accounts payable	(1,055)	(1,320)	(4,360)	(777)	(21,686)
Accrued expenses and other current liabilities	(226)	(445)	(768)	(1,421)	(859)
Current portion of lease liabilities	(274)	(447)	—	(624)	(815)
Current portion of long-term debt	—	—	—	—	(482)
Long-term deferred tax liabilities	—	(25,589)	—	—	(6,769)
Long-term lease liabilities	(868)	(1,501)	—	(1,836)	(3,116)
Long-term debt	—	—	—	—	(1,434)
Other long-term liabilities	—	—	(3,840)	—	—
Net identifiable assets	1,763	(16,450)	48,107	10,128	6,989
Identifiable intangible assets					
Other intangible assets	200	200	824	383	2,430
Customer relationships	5,100	12,500	6,400	11,100	6,300
Trademarks and trade names	18,500	31,400	59,100	9,100	14,000
Technology and formulations & recipes	33,600	56,200	18,000	2,800	3,800
Total identifiable intangible assets	57,400	100,300	84,324	23,383	26,530
Goodwill	18,204	49,633	46,440	50,009	27,383
Total purchase price allocation	$ 77,367	$ 133,483	$ 178,871	$ 83,520	$ 60,902

Supplemental Disclosure of Financial Results

The following represents estimated unaudited consolidated net sales and net income amounts for the three and nine months ended September 30, 2021, as if the five acquisitions had been included in the consolidated results of the Company for the entire period presented below. The estimated 2021 net income presented below also includes the impact of the aforementioned allocation adjustments to the useful lives of certain intangible assets, resulting in additional expense attributed to the 2021 periods presented. Management considers these estimates to represent an approximate measure of the performance of the combined Company:

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
	Estimated ($ in millions)	
Net sales	$ 136	$ 482
Net income	$ 24	$ 70

4. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

Primarily due to a sustained decline in the Company's market value of common stock and market conditions, the Company identified a triggering event requiring a test for impairment as of June 30, 2022. The Company completed its goodwill impairment testing and recorded an impairment charge of $189,572 as the test determined that the carrying value of the goodwill reporting units of U.S. and Canada was in excess of the fair value. The recognized impairment reduced the goodwill balance to zero as of June 30, 2022. The impairment was primarily due to a deterioration in customer demand in the U.S. and Canada caused by macroeconomic and industry conditions.

The Company determined the fair value of the U.S. and Canada reporting units based on an income approach, using the present value of future discounted cash flows, and based on a market approach. The fair values were reconciled to the market value of common stock of Hydrofarm to corroborate the estimates used in the interim test for impairment. Significant estimates used to determine fair value include the weighted average cost of capital, financial forecasts, and pricing multiples derived from publicly-traded companies that are comparable to the reporting units. Refer to Note 14 - *Fair Value Measurements*, for further discussion of valuation inputs. There was no goodwill impairment recognized during the year ended December 31, 2021. The changes in goodwill are as follows:

	Goodwill
Balance at December 31, 2021	$ 204,868
Acquisition - IGE Entities - measurement period adjustments	(21,304)
Acquisition - Greenstar - measurement period adjustments	7,000
Acquisition - all others - measurement period adjustments and foreign currency translation adjustments, net	(992)
Impairments	(189,572)
Balance at September 30, 2022	$ —

Intangible assets, net

Intangible assets with finite lives and indefinite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the quarter ended June 30, 2022, the Company performed an evaluation of intangible assets for impairment in connection with the triggering event identified requiring a quantitative test for goodwill impairment. Based on the Company's evaluation, there was no impairment of intangible assets for the quarter ended June 30, 2022. No such triggering event was identified during the three months ended September 30, 2022, however, there can be no guarantee that the Company will not record an impairment charge in the future. For a fuller discussion of the risk that such an impairment charge might be required in the future, please see “Item 1.A Risk Factors” and the risk factor captioned “Long-lived assets and inventories represent a significant portion of our total assets and the Company may be required to record impairments or write-downs in future periods.” Intangible assets, net comprised the following:

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

	September 30, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Finite-lived intangible assets:						
Computer software	$ 9,422	$ (7,966)	$ 1,456	$ 8,814	$ (7,208)	$ 1,606
Customer relationship	99,790	(22,679)	77,111	101,222	(16,517)	84,705
Technology, formulations and recipes	114,151	(12,894)	101,257	110,561	(3,630)	106,931
Trade names	131,292	(8,373)	122,919	—	—	—
Other	4,762	(4,138)	624	2,428	(1,744)	684
Total finite-lived intangible assets, net	359,417	(56,050)	303,367	223,025	(29,099)	193,926
Indefinite-lived intangible asset:						
Trade names	2,801	—	2,801	120,773	—	120,773
Other	—	—	—	120	—	120
Total Intangible assets, net	$ 362,218	$ (56,050)	$ 306,168	$ 343,918	$ (29,099)	$ 314,819

Amortization expense related to intangible assets was $6,218 and $27,209 for the three and nine months ended September 30, 2022, respectively. Amortization expense related to intangible assets was $3,197 and $6,169 for the three and nine months ended September 30, 2021, respectively. Amortization expense includes the impact from intangible assets recorded in connection with five acquisitions completed during the year ended December 31, 2021. The following are the estimated useful lives and the weighted-average amortization period as of September 30, 2022, for the major classes of finite-lived intangible assets:

	Useful lives	Weighted-average amortization period
Computer software	5 years	3 years
Customer relationships	7 to 18 years	11 years
Technology, formulations and recipes	8 to 12 years	10 years
Trade names	15 to 20 years	18 years

The estimated aggregate future amortization expense for intangible assets subject to amortization as of September 30, 2022, is summarized below:

	Estimated Future Amortization Expense
For the period of October 1, 2022 to December 31, 2022	$ 6,176
Year ending December 31,	
2023	24,488
2024	24,396
2025	24,247
2026	23,940
Thereafter	200,120
Total	$ 303,367

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

5. EARNINGS (LOSS) PER COMMON SHARE ("EPS")

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

Diluted EPS represents net income (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 EPS would be based on the number of common shares 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 EPS as of the beginning of the period, or as of the grant date of the share-based payment, if later.

The following table presents information necessary to calculate basic and diluted EPS for the three and nine months ended September 30, 2022 and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net (loss) income	$ (23,539)	$ 17,265	$ (250,147)	$ 24,462
Weighted-average shares of common stock outstanding	45,089,286	43,760,975	44,907,355	38,497,925
Dilutive effect of warrants using the treasury stock method	—	710,760	—	1,860,523
Dilutive effect of restricted stock units using the treasury stock method	—	1,175,279	—	1,424,184
Dilutive effect of stock options using the treasury stock method	—	641,061	—	711,992
Diluted weighted-average shares of common stock outstanding	45,089,286	46,288,075	44,907,355	42,494,624
Basic EPS	$ (0.52)	$ 0.39	$ (5.57)	$ 0.64
Diluted EPS	$ (0.52)	$ 0.37	$ (5.57)	$ 0.58

The computation of the weighted-average shares of common stock outstanding for diluted EPS includes the following potential common shares attributable to common stockholders using the treasury stock method for the weighted-average period during which the units were outstanding:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Shares subject to warrants outstanding	—	1,073,839	—	2,532,580
Shares subject to unvested performance based and restricted stock units	—	1,294,652	—	1,536,886
Shares subject to stock options outstanding	—	808,127	—	858,952

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

The computation of the weighted-average shares of common stock outstanding for diluted EPS excludes the following potential common shares as their inclusion would have an anti-dilutive effect on diluted EPS attributable to common stockholders:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Shares subject to warrants outstanding	**17,669**	**—**	**17,669**	**—**
Shares subject to unvested performance based and restricted stock units	**1,220,733**	**66,451**	**1,220,733**	**29,816**
Shares subject to stock options outstanding	**682,361**	**44**	**682,361**	**11**

6. ACCOUNTS RECEIVABLE, NET, AND INVENTORIES

Accounts receivable, net comprised the following:

	September 30, 2022	December 31, 2021
Trade accounts receivable	$ 23,015	$ 35,511
Allowance for doubtful accounts	(2,238)	(1,156)
Other receivables	3,023	7,129
Total accounts receivable, net	**$ 23,800**	**$ 41,484**

Inventories comprised the following:

	September 30, 2022	December 31, 2021
Finished goods	$ 104,535	$ 145,298
Work-in-process	6,888	5,967
Raw materials	45,308	41,399
Allowance for inventory obsolescence	(19,696)	(3,530)
Total inventories	**$ 137,035**	**$ 189,134**

The allowance for inventory obsolescence increased during the nine months ended September 30, 2022, primarily a result of a reserve for certain lighting products. 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.

7. OPERATING LEASES

The Company leases its distribution centers and manufacturing facilities from third parties under various non-cancelable lease agreements expiring at various dates through 2032. Certain leases contain escalation provisions and/or renewal options, giving the Company the right to extend the leases by up to 10 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 $2,929 and $8,548, during the three and nine months ended September 30, 2022, respectively, and $2,429 and $5,601, during the three and nine months ended September 30, 2021, respectively. These costs are included primarily within SG&A in the condensed consolidated statements of operations.

The Company has operating subleases which have been accounted for by reference to the underlying asset subject to the lease, primarily as an offset to rent expense within SG&A. For the three and nine months ended September 30, 2022, the

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Company recorded sublease income of $387 and $897, respectively. For the three and nine months ended September 30, 2021, the Company recorded sublease income of $28 and $85, respectively.

Supplemental balance sheet information related to the Company's operating leases are as follows:

	September 30, 2022	December 31, 2021
Assets		
Operating lease right-of-use assets, net of accumulated amortization	$ 49,251	$ 45,245
Total leased assets	$ 49,251	$ 45,245
Liabilities		
Current portion of lease liabilities	$ 8,009	$ 7,198
Long-term lease liabilities	42,710	38,595
Total lease liabilities	$ 50,719	$ 45,793

As of September 30, 2022, future minimum lease payments under non-cancelable operating leases are as follows:

	Operating
For the period of October 1, 2022 to December 31, 2022	$ 2,514
Year ending December 31,	
2023	9,212
2024	8,956
2025	8,329
2026	6,827
2027	6,365
Thereafter	14,223
Total lease payments	56,426
Less portion representing interest	(5,707)
Total principal	50,719
Less current portion	(8,009)
Long-term portion	$ 42,710

In January 2022, the Company executed a lease for approximately 303,000 square feet of warehouse space in Shoemakersville, Pennsylvania, which commenced in March 2022, and recorded right-of-use assets for operating leases for $10,463.

The future minimum lease payments for executed non-cancelable operating leases not yet commenced are as follows:

	Operating
For the period of October 1, 2022 to December 31, 2022	$ —
Year ending December 31,	
2023	2,628
2024	2,978
2025	3,285
2026	3,609
2027	3,710
Thereafter	20,599
Total lease payments	$ 36,809

(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, 2022	December 31, 2021
Machinery and equipment	$ 27,760	$ 25,177
Peat bogs and related development	10,333	8,686
Building and improvements	9,713	9,510
Land	6,087	6,120
Furniture and fixtures	4,051	2,867
Computer equipment	3,432	3,197
Leasehold improvements	3,091	3,207
Gross property, plant and equipment	64,467	58,764
Less: accumulated depreciation	(13,243)	(8,291)
Total property, plant and equipment, net	$ 51,224	$ 50,473

Depreciation, depletion and amortization expense related to property, plant and equipment, net was $2,221 and $6,006 for the three and nine months ended September 30, 2022, respectively. Depreciation, depletion and amortization expense related to property, plant and equipment, net was $1,662 and $2,469 for the three and nine months ended September 30, 2021, respectively.

9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities comprised the following:

	September 30, 2022	December 31, 2021
Accrued compensation and benefits	$ 2,624	$ 3,713
Freight, custom and duty accrual	1,314	2,094
Goods in transit accrual	1,459	3,473
Income tax accrual	716	729
Contingent consideration	—	17,034
Other accrued liabilities	6,392	6,953
Total accrued expenses and other current liabilities	$ 12,505	$ 33,996

10. DEBT

Debt comprised the following:

	September 30, 2022	December 31, 2021
Term loan - net of unamortized discount and deferred financing costs of $5,364 and $6,025 at September 30, 2022, and December 31, 2021, respectively	$ 118,698	$ 118,975
Other	2,210	2,805
Total debt	$ 120,908	$ 121,780
Current portion of long-term debt	$ 2,101	$ 2,263
Long-term debt - net of unamortized discount and deferred financing costs of $5,364 and $6,025 at September 30, 2022, and December 31, 2021, respectively	118,807	119,517
Total debt	$ 120,908	$ 121,780

Senior Secured Term Loan

On October 25, 2021, Hydrofarm Holdings Group, Inc. 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 certain lenders, pursuant to which the Company borrowed a $125,000 senior secured term loan (“Term Loan”). The Term Loan bears interest at LIBOR (with a 1.0% floor) plus 5.50%, or an alternative base rate (with a 2.0% floor), plus 4.50%, and is subject to a call premium of 2% in year one, 1% in year two, and 0% thereafter, and matures on October 25, 2028 ("Maturity Date"). Effective June 30, 2022, the Company entered into a six-month LIBOR interest rate of 2.88% plus 5.50%, for an all-in rate of 8.38% through December 30, 2022. Deferred financing costs and discount totaled $6,190 at inception of the Term Loan, and are being amortized to interest expense over the term of the loan. For the three months ended September 30, 2022, the effective interest rate was 9.21% and interest expense was $2,886, which includes amortization of deferred financing costs of $223. For the nine months ended September 30, 2022, the effective interest rate was 7.95% and interest expense was $7,416, which includes amortization of deferred financing costs of $661.

The principal amounts of the Term Loan are required to be repaid in consecutive quarterly installments in amounts equal to 0.25% of the principal amount of the Term Loan, on the last day of each fiscal quarter commencing March 31, 2022, with the balance of the Term Loan payable on the Maturity Date. The Company is also required to make mandatory prepayments upon the occurrence of certain events, including (i) achieving certain excess cash flow criteria, including the achievement and maintenance of a specific leverage ratio, (ii) selling assets that are collateral, or (iii) upon the issuance, offering, or placement of new debt obligations. There were no such mandatory prepayments made since inception of the Term Loan. As of September 30, 2022, and December 31, 2021, the outstanding principal balance on the Term Loan was $124,062 and $125,000, 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, 2022. 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. The Company may request additional term loan commitments subject to certain loan conditions.

JPMorgan 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 the earlier of March 29, 2024, or any earlier date on which the revolving commitments are reduced to zero.

The three-year Revolving Credit Facility had a borrowing limit of $50,000 with an option to request an increase in the revolving commitment by up to $25,000, drawn in $5,000 increments, for a total not to exceed $75,000, subject to customary conditions. 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. The Revolver maintains an interest rate of LIBOR plus 1.95% and has a 0.0% LIBOR floor. A fee of 0.25% per annum is charged for available but unused borrowings as defined. 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 unamortized debt issuance costs were $680 as of September 30, 2022, and are included in Other assets in the condensed consolidated balance sheets. Debt issuance costs are being amortized to interest expense over the term of the Revolver.

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). As of September 30, 2022, the Company would be able to borrow approximately $62 million under the Revolving Credit Facility.

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 $10,000, the Company will be required to maintain a minimum fixed charge coverage ratio of 1.1x on a rolling twelve-month basis until the Excess Availability is more than $10,000 for thirty consecutive days. The Company must also comply with a higher fixed charge coverage ratio of 1.15x in order to consummate permitted acquisitions and to make restricted payments, but no such acquisitions or payments are currently contemplated. As of September 30, 2022, the Company is in compliance with the covenants contained in the Revolving Credit Facility.

As of September 30, 2022, and December 31, 2021, the Company had zero borrowed under the facility.

Other Debt

Other debt as of September 30, 2022, was primarily comprised of $2,088 in finance lease obligations and $122 in a foreign subsidiary's other debt which constitutes an immaterial revolving line of credit.

Encina Credit Facility

On July 11, 2019, the Company and certain of its direct and indirect subsidiaries (the "Encina Obligors") entered into the Encina Credit Facility through a certain Loan and Security Agreement whereby the Encina Obligors obtained a revolving asset-based loan commitment in the maximum amount of $45,000 (inclusive of a limit of up to $15,000 of borrowings for the Canadian borrowers and a swingline facility of up to $2,000), subject to applicable borrowing base availability, through Encina Business Credit, LLC. The Encina Credit Facility was due on the earlier of July 11, 2022, or 90 days prior to the scheduled maturity date of the Brightwood Loan Services LLC Term Loan. The Encina Credit Facility was secured by working capital assets and a second lien on non-working capital assets. The Encina Credit Facility was repaid in December 2020, and replaced in March 2021, by the Revolving Credit Facility (as defined above). The unamortized deferred financing costs and early termination fees totaling $680 were recognized as a loss on debt extinguishment in the condensed consolidated statements of operations for the nine months ended September 30, 2021.

11. STOCKHOLDERS' EQUITY

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 unit consisting of a share of common stock and a warrant to purchase an additional one-half (1/2) shares of common stock.

The Company was entitled to redeem all of the outstanding Investor Warrants for a redemption price of $0.00033712 per Investor Warrant ("Redemption Price") if (i) there was an effective registration statement covering the resale of the shares of common stock underlying the Investor Warrants, and (ii) the volume-weighted average price of the Company's common stock for the twenty consecutive trading days prior to the date of the notice of redemption is at least $25.28, of which both requirements were met. Investor Warrants were exercisable at a price of $16.86 per share until July 19, 2021 (the "redemption date"). Any Investor Warrants that remained unexercised immediately after the redemption date were void and no longer exercisable, and the holders of those Investor Warrants were entitled to receive the Redemption Price.

Prior to the redemption date 3,367,647 Investor Warrants were exercised, generating total gross proceeds of $56,778. The Company redeemed 1,491 Investor Warrants at the Redemption Price.

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.

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

As of September 30, 2022, the following table summarizes the outstanding warrants:

	Number of Warrants	Exercise Price
Placement agent warrants	11,662	$ 8.43
Placement agent warrants	6,007	$ 16.86
Total	**17,669**	**$ 11.30**

As of December 31, 2021, the following table summarizes the outstanding warrants:

	Number of Warrants	Exercise Price
Placement agent warrants	11,810	$ 8.43
Placement agent warrants	6,007	$ 16.86
Total	**17,817**	**$ 11.27**

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, nonqualified stock options, 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, 2022, a total of 1,323,764 shares are available for grant under the 2020 Plan.

Restricted Stock Unit ("RSU") Activity

RSUs granted to certain executives, employees and members of the Board generally have a time-based vesting requirement (based on continuous employment). The stock-based compensation expense related to service-based awards is recorded over the requisite service period. During the nine months ended September 30, 2022, the Company granted RSU awards that are expected to vest either (i) ratably over a three-year period on each anniversary of the grant date, or (ii) with three vesting tranches, the first of which occurred on the grant date, and the following two tranches on each subsequent anniversary of the grant date. The following table summarizes the activity related to the Company's RSUs for the nine months ended September 30, 2022. 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, 2022:

	Number of RSUs	Weighted average grant date fair value
Balance, December 31, 2021	1,087,608	$ 9.71
Granted	785,486	$ 9.62
Vested	(706,061)	$ 9.86
Forfeited	(47,629)	$ 39.81
Balance, September 30, 2022	**1,119,404**	**$ 8.27**

As of September 30, 2022, total unamortized stock-based compensation cost related to unvested RSUs was $7,543 and the weighted-average period over which the compensation is expected to be recognized is 1.45 years. For the three and nine months ended September 30, 2022, the Company recognized $1,447 and $6,095, respectively, of total stock-based compensation expense for RSUs. As of September 30, 2022, there were 6,357 RSUs which had vested, but were not yet issued due to the recipients' elections to defer the awards.

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

Performance Stock Unit ("PSU") Activity

During the nine months ended September 30, 2022, the Company granted PSU awards 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, 2022:

	Number of PSUs	Weighted average grant date fair value
Balance, December 31, 2021	—	$ —
Granted	116,113	$ 15.74
Forfeited	(14,784)	$ 15.74
Balance, September 30, 2022	101,329	$ 15.74

As of September 30, 2022, total unamortized stock-based compensation cost related to unvested PSUs was $231 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, 2022, respectively, the Company recognized $96 and $256 of total stock-based compensation expense for PSUs.

Stock options

The following table summarizes the stock option activity for the nine months ended September 30, 2022:

	Number	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term (years)
Outstanding as of December 31, 2021	720,549	$ 9.57	$ 2.21	7.37
Granted	4,250	$ 13.12	$ 12.95	
Exercised	(8,283)	$ 9.01	$ 2.12	
Cancelled	(3,153)	$ 9.41	$ 3.76	
Forfeited	(31,002)	$ 11.45	$ 7.07	
Outstanding as of September 30, 2022	682,361	$ 9.50	$ 2.08	5.45
Options exercisable as of September 30, 2022	578,554	$ 8.86	$ 1.30	5.10
Vested and expected to vest as of September 30, 2022	682,361	$ 9.50	$ 2.08	5.45

The following table summarizes the unvested stock option activity for the nine months ended September 30, 2022:

	Number	Weighted average grant date fair value
Unvested as of December 31, 2021	202,515	$ 5
Granted	4,250	$ 12
Vested	(71,956)	$ 2
Forfeited	(31,002)	$ 7
Unvested as of September 30, 2022	103,807	$ 6

As of September 30, 2022, total compensation cost related to unvested awards not yet recognized was $494 and the weighted-average period over which the compensation is expected to be recognized is 1.54. For the three and nine months ended September 30, 2022, respectively, the Company recognized $125 and $298 of total stock-based compensation expense for stock options.

13. COMMITMENTS, CONTINGENCIES, AND RELATED PARTY TRANSACTIONS

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 believes the claims are without merit and does not expect that the outcome, individually or in the aggregate, would have a material adverse effect on the consolidated financial positions, results of operations, cash flows or future earnings.

Related party transactions — Hydrofarm Distribution Center

The Company leased a distribution center in Petaluma, California from entities in which a related party was a stockholder. For the three and nine months ended September 30, 2021, rent expense for the month-to-month lease totaled zero and $639, respectively.

14. FAIR VALUE MEASUREMENTS

Contingent consideration (as described in Note 3 - *Business Combinations*) is measured at estimated fair value on a recurring basis and based on Level 3 fair value measurements. The fair value of the contingent consideration for the Heavy 16 and Aurora acquisitions was $200 and $16,834, respectively, as of December 31, 2021. The fair value of the contingent consideration for the Heavy 16 and Aurora acquisitions were both zero as of September 30, 2022, as the liabilities were paid. The change in the fair value of contingent consideration during the three and nine months ended September 30, 2022, was zero and a benefit of $1,560, respectively. The change in the fair value of contingent consideration during the three and nine months ended September 30, 2021, was a benefit of $386 and $126, respectively. The change in the fair value of contingent consideration was recognized in SG&A on the condensed consolidated statements of operations for all periods presented. The valuation methodology and inputs used in the fair value measurement were disclosed in Note 3– *Business Combinations*.

Nonrecurring fair value measurements include the Company’s goodwill impairment recognized during the nine months ended September 30, 2022, as determined based on unobservable Level 3 inputs. Refer to Note 4 - *Goodwill and Intangible Assets, Net*, for further discussion. The note receivable (as described in Note 2 - *Basis of Presentation and Significant Accounting Policies*) was measured at fair value on a nonrecurring basis. During the nine months ended September 30, 2022, the Company measured an impairment on the note receivable based on the estimated fair value of the collateral, which was considered a Level 3 fair value measurement. The Company recorded an impairment loss of zero and $2,636 during the three and nine months ended September 30, 2022, recognized in Impairments on the condensed consolidated statements of operations. The carrying value of the note receivable was $475 and $3,111 as of September 30, 2022, and December 31, 2021, respectively.

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

Other Fair Value Measurements

The following table summarizes the estimated fair value of the Company's assets and liabilities which are not measured at fair value but are provided for disclosure purposes:

		September 30, 2022		December 31, 2021	
	Fair Value Hierarchy Level	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Term Loan	**Level 2**	**$ 124,062**	**$ 109,175**	**$ 125,000**	**$ 121,250**

The fair value of the Company's 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 deferred financing costs and discount. The carrying amount of Other Debt was $2,210 and $2,805 as of September 30, 2022, and December 31, 2021, respectively, and was primarily comprised of finance lease obligations. The estimated fair value of Other Debt approximated its carrying value given the applicable interest rates and the nature of the security interest in the Company’s assets, which were considered Level 3 fair value measurements. Refer to Note 10 - *Debt*, for further discussion of the Company's Term Loan and other debt.

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

The Company did not have any transfers between Levels within the fair value hierarchy during the three and nine months ended September 30, 2022, and September 30, 2021.

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 2021 Annual Report. This discussion and analysis contains statements of a forward-looking nature relating to future events or our future financial performance. These statements are only predictions, and actual events or results may differ materially. 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 2021 Annual Report. See "Special Note Regarding Forward-Looking Statements."

Company Overview

We are a leading independent manufacturer and distributor of CEA equipment and supplies, including a broad portfolio of our own innovative proprietary branded products. We primarily serve the U.S. and Canadian markets, and believe we are one of the leading competitors by market share in these markets in an otherwise highly 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 e-commerce marketplace. A majority of our net sales are to specialty hydroponic retailers, through which growers are able to enjoy specialized merchandise assortments and knowledgeable staff. We also distribute our products across the U.S. and Canada to a diversified range of retailers of commercial and home gardening equipment and supplies that include garden centers, hardware stores, e-commerce retailers, commercial greenhouse builders, and commercial resellers.

During fiscal year 2021, we completed five acquisitions of branded manufacturers of CEA products, resulting in a significant expansion of our portfolio of proprietary branded products and our specialized manufacturing capabilities, including:

- Heavy 16, a manufacturer of plant nutrients and additives, in May 2021;
- House & Garden, a manufacturer of plant nutrients and additives, in June 2021;
- Aurora Innovations, a manufacturer of soil, grow media, plant nutrients and additives, in July 2021;
- Greenstar Plant Products, a manufacturer of plant nutrients and additives, in August 2021; and
- Innovative Growers Equipment, a manufacturer of horticultural benches, racks and grow lights, in November 2021.

Market Conditions and Goodwill Impairment

As of June 30, 2022, primarily due to a sustained decline in the Company's market value of common stock and market conditions, we identified a triggering event requiring a test for goodwill impairment. We completed our goodwill impairment testing and recorded an impairment charge of $189.6 million as the test determined that the carrying value of the goodwill reporting units of U.S. and Canada was in excess of the fair value. The recognized impairment reduced the goodwill balance to zero as of June 30, 2022. The impairment was primarily due to a deterioration in customer demand in the U.S. and Canada caused by macroeconomic and industry conditions. We also review intangible assets with finite lives and indefinite lives for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. We did not identify a triggering event requiring a test for impairment during the three months ended September 30, 2022.

In connection with the goodwill impairment analysis performed as of June 30, 2022, we determined the fair value of the U.S. and Canada reporting units based on an income approach, using the present value of future discounted cash flows, and based on a market approach. The fair values were reconciled to the market value of common stock of Hydrofarm to corroborate the estimates used in the interim test for impairment. The fair value determinations were a reflection of recent sales declines we have experienced, which we believe are primarily a result of an agricultural oversupply impacting our market, and a reduction to our current year profitability and loss from operations. These market conditions continued to negatively impact our business and results of operations during the quarter ended September 30, 2022. The extent to which these market conditions will continue to impact our business, results of operations, and cash flows are uncertain and difficult to predict at this time.

As a result of market conditions and our inventory balance, we have reduced manufacturing and production levels, and in certain cases, implemented headcount reductions or temporary employee furloughs which may continue in future periods. We are evaluating plans and potential actions to further streamline our operations, which may include among other things, the relocation of certain manufacturing and/or distribution facilities and the narrowing of our product and brand portfolio. While we may incur certain costs associated with these actions, we expect improved efficiencies which will support us through the industry recession.

We maintain an allowance for excess and obsolete inventory that is based upon assumptions about future demand and market conditions. During the three and nine months ended September 30, 2022, our condensed consolidated statements of operations included charges of $4.4 million and $17.8 million, respectively, primarily relating to increases to our allowance for inventory obsolescence relating to certain lighting products. It is possible we may incur an impairment charge related to intangible assets in the future, or additional increases and impairments to our allowance for inventory obsolescence in future periods depending on market and industry conditions. During the three months ended September 30, 2022, our condensed consolidated statements of operations included a $1.1 million increase in accounts receivable allowances, and it is possible that we may incur additional charges related to our accounts receivable allowances in the future.

Effects of COVID-19 on Our Business

The World Health Organization recognized COVID-19 as a global pandemic on March 11, 2020, and COVID-19 has had significant and ongoing negative impacts on global societies, workplaces, economies and health systems. Authorities throughout the world have implemented measures to contain or mitigate the spread of the virus, including at various times physical distancing, travel bans and restrictions, closure of non-essential businesses, quarantines, work-from-home directives, mask requirements, shelter-in-place orders, and vaccination programs, but despite these efforts, COVID-19 has persisted, has mutated into new variants, and is expected to become endemic. We have implemented business continuity plans and followed safety protocols as recommended by government guidelines, and we will continue to do so as the state of COVID-19 evolves. As of the filing of this Quarterly Report, our operations are not impacted by any COVID-19 related facility closures, lockdown measures, travel restrictions or similar limitations. However, new waves of COVID-19 or its variants could cause the reinstatement of such limitations, and such limitations may adversely impact our supply chains, the manufacturing of our own products and our ability to obtain necessary materials, all of which could adversely affect our business, results of operations and financial condition. We have historically and may continue to source select products from China. We have in the past, and may again in the future experience some extended lead times in our supply chain, as well as increased shipping costs and believe the COVID-19 pandemic is a contributing factor to those extended lead times and increased costs. Furthermore, potential suppliers or sources of materials may pass the increase in sourcing costs due to the COVID-19 pandemic to us through price increases, thereby impacting our potential future profit margins.

The extent to which the COVID-19 pandemic will ultimately impact our business, results of operations, financial condition and cash flows depends on future developments that are highly uncertain, rapidly evolving and difficult to predict at this time. It is difficult to assess or quantify with precision the impact COVID-19 has directly had on our business since we cannot precisely quantify the impacts, if any, that the various effects have had on the overall business. We believe COVID-19 may have provided a positive demand impact 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 due to agricultural oversupply initiated during the height of COVID-related shelter-in-place orders in 2020 and 2021. We continue to monitor the COVID-19 pandemic and will adjust our mitigation strategies as necessary to address changing health, operational or financial risks that may arise.

Results of Operations—Comparison of three and nine months ended September 30, 2022 and 2021

The following table sets forth our unaudited interim condensed consolidated statements of operations for the three and nine months ended September 30, 2022 and 2021, 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,					
	2022		2021		Period change	
Net sales	$ 74,155	100.0 %	$ 123,822	100.0 %	$ (49,667)	-40.1 %
Cost of goods sold	68,291	92.1 %	93,833	75.8 %	(25,542)	-27.2 %
Gross profit	5,864	7.9 %	29,989	24.2 %	(24,125)	-80.4 %
Operating expenses:						
Selling, general and administrative	26,186	35.3 %	32,395	26.2 %	(6,209)	-19.2 %
Loss from operations	(20,322)	-27.4 %	(2,406)	-1.9 %	(17,916)	-744.6 %
Interest expense	(3,073)	-4.1 %	(132)	-0.1 %	(2,941)	-2,228.0 %
Other income (expense), net	615	0.8 %	(41)	0.0 %	656	1,600.0 %
Loss before tax	(22,780)	-30.7 %	(2,579)	-2.1 %	(20,201)	-783.3 %
Income tax (expense) benefit	(759)	-1.0 %	19,844	16.0 %	(20,603)	-103.8 %
Net (loss) income	$ (23,539)	-31.7 %	$ 17,265	13.9 %	$ (40,804)	-236.3 %

	Nine months ended September 30,					
	2022		2021		Period change	
Net sales	$ 283,040	100.0 %	$ 369,011	100.0 %	$ (85,971)	-23.3 %
Cost of goods sold	253,231	89.5 %	286,209	77.6 %	(32,978)	-11.5 %
Gross profit	29,809	10.5 %	82,802	22.4 %	(52,993)	-64.0 %
Operating expenses:						
Selling, general and administrative	92,407	32.6 %	76,495	20.7 %	15,912	20.8 %
Impairments	192,328	68.0 %	—	0.0 %	192,328	n/a
(Loss) income from operations	(254,926)	-90.1 %	6,307	1.7 %	(261,233)	-4,142.0 %
Interest expense	(7,863)	-2.8 %	(276)	-0.1 %	(7,587)	-2,748.9 %
Loss on debt extinguishment	—	0.0 %	(680)	-0.2 %	680	100.0 %
Other income, net	971	0.3 %	86	0.0 %	885	1,029.1 %
(Loss) income before tax	(261,818)	-92.5 %	5,437	1.5 %	(267,255)	-4,915.5 %
Income tax benefit	11,671	4.1 %	19,025	5.2 %	(7,354)	-38.7 %
Net (loss) income	$ (250,147)	-88.4 %	$ 24,462	6.6 %	$ (274,609)	-1,122.6 %

Net sales

Net sales for the three months ended September 30, 2022, were $74.2 million, a decrease of $49.7 million, or 40.1% compared to the same period in 2021. Net sales for the nine months ended September 30, 2022, were $283.0 million, a decrease of $86.0 million, or 23.3%, compared to the same period in 2021.

The 40.1% decrease in net sales for the three months ended September 30, 2022, as compared to the same period in 2021, was due to a 42.6% decline in volume of products sold (a 52.1% decline in organic sales and a 9.5% increase from recently-acquired proprietary brands), a 2.7% increase in price and mix of products sold, and a 0.2% decline from unfavorable foreign exchange rates. The decrease in volume of products sold was primarily related to an agricultural oversupply, which put downward pressure on cannabis growing activity predominantly in California and Canada but also in many other U.S. states. The increase in price was primarily related to list price increases, as well as higher freight recovery. The decrease in foreign exchange related to recent strength in the U.S. Dollar relative to the Canadian Dollar and to the Euro.

The 23.3% decrease in net sales for the nine months ended September 30, 2022, as compared to the same period in 2021, was due to a 26.0% decline in volume of products sold (a 42.7% decline in organic sales and a 21.2% increase from recently-acquired proprietary brands), a 2.9% increase in price and mix of products sold, and a 0.2% decline from unfavorable foreign exchange rates. The decrease in volume of products sold was primarily related to the aforementioned oversupply in the cannabis industry. The increase in price was primarily related to list price increases, as well as higher freight recovery as we put multiple measures in place to combat rising freight costs. The decrease in foreign exchange related to recent strength in the U.S. Dollar relative to the Canadian Dollar and to the Euro.

Gross profit

Gross profit for the three months ended September 30, 2022, was $5.9 million, a decrease of $24.1 million, or 80.4%, compared to the same period in 2021. Gross profit for the nine months ended September 30, 2022, was $29.8 million, a decrease of $53.0 million, or 64.0%, compared to the same period in 2021.

The decrease in gross profit for the three months ended September 30, 2022, as compared to the same period in 2021, was primarily related to (i) the aforementioned decrease in net sales and (ii) a significant decrease in our gross profit margin percentage (gross profit as a percent of net sales). Our gross profit margin percentage decreased to 7.9% for the three months ended September 30, 2022, from 24.2% in the same period in 2021. The lower gross profit margin percentage is primarily due to an increase in the inventory obsolescence allowances and related charges of $4.4 million primarily related to certain lighting products. Also negatively impacting gross profit margin were freight and labor costs which were higher as percentage of net sales. These were partially offset by the aforementioned list price increases, as well as a higher proportion of higher-margin proprietary brand sales.

The decrease in gross profit for the nine months ended September 30, 2022, as compared to the same period in 2021, was primarily related to (i) the aforementioned decrease in net sales and (ii) a significant decrease in our gross profit margin percentage. Our gross profit margin percentage decreased to 10.5% for the nine months ended September 30, 2022, from 22.4% in the same period in 2021. The lower gross profit margin percentage is primarily due to an increase in the inventory obsolescence allowances and related charges of $17.8 million primarily related to certain lighting products. Also negatively impacting gross profit margin were freight and labor costs which were higher as percentage of net sales. These were partially offset by the aforementioned list price increases, as well as a higher proportion of higher-margin proprietary brand sales.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2022, were $26.2 million, a decrease of $6.2 million compared to the same period in 2021. SG&A expenses for the nine months ended September 30, 2022, were $92.4 million, an increase of $15.9 million compared to the same period in 2021.

The $6.2 million decrease in SG&A expenses for the three months ended September 30, 2022, compared to prior year was primarily related to (i) an $8.2 million decrease in acquisition and integration expenses, (ii) $1.1 million of investor warrant solicitation fees incurred last year, (iii) a $0.5 million decrease in marketing expense, (iv) a $0.4 million decrease in compensation costs, and (v) a $0.3 million decrease in costs associated with the relocation of certain of our distribution centers. These decreases were partially offset by (i) a $3.1 million increase in depreciation, depletion and amortization expense, (ii) a $1.1 million increase in accounts receivable allowances and (iii) a $0.5 million increase in insurance costs.

The $15.9 million increase in SG&A expenses for the nine months ended September 30, 2022, compared to prior year was primarily related to (i) a $21.7 million increase in depreciation, depletion and amortization expense, of which $5.9 million represented amortization expense from adjustments to useful lives that were determined this year, (ii) a $3.3 million increase in compensation costs (primarily salaries and benefits for employees from companies acquired in 2021), of which $1.0 million was severance associated with a recent reduction-in-force, (iii) a $3.0 million increase in share-based compensation, (iv) a $1.5 million increase in accounts receivable allowances, (v) a $1.4 million increase in insurance costs, and (vi) a $1.1 million increase in costs associated with the relocation of certain of our distribution centers. These increases were partially offset by (i) a $16.2 million decrease in acquisition and integration expenses, (ii) $1.9 million of investor warrant solicitation fees incurred last year, and (iii) a $0.7 million increase in travel expense.

Impairments

The Company recorded goodwill impairment charges of zero and $189.6 million for the three and nine months ended September 30, 2022, respectively, as we determined that the carrying value of the goodwill reporting units of U.S. and Canada was in excess of the fair value. The recognized impairment reduced the goodwill balance to zero as of June 30, 2022. The impairment was primarily due to a deterioration in customer demand in the U.S. and Canada caused by macroeconomic and industry conditions. For the nine months ended September 30, 2022, the Company also recorded an impairment of a note receivable of $2.6 million.

Interest expense

Interest expense for the three months ended September 30, 2022, was $3.1 million, an increase of $2.9 million compared to the same period in the prior year. Interest expense for the nine months ended September 30, 2022, was $7.9 million, an increase of $7.6 million compared to the same period in the prior year. The increase was due to the interest-bearing Term Loan entered into in the fourth quarter of 2021 and outstanding for the entire three and nine months ended September 30, 2022.

Loss on debt extinguishment

Loss on debt extinguishment for the nine months ended September 30, 2022, was zero, compared to $0.7 million in the prior year which resulted primarily from the write-off of unamortized deferred financing costs associated with the payoff of the Encina Credit Facility.

Other income (expense), net

Other income for the three and nine months ended September 30, 2022, was $0.6 million and $1.0 million, respectively. For the three and nine months ended September 30, 2021, other expense was $41 thousand and other income was $86 thousand, respectively. The increase in other income compared to the prior year periods relates primarily to foreign currency exchange rate gains in 2022.

Income tax (expense) benefit

Income tax expense for the three months ended September 30, 2022, was $0.8 million, compared to $19.8 million of income tax benefit in the prior year. Given the Company's valuation allowances, there was no significant income tax benefit recorded from the pre-tax loss during the three months ended September 30, 2022. Income tax benefit for the nine months ended September 30, 2022, was $11.7 million, compared to $19.0 million of income tax benefit in the prior year. Our effective income tax rate was 4.5% for the nine months ended September 30, 2022, and differs from the U.S. federal statutory rate of 21% primarily due to the impairment of goodwill for certain 2021 acquisitions which was not deductible for U.S. tax purposes, increases in our valuation allowance on U.S. deferred tax assets, and the establishment of a valuation allowance for Canadian deferred tax assets. As described in Note 4 - *Goodwill and Intangible Assets, Net*, during the three months ended June 30, 2022, we fully impaired the goodwill associated with all 2021 acquisitions. For the nine months ended September 30, 2022, we recorded discrete income tax benefits of $12.1 million relating primarily to measurement period adjustments associated with 2021 acquisitions, and certain tax benefits related to goodwill impairment.

For the nine months ended September 30, 2021, our income tax rate of (349.9)% differs from the federal statutory rate of 21% primarily as a result of reducing valuation allowances on the Company's net deferred tax assets due to certain acquisitions in the year.

Non-GAAP Financial Measures

We report our financial results in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP" or "GAAP"). However, management believes that certain non-GAAP financial measures provide investors with additional useful information in evaluating our performance and that excluding certain items that may vary substantially in frequency and magnitude period-to-period from net (loss) income provides useful supplemental measures that assist in evaluating our ability to generate earnings and to more readily compare these metrics between past and future periods. These non-GAAP financial measures may be different than similarly titled measures used by other companies.

To supplement our condensed unaudited consolidated financial statements which are prepared in accordance with GAAP, we use "Adjusted EBITDA" and "Adjusted EBITDA as a percent of sales" which are non-GAAP financial measures (collectively referred to as "Adjusted EBITDA"). Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are several limitations related to the use of our non-GAAP financial measures as compared to the closest comparable GAAP measures. Some of these limitations include:

• Adjusted EBITDA does not reflect the significant interest expense, or the amounts necessary to service interest or principal payments on our indebtedness;

• Adjusted EBITDA excludes depreciation, depletion and amortization, and although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;

• Adjusted EBITDA does not reflect our tax provision that adjusts cash available to us;

• Adjusted EBITDA excludes the non-cash component of stock-based compensation;

• Adjusted EBITDA excludes the amount of employer payroll taxes on stock-based compensation; and

• Adjusted EBITDA does not reflect the impact of earnings or charges resulting from matters we consider not to be reflective, on a recurring basis, of our ongoing operations. These items include impairments, severance and other expenses, acquisition-related expenses, distribution center exit costs, loss on debt extinguishment, investor warrant solicitation fees, and other income/ expense, net.

We define Adjusted EBITDA as net income (loss) excluding interest expense, income taxes, depreciation, depletion and amortization, stock-based compensation, employer payroll taxes on stock-based compensation and other unusual and/or infrequent costs (i.e. impairments, severance and other expenses, acquisition-related expenses, distribution center exit costs, loss on debt extinguishment, investor warrant solicitation fees, and other income/ expense, net), which we do not consider in our evaluation of ongoing operating performance.

The following table presents a reconciliation of net (loss) income, the most comparable GAAP financial measure, to Adjusted EBITDA for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Net (loss) income (GAAP)	$ (23,539)	$ 17,265	$ (250,147)	$ 24,462
Interest expense	3,073	132	7,863	276
Income tax expense (benefit)	759	(19,844)	(11,671)	(19,025)
Distribution center exit costs and other[1]	37	328	1,412	328
Depreciation, depletion and amortization	8,439	4,860	33,215	8,638
Impairments[2]	—	—	192,328	—
Severance and other[3]	253	246	1,224	262
Acquisition expenses[4]	867	10,589	7,102	20,814
Stock-based compensation[5]	1,678	1,347	6,834	3,863
Investor warrant solicitation fees[6]	—	1,105	—	1,949
Other (income) expense, net[7]	(615)	41	(971)	(86)
Loss on debt extinguishment[8]	—	—	—	680
Adjusted EBITDA (Non-GAAP)	$ (9,048)	$ 16,069	$ (12,811)	$ 42,161
As a percent of net sales:				
Net (loss) income (GAAP)	(31.7)%	13.9 %	(88.4)%	6.6 %
Adjusted EBITDA (Non-GAAP)	(12.2)%	13.0 %	(4.5)%	11.4 %

Net Loss (GAAP) and Adjusted EBITDA (Non-GAAP) for the three and nine months ended September 30, 2022, were negatively impacted by $5.5 million and $18.9 million, respectively, of inventory related charges and accounts receivable allowances.

1. For the 2022 and 2021 periods presented, this relates to costs incurred to exit and relocate distribution centers in California and Pennsylvania including lease exit costs, transportation, and labor related costs.

2. The Company completed its goodwill impairment testing and recorded an impairment charge of $189.6 million during the nine months ended September 30, 2022, due to market softness in demand in the U.S. and Canada. Additionally, during the nine months ended September 30, 2022, the Company recorded an impairment primarily related to a $2.6 million charge associated with a note receivable that originated in 2019 associated with a third party independent processor serving the CBD market.

3. Severance and other primarily consists of severance costs incurred during the three and nine months ended September 30, 2022, related to workforce reductions to optimize our cost structure. Severance and other primarily consists of costs related to an aborted convertible loan transaction during the three and nine months ended September 30, 2021.

4. For the three months ended September 30, 2022, this includes non-cash purchase accounting inventory adjustments for Greenstar $0.1 million, and the elimination of acquisition and integration consulting, transaction services and legal fees incurred for the completed Heavy 16, House and Garden, Aurora, Greenstar, and Innovative Growers Equipment acquisitions and certain potential acquisitions of $0.8 million. For the nine months ended September 30, 2022, this includes non-cash purchase accounting inventory adjustments for House and Garden, Aurora, Greenstar and Innovative Growers Equipment of $4.5 million, and acquisition and integration consulting, transaction services and legal fees incurred for the completed Heavy 16, House and Garden, Aurora, Greenstar, and Innovative Growers Equipment acquisitions and certain potential acquisitions of $4.2 million, partially offset by the change in fair value of contingent consideration for Aurora of ($1.6 million). For the prior year period, acquisition and integration includes investment banking, consulting, transaction services and legal fees incurred for the completed Heavy 16, House & Garden, Aurora, Greenstar, and Innovative Growers Equipment acquisitions and certain potential acquisitions, including the inventory step up amounts of Heavy 16 and House and Garden of $2.0 million, for the nine months ended September 30, 2021.

5. Includes stock-based compensation and related employer payroll taxes on stock-based compensation for the periods presented.

6. Reflects the elimination of investor warrant solicitation fees.

7. Other (income) expense, net relates primarily to foreign currency exchange rate gains and losses and other non-operating income and expenses.

8. For the nine months ended September 30, 2021, loss on debt extinguishment resulted primarily from the write-off of unamortized deferred financing costs associated with the termination of the Encina Credit Facility.

Liquidity and Capital Resources

The following table summarizes our cash flows for the nine months ended September 30, 2022 and 2021 (amounts in thousands):

	Nine months ended September 30,	
	2022	2021
Net cash from (used in) operating activities	$ 15,490	$ (17,510)
Net cash used in investing activities	(7,386)	(419,407)
Net cash (used in) from financing activities	(19,480)	374,447
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(515)	(29)
Net decrease in cash, cash equivalents and restricted cash	(11,891)	(62,499)
Cash, cash equivalents and restricted cash at beginning of period	28,384	76,955
Cash, cash equivalents and restricted cash at end of period	$ 16,493	$ 14,456

Operating Activities

Net cash from operating activities was $15.5 million for the nine months ended September 30, 2022, primarily due to $22.7 million net cash inflow from a reduction of working capital. This included a decrease of $37.1 million in inventories and a decrease of $13.1 million in accounts receivable, net, partially offset by decreases of $11.0 million in deferred revenue and $11.0 million in accounts payable, accrued expenses and other current liabilities.

Net cash used in operating activities was $17.5 million for the nine months ended September 30, 2021, primarily consisting of $24.5 million in net income, $4.3 million in net non-cash expense reductions, which were largely comprised of depreciation, depletion and amortization, stock-based compensation expense, non-cash operating lease expense, deferred income tax benefit, provision for inventory obsolescence, change in the fair value of contingent consideration, and other non-cash expenses, less a $37.7 million increase in working capital. This change in working capital primarily reflects an aggregate increase of $53.0 million in accounts receivable, net, inventories, prepaid expenses and other current assets, and other assets for the period offset by an aggregate net increase of $15.3 million in accounts payable, accrued expenses and other current liabilities, and a decrease in lease liabilities due to payments on lease obligations during the period.

Investing Activities

Net cash used in investing activities was $7.4 million for the nine months ended September 30, 2022, and was due primarily to purchases of property, plant and equipment, which increased over the prior year due to our acquired companies' greater capital requirements and the relocation of certain of our distribution centers. The current year cash usage primarily includes our investment in the peat moss harvesting operation in Canada and IGE manufacturing operations in the U.S.

Net cash used in investing activities for the nine months ended September 30, 2021, was $419.4 million, due primarily to four business acquisitions we completed during the period, which totaled $415.9 million in cash outflows and $3.1 million of property, plant and equipment purchases.

Financing Activities

Net cash used in financing activities was $19.5 million for the nine months ended September 30, 2022, primarily consisting of $15.6 million in payments to settle contingent consideration. We paid $2.4 million related to employees' withholding tax in connection with the vesting of restricted stock units. In addition, we paid $0.9 million on the Term Loan.

Net cash provided by financing activities was $374.4 million for the nine months ended September 30, 2021. We received proceeds of $309.8 million from our follow-on offering, and received an additional $56.8 million from the exercises of investor warrants. We also paid $17.9 million related to employee's withholding tax in connection with the vesting of certain restricted stock units. In addition, we had $26.3 million in net borrowings on our Revolving Credit Facility during the period.

Liquidity

Our ability to make investments in our business, service our debt and maintain strong liquidity will depend upon our ability to generate excess operating cash flows through our operating subsidiaries. Based on current levels of operations, we believe that our cash flows from operations, combined with our current cash levels and borrowing availability, will be adequate to fund debt service requirements and provide cash, as required, to support our ongoing operations, capital expenditures, lease obligations and working capital needs through the next twelve months of operations.

If necessary, we believe that we could supplement our cash position through sale/leasebacks, asset sales and an equity financing. We believe it is prudent to be prepared if required and, accordingly, are engaged in the process of evaluating and preparing to implement one or more of the aforementioned activities.

Senior Secured 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 certain lenders, pursuant to which we borrowed a $125.0 million senior secured term loan. The Term Loan bears interest at LIBOR (with a 1.0% floor) plus 5.50%, or an alternative base rate (with a 2.0% floor), plus 4.50%, and is subject to a call premium of 2% in year one, 1% in year two, and 0% thereafter, and matures on October 25, 2028. We received net proceeds of $119.9 million in 2021 from the Term Loan after deducting discounts and deferred financing costs.

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

The Term Loan requires us to maintain certain reporting requirements, affirmative covenants, and negative covenants, and we were in compliance with all requirements as of September 30, 2022. 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. We may request additional term loan commitments subject to certain loan conditions.

JPMorgan Revolving Credit Facility

On March 29, 2021, we and certain of our direct and indirect subsidiaries entered into a Senior Secured 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 replaced the Encina Credit Facility. The Revolving Credit Facility is due on the earlier of March 29, 2024, or any earlier date on which the revolving commitments are reduced to zero.

The Revolving Credit Facility has been amended since its origination in connection with modifications to increase the borrowing limit and to consent to the Term Loan.

The three-year Revolving Credit Facility has a borrowing limit of $100 million subject to customary conditions. The Revolver maintains an interest rate of LIBOR plus 1.95% and has a 0.0% LIBOR floor. A fee of 0.25% per annum is charged for available but unused borrowings as defined. 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). As of September 30, 2022, the Company would be able to borrow approximately $62 million under the Revolving Credit Facility.

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 $10,000, the Company will be required to maintain a minimum fixed charge coverage ratio of 1.1x on a rolling twelve-month basis until the Excess Availability is more than $10,000 for thirty consecutive days. The Company must also comply with a higher fixed charge coverage ratio of 1.15x in order to consummate permitted acquisitions and to make restricted payments, but no such acquisitions or payments are currently contemplated. As of September 30, 2022, the Company is in compliance with the covenants contained in the Revolving Credit Facility.

As of September 30, 2022, and December 31, 2021, the Company had zero borrowed under the facility.

Cash and cash equivalents

The cash and cash equivalents balances of $16.5 million and $26.6 million at September 30, 2022, and December 31, 2021, respectively, included $6.5 million and $4.1 million, respectively, held by foreign subsidiaries.

Material Cash Requirements

Our material cash requirements include interest payments on our long-term debt, operating lease payments, and purchase obligations to support our operations. Refer to Part I, Item 1, Financial Statements, Note 10 - *Debt*, Note 7 - *Operating Leases*, and Note 13 - *Commitments, Contingencies, and Related Party Transactions* 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.

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 our most recently filed Form 10-K and include the discussion of estimates used in business combinations, goodwill, and long-lived assets. 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 Form 10-Q, and actual results could differ materially from the amounts reported.

Goodwill is evaluated for impairment annually in the fourth quarter, or on an interim basis when an event or change in circumstances occurs, indicating that the carrying value may not be recoverable. Primarily due to a decline in the Company's market value of common stock and market conditions, the Company identified a triggering event requiring a test for impairment as of June 30, 2022. The Company completed its goodwill impairment testing and recorded an impairment charge due to market softness in demand in the U.S. and Canada. The Company determined the fair value of the U.S. and Canada reporting units based on an income approach, using the present value of future discounted cash flows, and based on a market approach. Significant estimates used to determine fair value include the weighted average cost of capital, financial forecasts, and pricing multiples derived from publicly-traded companies that are comparable to the reporting units. The fair values were reconciled to the market value of common stock of Hydrofarm to corroborate the estimates used in the interim test for impairment.

Intangible assets with finite lives and indefinite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the quarter ended June 30, 2022, the Company performed an evaluation of intangible assets for impairment in connection with the triggering event identified requiring a quantitative test for goodwill impairment. This impairment evaluation includes a comparison of the undiscounted cash flows expected to be generated by that long-lived asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying amount exceeds its fair value. Based on the Company's evaluation, there was no impairment of intangible assets or other long lived assets for the quarter ended June 30, 2022. No such triggering event was identified during the three months ended September 30, 2022.

The Company believes that the intangible asset impairment evaluations were based on reasonable assumptions that marketplace participants would use. However, such assumptions are inherently uncertain and actual results could differ from those estimates. Changes to or a failure to achieve our projected business assumptions, including growth and profitability, could result in a valuation that would trigger an impairment in future periods.

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, 2022, we had $124.1 million of Term Loan debt that is subject to variable interest rates that are based on London interbank offered rate ("LIBOR") or an alternate base rate, and is currently subject to a six-month LIBOR interest rate through December 30, 2022. Refer to Part I, 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, 2022, 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 LIBOR changes regularly, and has changed since the date we entered into the six-month interest rate period. Additionally, we may elect 1, 3, or 6 month rates upon the expiration of the current interest rate period, which is December 30, 2022. We do not currently hedge our interest rate risk 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 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.

However, we believe that the exposure to foreign currency fluctuation from product sales and operating expenses is not significant at this time as the related product sales and costs do not constitute a significant portion of our total net sales and expenses. In the future, our exposure to foreign currency risk could become more significant. 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 has materially affected, or is 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 2021 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.

Long-lived assets and inventories represent a significant portion of our total assets and we may be required to record impairments or write-downs in future periods.

Our condensed consolidated balance sheet as of September 30, 2022, includes $306.2 million of intangible assets, net, $137.0 million of inventories, $51.2 million of property, plant, and equipment, net, and $49.3 million of operating lease right-of-use assets. During the three months ended June 30, 2022, we recorded a $189.6 million goodwill impairment charge due to a decline in the estimated fair value of our reporting units. During the three and nine months ended September 30, 2022, we recorded allowances for inventory obsolescence of $4.4 million and $17.8 million, respectively, primarily due to certain durable lighting products.

Long-lived assets, such as intangible assets, property, plant and equipment and operating lease right-of-use assets are reviewed for impairment whenever events, changes or circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. If we were to conclude that a future write-down of our long-lived assets is necessary, we would have to record the appropriate charge, which could result in a material adverse effect on our results of operations. Inventories consist of manufactured goods, goods acquired for resale, and materials consumed in business operations. Inventories are stated at the lower of cost or net realizable value, and the Company maintains an allowance for excess and obsolete inventory. The estimate for excess and obsolete inventory is based upon assumptions about future demand and market conditions. The Company has experienced recent sales declines, which we believe are primarily a result of agricultural oversupply impacting our market. The extent to which these market conditions will continue to impact our business, results of operations, and cash flows are uncertain and difficult to predict at this time, and may result in lower margins, inventory write-downs, accounts receivable allowances, and impairments of our long-lived assets which could have a material adverse effect on our business, financial condition and results of operations.

If we fail to manage our inventory effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.

Our business requires us to manage inventory effectively. We depend on our forecasts of demand for, and popularity of, various products to make purchase decisions and to manage our inventory of stock-keeping units. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. Demand may be affected by seasonality, new product launches, rapid changes in product cycles and pricing, product defects, promotions, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our consumers may not purchase products in the quantities that we expect. It may be difficult to accurately forecast demand and determine appropriate levels of product or components. From time to time in the normal course of business, we enter into agreements with our suppliers pursuant to which we are required to purchase minimum amounts of inventory over a defined time period. We receive favorable pricing terms in exchange for this arrangement, but such agreements could lead to an oversupply of inventory. If we fail to manage our inventory effectively or negotiate favorable credit terms with third-party suppliers, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, if we are required to lower sale prices in order to reduce inventory level or to pay higher prices to our suppliers, our profit margins might be negatively affected. Any of the above may materially and adversely affect our business, financial condition and results of operations.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit	Description
10.1	Third Amendment and Joinder to Credit Agreement, dated as of August 23, 2022, by and among Hydrofarm Holdings Group, Inc., Hydrofarm, LLC, Field 16, LLC, Aurora Innovations, 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, Gotham Properties 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., the lenders party thereto and JPMorgan Chase Bank, N.A.
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.

\# 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.

\+ Certain schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the Securities and Exchange Commission upon request.

† Certain confidential portions (indicated by brackets and asterisks) have been omitted from this exhibit.

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 9, 2022	/s/ William Toler William Toler Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2022	/s/ B. John Lindeman B. John Lindeman Chief Financial Officer (Principal Financial Officer)

Execution Version

THIRD AMENDMENT AND JOINDER TO CREDIT AGREEMENT

THIS THIRD AMENDMENT AND JOINDER TO CREDIT AGREEMENT (this "Amendment"), dated as of August 23, 2022, 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"), AURORA INNOVATIONS, LLC, an Oregon limited liability company ("Aurora Innovations", and together with the Company, HYD, F16 and Aurora, each individually, an "Existing Borrower", and individually and collectively, jointly and severally, the "Existing Borrowers"), INNOVATIVE GROWERS EQUIPMENT, INC., an Illinois corporation, ("IGE"), MANUFACTURING & SUPPLY CHAIN SERVICES, INC., a Delaware corporation ("MSCSI" and together with IGE, each individually, a "New Borrower", and individually and collectively, jointly and severally, the "New Borrowers"; the New Borrowers, the Existing Borrowers, 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"), GOTHAM PROPERTIES LLC, an Oregon limited liability company ("Gotham"), 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" and together with HIC, HHL, EHH, Sunblaster, HCL, SUN, EDDI, H&G Holdings, Gotham, Aurora International and APP, each individually, an "Existing Loan Guarantor", and individually and collectively, jointly and severally, the "Existing Loan Guarantors"), 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 Innovative AG, Innovative Racking and Innovating Shipping, each individually, a "New Loan Guarantor", and individually and collectively, jointly and severally, the "New Loan Guarantors"; the New Loan Guarantors, the Existing Loan Guarantors, 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 and (iii) 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. Capitalized terms used herein without being defined herein shall have the meanings ascribed to such terms in the Credit Agreement.

B. Each New Borrower and each New Loan Guarantor is required to become a Borrower, a Loan Guarantor, a Loan Party and a Canadian Loan Party, as applicable, pursuant to the terms of Section 5.14 of the Credit Agreement.

C. The Loan Parties have requested that the Administrative Agent and the Lenders (1) join each New Borrower and New Loan Guarantor as a Borrower, a Loan Guarantor, a Loan Party and/or a Canadian Loan Party, as applicable, under the Credit Agreement and the other Loan Documents, and (2) make certain other amendments to the Credit Agreement, and the Administrative Agent and the Lenders are willing to make such joinders and amendments, in each case subject to and pursuant to the terms and conditions set forth herein.

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

a. The following definitions are hereby added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

" "IGE" means Innovative Growers Equipment, Inc., an Illinois corporation."

" "Innovative AG" means Innovative AG Installation, Inc., an Illinois corporation."

" "Innovative Canada" means Innovative Growers Equipment Canada, Inc., a corporation incorporated under the laws of the Province of Ontario."

" "Innovative Racking" means Innovative Racking Systems, Inc., an Illinois corporation."

" "Innovative Shipping" means Innovative Shipping Solutions, Inc., an Illinois corporation"

" "MSCSI" means Manufacturing & Supply Chain Services, Inc., a Delaware corporation."

" "Third Amendment" means that certain Third Amendment and Joinder to the Credit Agreement, dated as of the Third Amendment Effective Date, by and between the Loan Parties, the Administrative Agent, and the Lenders party thereto."

" "Third Amendment Effective Date" means August 23, 2022."

b. The definition of "Canadian Loan Parties" set forth in Section 1.01 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

" "Canadian Loan Parties" means, collectively, SUN, EDD, APP, GPP, Innovative Canada and any other Person organized under applicable law of Canada or any province of Canada who becomes a party to this Agreement pursuant to a Joinder Agreement and their successors and assigns, and the term "Canadian Loan Party" mean any one of them or all of them individually, as the context may require."

c. The definition of "Canadian Opcos" set forth in Section 1.01 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

" "Canadian Opcos" means, collectively, SUN, EDD, APP, GPP and Innovative Canada."

d. Each New Borrower and each New Loan Guarantor hereby acknowledges, agrees and confirms that, by its execution of this Amendment, such New Borrower and such New Loan Guarantor, as applicable, will be deemed to be a Borrower, Loan Guarantor, Canadian Guarantor, Loan Party and/or Canadian Loan Party, as the case may be, under the Credit Agreement and other Loan Documents for all purposes of the Credit Agreement and the other Loan Documents, and shall have all of the obligations of a Borrower, Loan Guarantor, Canadian Guarantor, Loan Party and/or Canadian Loan Party, as the case may be, under the Credit Agreement and the other Loan Documents as if it had executed the Credit Agreement and the other Loan Documents. Each New Borrower and each New Loan Guarantor hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Credit Agreement and the other Loan Documents applicable to it, including without limitation (a) all of the representations and warranties of the Loan Parties set forth in Article III of the Credit Agreement, (b) all of the covenants set forth in Articles V and VI of the Credit Agreement, and (c) all of the guaranty obligations set forth in Article X of the Credit Agreement. Without limiting the generality of the foregoing terms of this paragraph, each New Borrower and each New Loan Guarantor, subject to the limitations set forth in Sections 10.10 and 10.13 of the Credit Agreement, hereby guarantees, jointly and severally with the other Loan Guarantors, to the Administrative Agent and the Lenders, as provided in Article X of the Credit Agreement, the prompt payment and performance of the Guaranteed Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or otherwise) strictly in accordance with the terms thereof and agrees that if any of the Guaranteed Obligations are not paid or performed in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or otherwise), the New Borrowers and the New Loan Guarantors will, jointly and severally together with the other Loan Guarantors, promptly pay and perform the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, as a mandatory prepayment, by acceleration or otherwise) in accordance with the terms of such extension or renewal. Each New Borrower and each New Loan Guarantor waives acceptance by the Administrative Agent and the Lenders of the guaranty by such New Borrower and such New Loan Guarantor upon the execution of this Amendment. Furthermore, each New Borrower and each New Loan Guarantor agrees that its address for purposes of Section 9.01 of the Credit Agreement is the address of the Borrower Representative set forth therein.

2. 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 Lender shall have duly executed and delivered this Amendment, and the Administrative Agent shall have received a fully executed counterpart hereof.

b. Joinders and Amendments. Administrative Agent shall have received (i) a joinder to the U.S. Security Agreement duly executed and delivered by the New Borrowers and New Loan Guarantors (other than Innovative Canada), (ii) an amendment to the U.S. Security Agreement duly executed and delivered by the applicable Loan Parties (other than APP and GPP), (iii) a joinder to the Canadian Security Agreement duly executed and delivered by Innovative Canada, and (iv) a joinder to the Canadian Guarantee duly executed and delivered by Innovative Canada.

c. 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).

d. Secretary's Certificate. The Administrative Agent shall have received (i) a certificate of each New Borrower and each New Loan Guarantor, dated the date hereof and executed by its Secretary, Assistant Secretary or other Responsible Officer, which shall (A) certify the resolutions of its Board of Directors, members or other body authorizing the execution, delivery and performance of this Amendment and the other Loan Documents, as amended by this Amendment, to which it is a party, (B) identify by name and title and bear the signatures of the officers of such New Borrower or New Loan Guarantor, as applicable, authorized to sign this Amendment and the other Loan Documents to which it is a party and, in the case of each New Borrower, its Financial Officers, (C) contain appropriate attachments, including the certificate, constitution or articles of incorporation or organization of each New Borrower and each New Loan Guarantor certified by the relevant authority of the jurisdiction of organization or incorporation of such New Borrower or New Loan Guarantor, as applicable, and a true and correct copy of its memorandum and articles of association, bylaws, constitution or operating, management or partnership agreement, or other organizational or governing documents, and (ii) a good standing certificate for each New Borrower and New Loan Guarantor from its jurisdiction of organization or the substantive equivalent available in the jurisdiction of organization for each New Borrower and New Loan Guarantor from the appropriate governmental officer in such jurisdiction.

e. Legal Opinions. Each Loan Party shall have delivered a written opinion of each Loan Party's counsel, addressed to the Administrative Agent, Issuing Bank, the Lenders and the other Secured Parties, each in form and substance satisfactory to the Administrative Agent and its counsel.

f. Funding Accounts. The Administrative Agent shall have received a notice setting forth the Funding Accounts to which the Administrative Agent is authorized by the New Borrowers to transfer the proceeds of any Borrowings requested or authorized pursuant to the Credit Agreement.

g. Insurance. The Administrative Agent shall have received evidence of liability and property insurance coverage in form, scope, and substance reasonably satisfactory to the Administrative Agent, in compliance with the terms of the Credit Agreement and the other Loan Documents.

h. Filings, Registrations and Recordings. Each document (including any Uniform Commercial Code financing statements and/or PPSA registrations) required by the Collateral Documents or under law or reasonably requested by the Administrative Agent to be filed, registered or recorded in order to create in favor of the Administrative Agent, for the benefit of itself, the Lenders and the other Secured Parties, a perfected Lien on the Collateral of the New Borrowers and the New Loan Guarantors described therein, prior and superior in right to any other Person (other than with respect to Liens expressly permitted by Section 6.02 of the Credit Agreement), shall be in proper form for filing, registration or recordation, and shall have been filed, registered, or recorded.

i. Tax Withholding. The Administrative Agent shall have received a properly completed and signed IRS Form W-8 or W-9, as applicable, for each New Borrower and each New Loan Guarantor.

j. Lien Searches. The Administrative Agent shall have received the results of a recent lien search in each jurisdiction where the New Borrowers and the New Loan Guarantors are organized and where the assets of such New Borrowers and New Loan Guarantors are located, and such search shall reveal no Liens on any of the assets of such New Loan Parties except for Liens permitted by Section 6.02 of the Credit Agreement or discharged on or prior to the date hereof (or as otherwise required pursuant to Section 4 of this Amendment) pursuant to a pay-off letter or other documentation satisfactory to the Administrative Agent.

k. USA PATRIOT Act, etc. (i) The Administrative Agent and the Lenders shall have received all documentation and other information regarding the New Borrowers and the New Loan Guarantors requested in connection with applicable "know your customer" and anti-money laundering rules and regulations, including the USA PATRIOT Act and the Canadian Anti-Money Laundering & Anti-Terrorism Legislation, for each New Borrower and New Loan Guarantor, and (ii) to the extent any New Borrower qualifies as a "legal entity customer" under the Beneficial Ownership Regulation, at least five (5) days prior to the Effective Date, any Lender that has requested, in a written notice to the Borrowers at least ten (10) days prior to the Effective Date, a Beneficial Ownership Certification in relation to each New Borrower shall have received such Beneficial Ownership Certification (provided that, upon the execution and delivery by such Lender of its signature page to this Agreement, the condition set forth in this clause (ii) shall be deemed to be satisfied).

l. Corporate Structure. The corporate structure, capital structure and other material debt instruments, material accounts and governing documents of the Loan Parties and their Affiliates shall be reasonably acceptable to the Administrative Agent in its Permitted Discretion.

m. 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.

n. Designated Authority. The Administrate Agent shall have received an updated Appointment of Designated Authority, in form and substance satisfactory to Administrative Agent.

o. 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.

3. 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.

4. 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*.

5. 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

EXISTING 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

AURORA INNOVATIONS, LLC,
an Oregon limited liability company

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

EXISTING 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

EXISTING LOAN GUARANTORS (CONT'D):

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

By: /s/ Jeffrey Peterson
Name: Jeffrey Peterson
Title: Director

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

By: /s/ William Toler
Name: William Toler
Title: President

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

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

GOTHAM PROPERTIES LLC,
an Oregon limited liability company

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

AURORA INTERNATIONAL, LLC,
an Oregon limited liability company

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

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

By: /s/ William Toler
Name: William Toler
Title: President

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

By: /s/ William Toler
Name: William Toler
Title: Director

<u>NEW BORROWERS</u>:

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

<u>NEW LOAN GUARANTORS</u>:

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

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

By: /s/ Jonathan C. Himelfarb
Name: Jonathan C. Himelfarb
Title: Chief Operating Officer

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

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

JPMORGAN CHASE BANK, N.A., Toronto Branch

By: /s/ Laila Sultana
Name: Laila Sultana
Title: Authorized Officer

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 9, 2022

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 9, 2022

By: /s/ B. John Lindeman
B. John Lindeman
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, 2022 (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 9, 2022	/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, 2022 (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 9, 2022	/s/ B. John Lindeman
	B. John Lindeman Chief Financial Officer (Principal Financial Officer)